Statement of

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"Northern Ice: Stopping Methamphetamine Precursor Chemical Smuggling Across the U.S.-Canada Border"

Executive Summary

Methamphetamine has spread like wildfire across the United States. A relatively unknown drug for many years, it remained smoldering until the late 1980s, primarily affecting only states on the West Coast. By the early 1990s, methamphetamine gained in popularity, hitting rural areas particularly hard.

During the mid 1990s Canada emerged as a source of supply for pseudoephedrine, a chemical needed to make methamphetamine, after DEA's Operations Mountain Express I and II significantly reduced the illegal pseudoephedrine trade within the United States. Operation Mountain Express III was initiated to target individuals responsible for smuggling pseudoephedrine of Canadian origin into the U.S. which was then sold to Mexican organizations that operated large "superlabs." Recent changes in Canadian regulations, encouraged in part by the United States, have led to tighter restrictions on "pseudo" production and transportation from that country. Joint enforcement operations such as Operation Northern Star have been successful in limiting access to Canadian pseudoephedrine. The DEA is working with our partners around the globe to target international methamphetamine and methamphetamine precursor traffickers. Efforts are focused on limiting access to wholesale amounts of pseudoephedrine.

Chairman Souder and distinguished members of the Subcommittee, it is a pleasure to appear before you today to discuss the challenge of stopping methamphetamine precursor chemicals being smuggled across the U.S. and Canadian border and the efforts of the Drug Enforcement Administration to combat it. My name is John Arvanitis, and I am the Assistant Special Agent in Charge of the Detroit Division Office. On behalf of Administrator Karen P. Tandy and Special Agent In Charge of the

Detroit Division John Gilbride, I would like to thank this subcommittee for its unwavering support of the men and women of the DEA and its mission.

We are particularly pleased to appear before you today on this topic to discuss recent law enforcement successes that we believe demonstrate how law enforcement efforts can significantly impact supply of and traffic in a drug. As a result of law enforcement efforts with our partners in the U.S. and Canada, the price of illegal pseudoephedrine has risen from $2,400 per case in 2002 to $3,500 per case in 2003. The number of methamphetamine superlabs in California has gone from 250 in 2001 to 122 in 2003. We believe that our combined efforts have begun to shift methamphetamine production back to Mexico.

In the early 1990s, Mexican drug trafficking organizations in Mexico and California began operating "superlabs," laboratories that are capable of producing at least 10 pounds of methamphetamine in a 24-hour period and several hundred pounds of methamphetamine in just days. In most cases, pseudoephedrine is a necessary "precursor" chemical to make methamphetamine. It can be obtained either as a bulk chemical or from legitimate products, most frequently cold medicines. From their experience trafficking cocaine, heroin, and marijuana, these criminal organizations exploited their well-established transportation routes into and throughout the United States. By offering inexpensive, high-purity methamphetamine, the Mexican organizations gained a foothold in the existing U.S. market. As stronger regulatory controls were implemented in the United States making the acquisition of precursor chemicals more difficult, Mexican poly-drug organizations went to international markets to obtain precursor chemicals.

By the mid 1990s international efforts were undertaken to control the flow of bulk ephedrine and pseudoephedrine causing Mexican manufacturers to use more readily available tablets from within in the United States, later turning to chemical wholesalers and unscrupulous retail store operators. DEA Operations Mountain Express I and II targeted the domestic diversion of pseudoephedrine, primarily by individuals and companies registered by DEA to handle controlled substances and chemicals. Operations Mountain Express I and II resulted in the arrest of 189 individuals and the seizure of more than 12.5 tons of pseudoephedrine, 83 pounds of finished methamphetamine, and $11.1 million in U.S. Currency. With the success of these investigations and enhanced regulatory oversight by DEA, methamphetamine producers found it increasingly difficult to obtain sufficient quantities of pseudoephedrine inside our borders. As a result, they turned to Canada where pseudoephedrine tablets were available in large quantities.

In response to the change in pseudoephedrine trafficking trends, DEA initiated Operation Mountain Express III. This operation, significantly supported by ICE particularly along the Detroit and Canadian border, concluded with the arrest of over 100 defendants in January of 2002. It caused other Canadian pharmaceutical companies to fill the void created by continuing to sell huge quantities of pseudoephedrine. DEA then initiated Operation Northern Star specifically to combat precursor chemicals moving across the U.S. and Canadian border. This investigation employed a comprehensive top

to bottom strategy targeting the entire methamphetamine trafficking process, including suppliers of precursor chemicals, brokers, transporters, manufacturers, distributors, and the money launderers who helped conceal organizational ill-gotten gains.

On April 15, 2003, the DEA, U.S. Immigration and Customs Enforcement, Federal Bureau of Investigation, and the Internal Revenue Service, along with the Royal Canadian Mounted Police, arrested more than 65 individuals in ten cities throughout the United States and Canada. Without the critical support of prosecutors in the many U.S. Attorney's offices who secured the indictments and convictions, law enforcement could not have hoped for as much success. Attention was then focused on six executives from three Canadian chemical companies. One company, Frega Inc., was charged criminally in Detroit, Michigan for its role in supplying bulk quantities of pseudoephedrine to brokers in Cincinnati, Ohio and Chicago, Illinois. Approximately 108 million tablets of pseudoephedrine originating from Frega Inc. were seized during this investigation. This quantity of pseudoephedrine could have yielded approximately 9,000 pounds of methamphetamine, with an estimated street value between $36 million and $144 million depending on purity levels.

Operation Northern Star ultimately caused a fundamental shift in the way pseudoephedrine traffickers and methamphetamine manufacturers operate as well as the way that DEA views precursor chemical distributors. This operation demonstrated that concentrating resources and investigative effort in a specific geographic area of the global chemical trade can make a tangible and demonstrable difference. This is best illustrated by the precipitous drop in the amount of Canadian pseudoephedrine seizures after April 2003. Seizures of pseudoephedrine dropped from a high of more than 75 million tablets in 2001 to approximately 26 million tablets in 2003 -- a majority of which was confiscated before April of last year.

U.S. and Canadian law enforcement measures along with the newly enacted precursor chemical laws in Canada have clearly decreased pseudoephedrine availability dramatically. In addition, Canadian imports of pseudoephedrine have decreased from 511,395 kilograms in 2000 to 84,634 kilograms in 2003. As a result, it appears that methamphetamine production is moving back to Mexico. In fact, Mexico reported seizing over 650 kilograms of methamphetamine in 2003 . This is the largest annual seizure ever recorded by Mexico and reflects a 42 percent increase from 2002. In addition, Arizona border seizures increased from 201 pounds of pseudoephedrine in 2001 to over 1,300 pounds in 2003.

Although the DEA's concentrated operations have been regionally successful, chemical supply shortfalls have quickly been filled by other sources from transnational organizations using other countries as transit points for importing chemicals into our country. Many foreign countries do not have an established and effective system to identify suspicious shipments of precursor chemicals. Mexico has a system of laws and regulation in place, but in practice, precursor seizures in Mexico tend to occur more as a result of local interdiction than from a regional or national initiative. Foreign countries that establish and implement even basic regulatory controls for precursor chemicals

provide the DEA with substantial assistance in stopping the importation of such chemicals.

The Canadian Health Ministry recently implemented a chemical control system requiring the registration, licensing, and permits for import/export by Canadian companies, and is indicative of how regulatory requirements can be effective. While not as rigorous as provisions in the U.S., these regulations have had a positive effect on the problems encountered by our country, and have made it more difficult for traffickers to obtain chemicals from Canada. Along with the improved accuracy of export figures supplied by Canada to the DEA, authorities can monitor the legal trade of precursor chemicals between our two nations and helps in our efforts to prevent chemical diversion.

I would be happy to answer any questions the Subcommittee may have.