

*Statement of*

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*Before the,*

**Committee on Government Reform  
Subcommittee on Criminal Justice, Drug Policy and Human Resources  
United States House of Representatives**

*Regarding*

**National and International Consumer Products Fencing Operation  
Suspected of  
Providing Support to Terrorist Organizations**

**Houston, TX**

**November 10, 2003**

## VERBAL SUMMARY OF WRITTEN STATEMENT

### **Introduction**

Good morning, Mr. Chairman and distinguished Members of the Subcommittee. It is a privilege to appear before you to discuss Investigations conducted by the Pasadena Police Department's Community Defense Unit which I will refer to using the acronym CDU. I will start by giving you some back ground information.

Pasadena, Texas is a city with a population of approximately 150,000. Pasadena is a suburb of Houston along the southern bank of the Houston Ship Channel and has approximately (41) different major chemical refineries within its city limits. The southern City Limits of Pasadena is bordered by Johnson Space Center.

The Pasadena Police Department has a staff of approximately 350 personnel of which 270 are sworn peace officers. I have been a Pasadena Police Officer for (12) years since the age of 21. My uniformed assignments have been in the patrol division and the community policing division. My assignments as a detective have been in within the special investigations bureau where I have specialized in organized crime, gang, and career criminal investigations.

The CDU is a multi-agency task force consisting of 8 fulltime investigators from 5 different; local, county, state, and federal agencies. It was formed by the Pasadena Police Administration in October 2002 to investigate crimes that have been identified as key terrorist financing and facilitation crimes after Pasadena Police Investigations uncovered such activity within Pasadena and the Greater Houston Area. The CDU works closely with the Houston FBI's Joint Terrorism Task Force that is conducting investigations to determine the destination and use of the funds earned from the criminal activity under investigation.

## **CDU INVESTIGATIONS**

Since May of 2001, I have investigated the activities of a confederation of individuals and businesses based in Pasadena and the Houston Metropolitan Area operating in conjunction with several other individuals and groups throughout Texas, the United States, and overseas. The majority of the suspects in my investigation can be broken down into two basic groups.

## **THEIVES**

The first group of individuals consists mostly of illegal immigrants from Central American countries such as Honduras and El Salvador. These suspects are involved in the theft of large quantities of consumer merchandise through a variety of schemes such as organized shoplifting, armed robbery, large scale business burglaries, cargo theft, high jacking, and price switching schemes.

Some of the products targeted for theft by these suspects include:

1. Infant Formula
2. Cigarettes and Smokeless Tobacco
3. Health and beauty aids
4. Diabetes Test Strips
5. Over the counter medications
6. Colognes and Perfumes

Information collected in our investigations indicates that the El Salvadorian Criminal Street Gang Mara Salvatrucha or more commonly known in the U.S. as MS-13 are controlling the activities of this group.

According to the National Alliance of Gang Investigators Associations, MS-13 traces its origin back to the Marxist Guerillas that fought a civil war against the U.S. backed El Salvadorian Government. Many of the older MS-13 Gang Members have had extensive military training in guerilla tactics, explosives and booby traps. MS-13 is now a nationwide criminal street gang operating throughout the United States. Its activities in the U.S. are characterized by extreme violence and a higher level of sophistication than most U.S. criminal street gangs. MS-13 Gang Members have been responsible for the executions of (3) federal agents and numerous shootings of law enforcement officers across the country.

## **FENCES**

The second group of suspects consists of Immigrants from various Middle Eastern and East Asian countries such as Egypt, Jordan, Israel, Lebanon, and Pakistan who own a variety of businesses such as:

- (1) Convenience stores
- (2) Grocery stores
- (3) Gas stations
- (4) Grocery wholesale businesses
- (5) Travel agencies
- (6) Used car dealerships
- (7) Shipping companies
- (8) Book keeping firms

**and**

- (9) Topless night clubs.

The majority of these individuals are here legally in the United States; however many have been here illegally for several years. This group purchases the products stolen by the Central American Theft Suspects. Evidence collected in our investigations demonstrates that the Central American Suspects have often developed long term personal and business relationships with the Middle Eastern Fencing Suspects.

The theft and resale of stolen merchandise is the “bread and butter” of this criminal organization but it is by far not the only form of criminal activity they are engaged in. The crimes committed by this organization are legion. Some examples are:

Narcotics trafficking

Prostitution

Extortion

Alien Smuggling

Organized Auto-Theft

Currency Smuggling

Credit Fraud

Bank Fraud

Welfare Fraud

Due to time constraints I will limit my presentation to the consumer products theft and fencing operations.

The incident that initiated our investigation was a burglary of a Pasadena Tobacco Retail Business on May 25, 2001 where approximately 6000 cartons of cigarettes with an estimated retail value of \$137,000.00 were stolen from the business at night over a period of several hours. Entry was gained by cutting a hole in the roof after disabling the alarm system by cutting the phone lines.

The subsequent follow-up investigation of this burglary identified several separate interstate burglary teams operating out of the Houston area and numerous shoplifting teams comprised mainly of Honduran and El Salvadorian illegal immigrants and several Houston Area business men of Middle Eastern descent who were purchasing the products that were stolen. In November and December of 2001 Pasadena Detectives video taped and arrested two of the burglary teams after we observed them steal approximately 608,000.00 in clothing and tools from (2) Houston businesses.

Through the informal pooling of resources into an ad-hoc work group of a variety of state, local, and federal law enforcement and civil regulatory agencies, Pasadena CDU Investigations led to the arrest and filing of state felony organized crime charges; federal firearms, conspiracy, theft, and tax charges against (30) suspects; (7) of which were the Middle Eastern Fences (2) of which have been in the U.S. illegally since the early 90's and (23) of the Central American Theft Suspects (21) of which were illegally in the U.S. at the time of their arrest.

Through joint efforts with the Texas Attorney General's office, The Texas Dept. of Health, and several other law enforcement agencies, CDU Investigations have also resulted in the seizure of approximately 2.7 million dollars in suspected stolen products, approximately 1 million of which was infant formula, and assets.

The CDU has provided evidence to FBI-JTTF Investigators that have aided in obtaining federal conspiracy indictments on CDU Suspects and other Middle Eastern Fencing Suspects outside of Texas and identified over 500 suspects and potential suspects operating at some level in the black market. Based on evidence collected in the CDU Investigations and from discussions and the sharing of intelligence with other state, local, and federal Investigators in

- Austin, TX
- Corpus Christi, TX
- San Antonio, TX
- Dallas, TX,
- Florida
- Kentucky
- New York
- Arizona
- California
- Washington D.C.

**And**

- Oklahoma

The Pasadena Police Department, a mid-size police force, did not accomplish this task alone. It was conducted by leveraging resources from a multitude of agencies through non-traditional methods and un-precedented sharing of information between local, state, and federal agencies. However, I would not attribute these cooperative efforts to a major change in culture within our respective agencies. The old counter productive cultures of inter-agency rivalry and poor communication still exists. The successes should be attributed more too individual rank and file officers and special agents who informally networked and persevered against institutional inertia.

The institutions are changing though and significant strides in the right direction have been made. Currently we now have a permanent base of personnel dedicated to attacking this issue; however we still are lacking considerable resources.

Simple things such as surveillance equipment, analysts, operational funding and training all of the things that are required to tackle a large organization still have to be borrowed, and stolen.

## **CONCLUSION**

It has become apparent to me that this black market is actually a confederation of organizations cellular formation working in concert as one single loose knit organization with leadership and guidelines based more on cultural norms and informal agreements and alliances. Its leadership and structure can not be outlined in a neat format like an army division or fortune 500 corporation. There is no head to lop off to kill the beast so to speak.

The commonality of crimes, financial activity, suspects, and methods of operation discovered by so many different independent investigations can not be coincidental. Too many suspects in other investigations around the U.S. have been linked to suspects targeted by the CDU. Many of the other investigations' targets have been tied to Islamic Terrorist Organizations, charged with Terrorist Related offences, or have been linked to subjects involved in Terrorist Attacks.

In my personal opinion, I believe that the criminal enterprise I have summarized in this verbal and written statement is the manifestation of a concerted effort by entities who wish to harm the United States. I believe these entities at the higher levels of the organization are working insidiously and methodically behind the scenes using the

freedoms guaranteed by our constitution as shield. I believe that this nefarious plan has been in execution for over a decade and is designed to systematically break down the fabric of our nation like a cancer from within.

I believe that the Homicide Bombings, kid-knap pings, murders and attacks committed by the World Wide Terror Network is just one small facet of this plan. I can not help but think of the hate filled words of Soviet Premier Nikita Kruschev directed to the U.S. Delegation when he pounded his shoe upon the desk at the United Nations; "We will bury you from within".

As a student of history it is my understanding that the Soviet Union was the single largest sponsor of world wide terrorism before its collapse. It is my belief that the Terror Network the Former Soviet Union Helped to build remained intact after it's collapse and has run amuck as demonstrated in the global explosion of organized crime and violent terror attacks, since the end of the cold war.

In conclusion, I would like to thank the distinguished Members of this Subcommittee for the opportunity to testify before you today. It would be my pleasure to answer any questions you may have.

**WRITTEN STATEMENT  
OF  
DETECTIVE RANDY MERRITT**

**INTRODUCTION**

The following paragraphs will relate what has been learned through the investigation of a large confederation of criminal groups operating out of the Houston Metropolitan Area and other locations in Texas in conjunction with groups in other states and overseas involving the theft and resale of bulk consumer items. The organization reduced to its most simplified form is comprised of two parts:

**Group I (Thieves)**

- Comprised mainly of Central American (El Salvador and Honduras) and Mexican Immigrants (this may differ depending what part of the U.S. they operate out).
- Many are illegal aliens.
- Members of the El Salvadorian criminal street gang Mara Salvatrucha, also known as MS 13, are believed to be involved.

**Group II (Fences)**

- Most are Middle Eastern immigrants
- Many are naturalized citizens or lawful permanent residents
- Some are under investigation for possible terrorist ties

**This summary will be broken down in four parts as follows:**

**Part one** will focus primarily on the organization's day-to-day operation involving the theft and resale of powdered infant formula. The primary method used to acquire the infant formula is shoplifting. The same suspects who steal and fence the infant formula also traffic in a wide variety of other consumer products.

**Part two** will focus on the large-scale burglary operations used to obtain other products such as but not limited to:

- Levi's jeans
- Cologne,
- Perfume
- Health and Beauty aids
- Cigarettes
- Tools
- Electronics
- CD's and Cassette Tapes
- Over the Counter Medications

**Part three** will focus on the fencing network.

**Part four** will address concerns and difficulties encountered by law enforcement when dealing with this issue along with proposed solutions.

## **PART ONE**

### **INFANT FORMULA SHOPLIFTING AND FENCING**

Houston, Texas is home to a large number of shoplifters who operate in Texas and throughout the United States stealing infant formula from retail businesses and grocery stores. Many of the shoplifters operating out of Houston are illegal immigrants from Honduras, El Salvador, and Mexico. Some of the groups have refined their operations to include counter surveillance using radios and cell phones while in the stores. Groups of shoplifters travel out of Texas and acquire lodging and storage facilities before focusing their activity in and around a targeted city.

#### **Methods for shoplifting include:**

- The use of large purses to conceal the formula
- Packing the formula into large plastic containers or in boxes that contained a low priced item,
- Stacking many cans in a grocery cart and walking out the store.

Most of the thefts are conducted from retail stores by groups of shoplifters. Suspects usually exit the stores with the formula without making any purchase from the store. After stealing enough formula, the group either ships the formula back to Houston or rents trucks or trailers to return the formula to Houston. Several organizations that are purchasing the stolen formula have been identified in Houston.

The distribution of the stolen formula in Texas and throughout the United States seems to be handled primarily by Middle Eastern fences. Financial and phone links have been established between many of the Middle Eastern participants who are operating in Texas, Oklahoma, Louisiana, Florida, North Carolina, Arizona, Kentucky, Ohio, Michigan, and California.

#### **MONEY**

One Texas grocery store chain reported that they lost ten million dollars in one year as a result of the theft of infant formula. A nationwide retail business reported losses of over one million dollars a month from their Houston area stores.

#### **WIC**

It is believed that much of Houston's stolen formula is being sold through WIC (Women, Infant, and Children) government food subsidy programs in Texas and California. Because it is a WIC approved item, the 14.3-ounce can of powdered Enfamil with Iron is the primary target of the shoplifters. Shoplifters in Houston sell amounts ranging from several hundred to several thousand cans a month valued at \$1000.00 to \$10,000.00 per month.

One shoplifter reported she had "worked" stealing formula from Florida to Colorado for over seven years making \$3,000.00 dollars per week. In Houston, a stolen can of powdered Enfamil with Iron is sold by a shoplifter for about \$5.00 per can to fences who operate out of mini storage facilities. That can is then sold for about \$9.00 per can to Middle Eastern distributors. That can sells in the WIC program for between \$13.00 and \$16.00 per can.

One fence handled about 50,000 cans a month (about \$200,000.00 per month profit) from one location in Houston. Information developed that the same fence was also operating at least one other location in Houston and at least one additional location in Nebraska.

## **OTHER SCHEMES**

Several other schemes besides shoplifting are being used to steal formula:

- One scheme uses altered price bar codes to obtain formula at a reduced price.
- Another uses store competitive pricing policies by producing a receipt purporting a purchase of formula at a reduced price from one business to compel another business to match the price. In this scheme a fraudulent receipt is used to begin the scheme but, after the first store agrees to sell at the competitor's alleged price, a legitimate receipt is obtained to continue the scheme.
- Another scheme involves the legitimate purchase of one shopping cart full of formula to obtain a receipt and then using that receipt to walk other carts packed with the same items out the store; if confronted, the receipt produced will match the items in the basket. In a similar scheme two baskets are filled with formula and one person waits to pay while the other person attempts to leave the store; if the person leaving is stopped, the person paying will tell the clerk that he is also paying for the second basket.
- In Texas there have also been burglaries, armed robberies and truck hijackings committed in order to steal formula.

## **STOLEN OR NOT**

Determining that suspected stolen infant formula is actually stolen is a major problem. If contact is made with individuals transporting infant formula they will report several variations of what they are doing. They may report that they received the formula from a church or that they are collecting the formula for a church to be distributed to needy children. Another common story is that the formula was bought at a location to be taken to a flea market and resold. Receipts from purchases may not be produced or, if produced, the receipts may not match the product found.

If caught shoplifting, the suspects usually will not have identification and will use alias names. Females may use a sympathetic ploy by claiming to steal the formula for their hungry children. If the group is caught they will purport not to know each other. Normally the suspects caught shoplifting will only be charged with a misdemeanor offense. This will only constitute a minor inconvenience, as they may be making several thousand dollars a week stealing formula.

When suspects are questioned separately, conflicting stories may develop and in some instances suspects have confessed that the formula was stolen.

**Many law enforcement officers do not realize when arresting shoplifting suspects that they may be dealing with a nationwide organized criminal group.**

## **OTHER ACTIVITY OF THE ORGANIZED CRIMINAL GROUP**

Although infant formula theft is the most lucrative criminal venture of this organization, other activities include the theft of jeans and other clothing, cigarettes, glucose test strips, Nicorette patches, Rogaine, Mach 3 razor blades, and movie and music CD's. Investigations involving drug trafficking and government loan fraud are also being conducted. Large amounts of money derived by this organization are being sent to the Middle East.

## **PART TWO**

### **ORGANIZED BURGLARY RINGS**

Organized burglary teams conduct burglaries across the country. The burglaries are well planned and executed with roof top entries and destruction of camera surveillance systems. The groups disable alarm systems and then watch for police response before members enter the business and steal truckloads of property including cigarettes, jeans, perfume, tools, and other items.

These burglary teams usually have a team leader who acts as a coordinator / foreman who oversees the planning and execution. The burglary teams are primarily comprised of illegal immigrants from Central America. Pasadena Police apprehended two of these teams in 2001 after videotaping their burglaries. Evidence obtained by Pasadena Police linked several of the Middle Eastern fences to numerous burglaries in Texas and other states since 1996. Those burglaries resulted in losses of over twenty million dollars (\$20,000,000.00).

As a result of the Pasadena Investigation a total of eleven (11) suspects have been arrested for State and Federal offenses.

Three (3) suspects were arrested and charged with 2<sup>nd</sup> Degree Felony Theft, Engaging in Organized Crime after burglarizing a Houston business on November 25, 2001. Approximately \$25,000.00 in stolen property was recovered. The suspects were observed and videotaped by Pasadena Police while committing the burglary.

Four (4) suspects were arrested and charged with 1<sup>st</sup> Degree Felony Theft, Engaging in Organized Crime after burglarizing a Houston business on December 6, 2001. Approximately \$583,000.00 in stolen property was recovered. The suspects were observed and videotaped by Pasadena Police while committing the burglary.

One suspect was arrested and charged with 1<sup>st</sup> Degree Felony Theft for purchasing stolen property.

One suspect was arrested for immigration violations.

Three (3) suspects were arrested for misdemeanor charges.

After the arrests, Pasadena Police recovered an estimated one and a half million dollars (\$1,500,000.00) in suspected stolen property.

Three (3) Pasadena business burglaries were cleared by arrest.

One business burglary of a cigarette warehouse in Sherman, Texas was cleared by arrest.

Twenty (20) additional burglaries committed by these groups have been cleared in Houston, Texas and Oklahoma since 1996 and the groups are believed to be involved in dozens more.

The Middle Eastern fences selected businesses to burglarize, provided Internet maps and driving directions to targeted businesses, and actively participated in planning and executing the burglaries.

Businesses the burglary teams prefer are located in strip centers with easy access to the rear of the business. Some examples of business burglarized by these teams are:

- Academy Sports & Outdoors Stores
- Palais Royal Department Stores
- Weiner's Department Stores
- Beall's Department Stores
- Service Merchandise
- Home Depot
- Pep Boy Auto Parts
- Tobacco warehouses and retail stores
- Clothing, perfume and cologne wholesalers
- Jewelry stores
- Eckerd's Drugs
- Walgreen's Drugs
- Infant formula retailers and wholesalers

## **BURGLARY MODUS OPERANDI**

- Middle Eastern fences often pick the target businesses and finance the burglary expenses.
- Middle Eastern fences sometimes participate in casing and scouting missions with the burglars. These missions often take place days or months prior to the burglaries. The burglars watch the targeted businesses for days to establish business and police patterns.
- Use of building and alarm diagrams along with maps provided by the fences.
- Cut phone lines and wait one hour for police response.
- Cut hole in roof and wait again for one hour for police response.
- After no police response the merchandise prep team enters and moves merchandise to a back door or loading dock area.
- Constant vigil for police is maintained by lookouts on foot and in vehicles using radios or cell phones for communications
- The cargo trucks are usually staged at businesses such as Wal Mart or apartment complexes close to the target until the property is ready to load.
- When merchandise is ready for pick up, the cargo trucks are moved in.
- Stolen property is delivered to Middle Eastern Buyers soon after the burglary is committed.
- Fences often travel out of state with burglary teams.

The burglary team leaders own large vans and bobtail trucks with lift gates that are registered under alias names or third parties. If additional trucks are needed, the burglars will also rent trucks. For large burglaries the teams will combine their people resulting in as many as ten (10) suspects committing the burglaries.

The stolen products are distributed through the same network of wholesalers and fences as the infant formula and/or shipped overseas to buyers.

Infant formula obtained from shoplifters is the day-to-day operation of the criminal enterprise. The burglaries provide another means of obtaining large amounts of merchandise. Evidence indicates that many of the lower level members of the burglary teams engage in shoplifting between burglaries.

Two burglary teams identified in this investigation are still operating out of Houston, Texas and more teams are suspected to be operating from other cities in the United States.

## **INSURANCE FRAUD**

Some of the businesses victimized by the burglary teams in this investigation are suspected of being involved in insurance fraud. Informants relate that some of the property stolen in the burglaries is sold back to the businesses that were burglarized after the owners received an insurance settlement for the loss.

## **PART THREE**

### **FENCING AND RESALE NETWORK**

Evidence collected in this investigation shows that the Houston area fences ship the stolen merchandise to wholesalers in Texas, other parts of the United States, and overseas. The products are then sold to a vast national network of convenience stores, grocery stores, wholesalers, and retailers and WIC vendors.

#### **FENCING FINANCIAL PATTERNS**

Fences receive large wire transfers as payment for stolen merchandise. The money does not stay in their bank account for long before it is withdrawn. The money is usually withdrawn by the fence writing large checks to himself. Sometimes the fence pays the thieves by check. Often the fences have average monthly bank deposits exceeding one million dollars (\$1,000,000.00) but the daily average balance rarely is over fifty thousand dollars (\$50,000.00).

During a four month period in 2001 one fence arrested and charged with first degree felony Engaging in Organized Crime cashed 314 checks totaling 3.3 million dollars. 1.48 million worth of checks were written to himself and those were listed as cost of sales on his accounting records. The remainder of checks cashed was written to known and suspected thieves and other fencing suspects. This suspect lived moderately and his personal bank account averaged about a \$1,000.00 monthly balance. Evidence revealed a pattern of delinquent house notes, utility bills and personal cash shortages. The pattern of banking activity was prevalent with other fences identified in this investigation.

Some suspects maintain a higher standard of living, but not to the point that draws undue attention.

Some accounting and bank records show frequent and obvious structuring (financial transactions in amounts just under \$10,000.00 to avoid reporting procedures under banking and tax laws).

Many Middle Eastern fences use the same bookkeeping firm. Other clients of the bookkeeping firm are also suspects under investigation or suspects who have been investigated in the past for criminal activity ranging from federal and state tax violations to narcotics trafficking. Evidence indicates that the bookkeeper has invested in and participated in the illegal activity of the fences.

Many of the fences use the same mosque. Informants relate that the mosques are a meeting place for financing, planning, and coordination of efforts by the fences. A Hispanic burglary team leader reported that he was taken to the mosque for operational planning and financial negotiations prior to major burglaries. The same informants report that the Mosque is specifically used as an operations center due to the reluctance of law enforcement and prosecutors due to the sensitive political issues related to taking investigative action such as execution of a search warrant at a place of worship.

The fences operate wholesale and trading companies out of private storage buildings and small warehouses located in business complexes. Others operated out of convenience stores with much of their business records stored at their residences.

Many of the fences operate together, but their operation is disguised by a layering scheme that make it appear that they are operating separately. For example, company A has invoices and receipts showing that items were purchased from company B, but Company B has no records of the transaction.

Informants report that suspects have been seen together producing false receipts. The receipts are often hand written or generic or show purchases from another company suspected of fencing stolen property. When tracked back, there are no legitimate receipts for goods purchased.

When interviewed by law enforcement the Middle Eastern fences commonly explained that they obtain goods like infant formula and blue jeans by the use of “runners” who go to the stores to buy products on sale or clearance. They claim to be a high volume low profit margin operation. The Fences explain that retailers sell many products below cost as "loss leaders" and after purchasing a large volume of those items at a low price, the items are resold for a small profit.

Another explanation is the formula is obtained at close out or clearance sales. There are not enough business closings or businesses conducted clearance sales of formula to produce the volume of formula being moved by the fences. In 2001, four Middle Eastern fences shipped thousands of cases of infant formula around the country from Houston. No legitimate receipts were found when their homes, businesses, and storage buildings were searched.

#### **WHERE IS THE MONEY?**

- Stolen property is suspected of being the commodity traded instead of currency
- Sent to the Middle East via Virgin Islands (British and U.S.)
- Trinidad
- "Charitable Contributions” to the Holy Land Foundation for Relief and Development
- Shipped to foreign ports hidden in shipping containers
- Wired out of the country through private firms such as Western Union under third party names
- Physically transported by couriers throughout the U.S.
- Laundered through the Mosque
- Smuggled out of the country in cashier checks
- Simply sent by private freight and mail services such as FEDEX and UPS out of the country in small packages.

## **CONVENIENCE STORES**

Convenience stores are believed to play a key role for a wide variety of criminal activity involving this criminal organization. The stores act as a grass roots outlet for the fencing of items stolen by this organization in addition to property stolen by shoplifters, residential, business and car burglars in addition to over the counter contraband narcotics sales, motor fuels theft and diversion, and money laundering. It has been found through investigations that often the convenience stores appear on the surface to be owned by one individual or individuals, but are actually owned covertly, through informal agreements, or overtly through complicated scheme of corporations by a third party who actually is the behind the scene owner controlling several different stores in multiple jurisdictions.

Another disturbing pattern found through the investigation of several Pasadena area stores engaging in the criminal activity described in this document, is that the owners of the stores systematically purchase residential properties in the surrounding neighborhood. Some store owners have been found to be the land lords for up to 20 different residences in the surrounding neighborhood allowing the store owners to exert considerable informal and formal power over their surrounding community. Such arrangements open the door to crimes such as tenant extortion, and providing housing and secondary locations for the criminal element that supports the illegal activity such as “crack houses”, illegal alien safe houses, and locations where prostitution is conducted. Information collected through law enforcement investigations indicate that many of the store owners are involved in alien smuggling operations.

Through the above described circumstances the convenience store and its owners and operators become the informal community leaders fueling an expanding cycle of crimes such as theft, motor vehicle burglary, narcotics use, and residential and business burglary causing a downward spiral of community decay draining local government resources and reducing property values. This situation further complicates law enforcement efforts to interdict the illegal activity that the store is the central foundation of, because the entire surrounding community becomes the eyes and ears of the store owners and operators.

The people who appear on the surface to operate and own the stores are often immigrants whose immigration is sponsored by the “behind the scene” owner who sets them up in business but actually controls the operation of the store. Due to the cultural boundaries encountered by recent immigrants they are forced into a form of indentured servitude. Failure to comply with the real owner’s direction or participation in the above described criminal enterprises would result in termination of funding and support by the real owners.

Several other crimes have been identified as common place involving these same stores such as:

- Wide spread food stamp program fraud; cash for food vouchers and unauthorized purchases merchandise such as cigarettes and beer through food stamp programs.
- Sale of alcohol and cigarettes to minors which can yield significant profits especially if these products are marked up for purchase by minors and a large minor customer base is built up by word of mouth.
- Motor fuels theft and diversion; bribing fuel truck delivery drivers to “skim” their loads and covertly sell “skimmed” fuel to the stores for resale to the public for pennies on the dollar.

- Pasadena Police have conducted multiple investigations involving motor fuels theft where thousands of gallons of fuel were “skimmed” or stolen were sold to convenience stores.

## **CREDIT CARD PURCHASES**

Many of the purchases from legitimate vendors are made with credit cards. The pattern with the credit cards used by the fences show an extensive history of "Bust Out Activity" where credit cards are maxed out then abandoned leaving large balances unpaid.

## **LEGITIMATE BUSINESS ACTIVITY**

Not all of the products sold by the fencing suspects are stolen. Some items sold are purchased from Government Auctions and from legitimate sources and shipped overseas or resold in the U.S. By commingling what appears to be legitimate purchases of merchandise with illegally obtained merchandise further complicates law enforcement's efforts to detect black-market operations. The seemingly legitimate purchases obscure the illegitimate ones from scrutiny. Even though these purchases appear legitimate, it is believed that much of the funds used for the purchases are obtained from the illegal operations.

## **BACKGROUND OF FENCING SUSPECTS**

Many of the Middle Eastern fencing suspects are educated, sophisticated, well traveled, and when arrested they use their financial resources to obtain the best defense attorneys available. Through the Pasadena Investigation and parallel investigations conducted by other law enforcement agencies, the Fences have been found to often use the same law firm consistently over a period of several years. This firm, which is widely known through out Texas for representing high profile defendants, appears to be acting as organizational firm for the criminal enterprise Texas operations.

Use of the same law firm by members of the criminal organization creates frequent conflicts of interest for the defending firm and complications for law enforcement when suspects are approached during the investigation in regards becoming cooperating defendants which is a situation that is commonly encountered during organized crime investigations.

This arrangement makes it virtually impossible for law enforcement to approach potential cooperating material witnesses and defendants represented by the organization's attorneys regarding suspect cooperation without risking discovery by the other members of the criminal organization also under investigation who are represented by the same firm.

## **PART FOUR**

### **CONCERNS and OBSERVATIONS**

#### **STRAINED RESOURCES**

Due to the fractious nature of American Law Enforcement with over 16,000 state local and federal agencies, the response by law enforcement to this issue has been piece meal and incomplete. The suspects engaging in this criminal enterprise cross jurisdictional boundaries from coast to coast and abroad and they exploit law enforcement's limited capabilities and resources. A tremendous amount of resources and an unprecedented level of information sharing and interagency cooperation is necessary to investigate and prosecute individuals and groups involved in this criminal activity.

Based on conversations with federal and local investigators in Dallas, Texas; Phoenix, Arizona, Tallahassee, Florida; Louisville, Kentucky, Boone County, Kentucky, Cincinnati Ohio and other states, concerted efforts in at all levels of the Criminal Justice System have formerly pooled their resources and funding to specifically support investigations of the criminal activity discussed in this statement.

The law enforcement response in the Houston Metropolitan Area has been piece meal and conducted by an informal, amorphous loose knit confederation of investigators from a variety of local, state, and federal agencies. Currently the Pasadena Police Department has been playing the central role for the last two years approaching this issue for what is, traditional Gangland Style Organized Crime investigation except it appears the primary motive of the criminal organization is to raise funding to be used in terrorist activities directed against the U.S. and its Allies instead of profit motivated. The FBI has been working with the Pasadena Investigators attempting to track the flow profits earned from this criminal organization to determine if it can be proven that the profits are funding terrorist organizations. Some subjects who are investigative targets in the Pasadena investigation are reported by the FBI to be terrorist Organization Members.

From investigators meetings and conversations with other investigators around the nation it appears that the Houston Metropolitan Area is the central distribution hub for this criminal organization.

#### **UNDER THE RADAR SCREEN**

Many of the suspects involved in this criminal organization have a history of being involved in organized narcotics trafficking. Some suspects still engage in narcotics trafficking, however most have switched to the reduced risk associated with trafficking in stolen consumer goods. This may also be in part due to the lower priority given by the criminal justice system to property crimes in comparison to drug trafficking.

The widespread theft and fencing of infant formula is a prime example which is consistent with almost all other types of black market consumer products with the exception of cigarettes. It is virtually impossible for law enforcement to prove a can of infant formula is stolen. The major difference and reason why it is believed that infant formula has become a staple black-market item is the virtually assured sale of the formula fueled by the

guaranteed sale by WIC vendors participating in the black-market at the premium prices reimbursed by the U.S. Tax dollars that fund WIC

The only successful method has been for law enforcement to make infant formula theft case has been to sell formula to fencing suspects purporting it to be stolen. Such operations require extensive logistics, initial multiple sales in small amounts at first to gain the confidence of the target, and the subsequent acquisition of larger amounts of merchandise that law enforcement requires make the sales in order to get their “foot in the door” finally ending in a sale large enough to secure significant charges that would result in penalties other than a “slap on the wrist”. The final amount needed to secure a 1<sup>st</sup> degree felony theft charge is over \$200,000.00 or almost an 18 wheeler full of infant formula.

## **IMMIGRATION AND NATURALIZATION SERVICE**

In many cases the suspects will be deportable due to immigration violations. INS officer's may be able determine the suspect's true identity and the INS may be able to prosecute suspects' for illegal entry into the United States. Because most state and local law enforcement officers are unfamiliar with immigration laws, coordination between the INS and other law enforcement agencies is needed.

## **LAW ENFORCEMENT CULTURE**

This entire scheme is designed from the ground up to be a night mare for law enforcement. These investigations are not sexy like working narcotics or catching the guy with the bomb; however it may in the long run cause more damage to our nation than scores of suicide bombers. Investigators who have worked these cases for years suspecting they were terrorist funding operations were commonly chided and made fun of by other investigators. Terms such as diaper cops, or “conspiracy theorist” were bantered around. After September 11, 2001 the jokes weren't so humorous anymore. American Law enforcement has a tendency to stick with what is easy. Narcotics investigations are inherently simpler than these types of cases. The mere possession of narcotics being a crime; not so with a truck load of stolen infant formula or blue jeans.

## **CONCLUSION**

This criminal organization has flourished over the last ten years and appears to be growing. There is a concern related by legitimate retailers and wholesalers that legally operate businesses who cannot compete and will be edged out of the market place by the criminal organizations. A legitimate business cannot compete with one that obtains its products on the black market at prices far below manufacturer's cost.

This criminal organization is having a detrimental impact on communities through the dizzying array of criminal activity occurring at convenience stores, gas stations, and grocery businesses participating in the black market. The potential for corruption of public officials facilitated by the deep pockets of the criminal organization is enormous. Investigations conducted in Texas indirectly as a result of this investigation and in other states have already uncovered evidence of corruption within entities that regulate the WIC Program. Investigators also report that individuals and groups involved in this enterprise exert enormous influence on local governments by their ownership of large blocks of economic sectors in their communities. Investigators have frequently been met with

almost open hostility when attempts to engage in dialogue with some civil agencies at the state and federal level responsible for administering the WIC program. Investigators were seeking advice, input, and direction or soliciting assistance regarding the modification of the WIC program to ensure its integrity and thwart the commerce of the criminal organization. From such conversations, it is believed by investigators that certain governmental groups or individuals administering the WIC program do not want to face any adverse information regarding WIC for fear of having the program terminated. WIC is a valuable program. It just has a loophole that is being seriously exploited at the expense of the U.S. Taxpayer.

I have attached several news articles from similar investigations through out the U.S. In many of them the Terror Links have been established and in many cases the Pasadena Suspects have been linked to or charged with crimes as a result from their involvement with the suspects in the other investigations.

What is happening in Houston, TX is not an exception. It is identical to what is happening in Cincinnati, Dallas / Fort Worth, Phoenix, Tampa, Tallahassee, New York, Austin, San Diego, Denver, etc... In many cases it is not even different groups it is the aunts, uncles, cousins, and brothers such as the case with many of the Pasadena suspects and Florida Suspects. The activity is the same, the products are the same, the method of operation is the same. It is as if the organization participants are reading from the same procedure manual or taking orders from the same boss.

If what has been described in this document is the grand scheme being acted out by the World Wide Terror Network to erode the U.S. from within, it has been going on for over a decade and U.S. tax dollars are financing a large portion of it. In other words we may be paying for our own undoing. We are just now trying to address it. I hope we are not too late.

**Finally and by no means the least significant, emphasis must be placed on fostering positive relationships between the Islamic community and law enforcement. It is necessary to avoid targeting honest Muslim business owners and citizens who comprise a majority of the U.S. Islamic community.**