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**Expert Talk**



## Combating the Mexican Cartels: Targeting the Money

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**T**o combat the growing violence associated with Mexican narcotics cartels, governments are taking more aggressive measures to stem the flow of illicit money. Increased policing on the border has resulted in a clampdown on bulk cash smuggling, the favourite way to move narcotics money from the US to Mexico. This may influence narcotics cartels to use more sophisticated money laundering tactics that involve the formal financial system. This development coincides with stricter legislation pertaining to anti-money laundering laws and regulatory oversight that targets narcotics syndicates. Therefore banks and other financial institutions should anticipate greater government scrutiny on this issue and ensure that their compliance programs and systems are in place to adequately manage the impending risk.

In 2008 alone, over 6,000 deaths have been directly attributed to the Mexican drug trafficking cartels. Sharing a border of 3,169 kilometres, Mexican drug trafficking cartels are the dominant source of illicit narcotics entering the US. Between 2007 and 2008, for example, approximately 90 percent of detected cocaine shipments bound for the US transited through the Mexico-Central America Corridor, while the South American countries of Colombia, Peru and Bolivia continue to be the main producers of coca leaves used to manufacture cocaine.



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The Prosecutor General's Office (PGR) of Mexico acknowledges the existence of seven cartels: the Gulf Cartel; the Carrillo Fuentes Organization (aka, Juarez cartel); the Arellano Felix Organization (aka, Tijuana cartel); the Sinaloa cartel; Amezcua Contreras (aka, Colima cartel); Los Valencia (aka, Milenio cartel); and Diaz Parada Organization (Oaxaca cartel). The Gulf, Juarez, Tijuana, and Sinaloa cartels and the emergence of Los Zetas and La Familia as independent drug trafficking organizations currently hold the principle share of the US-Mexico narcotics trade. Combined, the Mexican drug cartels and independent drug trafficking organizations control an overwhelming share of the cocaine trade across the US, in addition to a majority market share of the marijuana, methamphetamine and heroin distribution trade.

The growing violence in northern Mexico among the cartels has coincided with more aggressive measures from the US. Since taking office, the Obama administration has pledged an additional \$320 million to the Merida Initiative, a security cooperation agreement among the US, Mexico and Central American countries to fight organized crime, narcotics trafficking and money laundering. As outlined by the US Department of Justice, this contribution is part of a new strategy that will focus more stemming the enabling factors of cartel violence including: more aggressive measures to clampdown on the southbound illegal arms trade; more monitoring of the distribution of chemicals required for the manufacturing of narcotics; and most importantly, more aggressive money laundering tactics to target the wealth and influence of key cartel leaders. According to the Mexican PGR, each of the top five drug trafficking

organizations may earn up to \$5 billion annually, amounting in all to an estimated \$25 billion in narcotics proceeds that need laundering each year. Considering previous successes in Colombia, where strategic enforcement actions that targeted narcotics proceeds led to the downfall of the Cali cartel, a similar enforcement strategy is now being adopted against the Mexican drug cartels. One indication that this is taking place is the recent spike in Office of Foreign Assets Control designations targeting associates of the Mexican, Colombian, and Peruvian narcotics networks.

An efficient cash flow cycle is critical to the business continuity of the Mexican cartels for several reasons. As essentially middlemen in the narcotic supply chain, the timely payment of Colombian and other South American narcotics suppliers, and the purchase of precursor chemicals for narcotics production are fundamental necessities for continued operations. Secondly, the ability to reinvest drug proceeds into the logistics of smuggling, and the purchase of weapons to combat government forces and protect their smuggling operations against rival cartels is critical to their survival. And finally, money enables the cartels to exert greater influence on people across the spectrum including government officials which, in turn, can provide the cartels with political cover and protection from law enforcement.

According to the Department of Homeland Security, bulk cash smuggling remains the preferred way of moving US drug profits into Mexico, where they are then often laundered through a money exchange house (Casa de Cambio) before being placed in the formal financial system. While often dismissed as a rather primitive method of money laundering, the Mexican cartels have found this system highly effective and dependable. Furthermore, the previous absence of an efficient AML investigation and enforcement regime in Mexico has permitted the infiltration of drug cartels into the formal financial system. Giving an indication of how pervasive the money laundering operations are, a recent Washington Post article alleged that over 10 percent of the Mexican financial system operates with drug profits. Once the drug cartels are able to layer the narcotics proceeds through various licensed and unlicensed Mexican money exchange houses, cartel profits can easily become integrated within the global financial system. In recent years, there have been several money laundering cases that have resulted in the investigation and penalisation of numerous US banks for the failure to prevent the infiltration of laundered drug profits from Mexican money exchange houses.

While bulk cash smuggling will continue to be the main mode of sending drug profits back to Mexico, the strengthening of US border controls have already resulted in the confiscation of over \$23.2 million of illicit narcotics proceeds over a period of two months. This will likely compel the cartels to use more sophisticated ways to launder their profits that intersect with the formal financial system. The global financial community must be prepared for this development and anticipate an increased use of front companies, use of complex networks of foreign accounts for layering, the abuse of remittance channels, more complex Black Market Peso Exchange and increased use of unregulated Mexican exchange houses. In addition, recent developments in asset forfeiture procedures under Mexican legislation including more robust anti-money laundering measures will not only be a more potent weapon to be used against the cartels, but could also result in more government oversight of the banking system. For example, in the first six months of 2009 alone, the PGR has investigated more than 450 money laundering cases, in comparison to only 149 cases between 2004 and 2007. Taken together with the US government's pledge to establish a comprehensive international forfeiture cooperation agreement with Mexico, financial institutions can expect increased scrutiny as law enforcement agencies seek to identify and confiscate cartel assets.