Opening Statement

of the Director of Central Intelligence R. James Woolsey

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"Intelligence, National Security, and International Crime"

Mr. Chairman, I appreciate the opportunity to discuss the issue of international organized crime. The activities of such groups range from the production and sale of illegal drugs to support for terrorist groups, smuggling illegal aliens, engaging in financial and banking fraud, and attempting to broker the purchase of materials for the production of weapons of mass destruction.

We are all aware of the enormous financial resources, international links, and proclivity for violence that characterize these criminal groups. But organized crime groups also rely increasingly on technology and sophisticated international business techniques to maintain their operations and thwart law enforcement efforts. Indeed, some criminal organizations use sophisticated marketing assessments to guide their operations, and study trade patterns to facilitate smuggling. Many groups -- and

the most capable drug trafficking organizations -- have fluid and decentralized structures to allow them not only to adapt to rapid changes in the marketplace, but to challenges, either from competitors or governments. The picture can often be a stark one, with criminal organizations undermining governments, disrupting local economies, and driving up exponentially the rate of violent crime.

Just as we have focused for decades on understanding the motives and policies of adversaries, so here too we are devoting our efforts to understanding the structure, composition, methods and goals of organized criminal groups, whether this entails drug traffickers in South America, the Mafia in Italy, the Chinese Triads, or organized crime in the former Soviet Union. In addition we need to understand the complex interplay between their illegal activities, their efforts to forge international criminal links, their money laundering schemes, and their impact on local, and even national and regional stability.

Mr. Chairman there is a major difference between the challenge posed by international crime and that posed by nations who have been our adversaries. As a rule, nations do not exist in a constant state of conflict. Even during the long struggle of the cold war, when cooperation was not feasible, communication was possible. From quiet diplomacy

to public demarches, from hot-lines to summitry, the means could be found to try to settle disputes. Often, the negotiating table was just a phone call away.

With organized crime there is no such table. The tools of diplomacy have no meaning to groups whose business revolves around drug trafficking, extortion, and murder. And when international organized crime can threaten the stability of regions and the very viability of nations, the issues are far from being exclusively in the realm of law enforcement; they also become a matter of national security.

To meet the challenges posed by these groups, cooperation between the worlds of intelligence and law enforcement is not a choice, it is a necessity. This is not just my view; it is shared by Attorney General Janet Reno, by FBI Director Louis Freeh, and by the heads of other agencies in both communities.

I also believe that the active involvement and support of the members of Congress, including this committee, is vital in helping us craft the most effective responses to international organized crime. And I believe we must also maintain and expand our cooperative efforts with other countries -- be they old friends or former adversaries -- in order to expose and defeat international crime.

This morning I would like to review several organized crime issues, describe the efforts underway in the intelligence community in addressing these issues, and highlight the growing relationship between the worlds of intelligence and law enforcement.

Narcotics

Narcotics trafficking is the international criminal activity with the most serious impact on societies -- and it is the most substantial money-maker for criminal groups. For these reasons, Mr. Chairman, I will devote much of my opening statement to this issue.

Drug trafficking is a crisis that literally spans the globe. Let me begin with Latin America. As you are aware Mr. Chairman, Latin American narcotics traffickers -- particularly the Cali drug groups -- control the hugely profitable worldwide cocaine trade. Latin traffickers are the sole suppliers of cocaine to the US market. They orchestrate the production of cocaine base in Peru and Bolivia, its shipment to Colombia for final refining, and its transport through Central America, Mexico, or the Caribbean into the United States. Coca leaf production in South America is sufficient to produce nearly 800 metric tons of cocaine. If only half the cocaine produced from it were shipped to the United States, it could have a wholesale

value on the order of $10 billion, and perhaps five times that value on the streets.

Not content with dominating the cocaine market, Colombian drug organizations have sought to build their own capability to produce heroin: opium poppy cultivation has increased substantially in Colombia, and heroin processing labs are multiplying. As a result, traffickers are also stepping up their efforts to ship heroin to the United States.

Although North America is the dominant market for these drugs, the trafficking groups are expanding into Europe as well. Colombian traffickers are increasingly using groups in Brazil, Argentina, Chile and Venezuela to transship cocaine to Europe, though distribution remains in the hands of European -- principally Italian -- organized crime. This year European authorities already have seized over 11 metric tons of cocaine, compared with about 16 metric tons for all of last year.

In the Far East the drug menace comes from the production of heroin, with Burma remaining the world's largest opium producer, accounting for some 70 percent of world production, and 90 percent of the estimated 2,800 metric tons of opium produced in the Golden Triangle in 1993. Although most of the opium produced is actually consumed in

the region, more than half of the refined heroin available in the United States comes from Southeast Asia.

Large amounts of heroin are also produced in Southwest Asia, where opium is grown in Pakistan and Afghanistan. Most of the opium is processed into morphine base in Pakistan, although opiate processing is increasing in Afghanistan. Most of the Southwest Asian heroin which is consumed in the West transits Turkey, to be delivered to organized crime groups for distribution in Europe or the United States.

Ethnic Chinese organized crime groups -- sometimes called triads -- are involved in a host of criminal enterprises, including smuggling aliens into the United States. These triads are fluid associations of criminals and quasi-legitimate businessmen based on contact networks and cultural, geographic and linguistic ties. They span international boundaries to reach out wherever there is a sizable ethnic Chinese community. For example, those smuggled into the United States -- and there were 100,000 last year -- are indentured to criminal groups who arranged their illegal entry. These aliens comprise a potential recruitment pool for criminal enterprises.

What sustains these triads in large measure is drug trafficking in heroin. The triads play an important role in worldwide heroin trafficking by facilitating transport and

providing a network of contacts for triad-affiliated smugglers. They play a particularly important role in moving heroin through transshipment hubs such as Hong Kong, Taiwan and Singapore, due to their influence over transportation unions and shipping companies.

Italian organized crime reaps huge profits from trafficking both in cocaine and heroin. The Mafia has been actively marketing heroin for over forty years, with most of the heroin originating in Southwest Asia. A government crackdown in the mid-1980s led to the dismantlement of heroin laboratories in Sicily and Calabria. Undaunted, Italian groups began to acquire refined heroin primarily through Turkish brokers.

In addition to drawing heroin from Southwest Asia, Italian organized crime has turned to South America for cocaine. The reason is simple: in Europe, where the user population is growing, cocaine sells for two to three times the US price. Italian criminal groups were implicated in record cocaine seizures in Italy and France earlier this year that netted a total of 6.7 tons.

Finally, I need to mention Nigerian criminal enterprises. Although these criminal groups have established a reputation in the United States for significant credit card fraud, they play a major role in drug trafficking. The State Department

earlier this month reported that some 35-40 percent of all heroin entering the United States is brought in by Nigerians. Nigerians specialize in one part of the trafficking chain: transporting drugs from brokers to wholesale distributors in consumer countries. They carry a significant portion of the heroin produced in Southeast Asia from Thailand through Lagos to Europe. In the 1990s they expanded their activities further to include carrying South American cocaine from Brazil to Europe via Lagos.

Mr. Chairman, the debilitating impact of drug trafficking takes many forms: political corruption, terrorism, violence, and serious economic dislocations. Let me briefly describe each of these.

Drug kingpins in South America have gone beyond local corruption to influence not only a broad array of government officials, but elections and decision-making at the national level. For example, lawyers working for the Cali kingpins helped to shape last year's legislative reform of the legal system -- a reform whose very provisions the kingpins are now using in an attempt to gain easy plea bargaining agreements.

The drug industry has established mutually beneficial arrangements with insurgent or terrorist groups in a number of countries, notably the Sendero Luminoso in Peru, and the

Revolutionary Armed Forces, or FARC, in Columbia. While the relationship between these insurgents or terrorist groups and drug traffickers has been contentious at times, insurgents are sometimes paid to provide security services for drug traffickers, they often "tax" drug operations in order to fund their terror campaigns, and, in some instances, they are directly involved in drug cultivation and production.

Drug traffickers and other members of international organized criminal groups are notoriously violent. In response to the anti-Mafia campaigns launched in the early 1980s, the Mafia murdered chief anti-Mafia judges Falcone and Borsellino in the summer of 1992. Last May the Archbishop of Guadalajara was gunned down by traffickers, and last month an Italian priest in Naples who had urged his parishioners to reject the Neapolitian based Camorra criminal organization was shot dead in church while preparing for mass.

In South America homicide levels in the town of Cali -- home of the most powerful trafficking groups in Colombia -- rival those of Bogota, a city with four times the population. Colombian press reports link Colombian kingpin Ivan Urdinola to over 100 murders.

The estimated $200-300 billion in drug profits alone generated by drug trafficking has spawned a huge industry to service the needs of the kingpins to disguise the illegal source of their money. Western and Latin American organized crime groups, such as the Cali cartel, depend primarily on international wire transfers to launder their illicit funds. Much of it goes through offshore banking centers such as Panama and the Cayman Islands. In Latin America and Europe, traffickers are turning increasingly to independent launderers to handle their funds. These are often successful businessmen with connections in their own right who can move money quickly and confidentially across international borders. To frustrate international law enforcement pressures, organized crime groups are exploiting emerging offshore financial centers in Asia, including in such locales as Vanuatu.

The impact of money laundering and infiltration of local economies can be devastating. In countries such as Colombia, which is being flooded with US currency, the inflow of funds has pushed up the value of the peso to the point where locally produced goods are no longer competitive in the global marketplace. In fact, countries such as Colombia and Venezuela are witnessing the wholesale displacement of legitimate businesses from sectors of the economy such as construction, tourism, and agriculture because launderer-controlled companies are using their

laundering commissions as subsidies to undercut their competitors.

Weapons of Mass Destruction

Mr. Chairman, while narcotics trafficking is the preeminent illicit activity of organized crime, there are other areas of concern that we monitor carefully. I mentioned terrorism in the case of Peru and Colombia. Let me take a few minutes to discuss the issue of proliferation of weapons of mass destruction.

Although they are not yet heavily involved in these activities, organized crime groups have the financial means and the clandestine networks which could appeal to potential customers eager to acquire expertise or material for weapons of mass destruction. I will speak to the topic of organized crime and nuclear safety in Russia later in my remarks today. But let me say that we can ill afford to assume that because brokering such transactions has not been a major activity of organized crime in the past, we can therefore relax our guard and be confident that such a contingency will not develop in the future.

The CIA's Nonproliferation Center seeks to uncover and interdict attempts by countries seeking weapons of mass destruction to acquire technology, designs, components and

military systems. Technology often ends up being illegally procured for a weapons program through a complex web of procurement agents, brokers, banks, manufacturers, freight forwarders, shippers, false end-users, secondary freight forwarders, and secondary shippers -- in sum: through a transfer network designed to circumvent existing safeguards or restrictions. The intelligence community works with Customs, FBI, as well as with other foreign governments to monitor potentially dangerous transfers of material. Here too, such cooperation will remain critical.

Russia and the FSU

Mr. Chairman, let me now turn to an issue of growing concern to the Russian government and to other governments throughout the former Soviet Union: the significant rise in organized crime.

Organized crime is not a new phenomenon in Russian or Soviet history. During the Soviet era, criminal groups and the black market functioned almost as an extension of the Communist party and the KGB, who used a "second economy" for their own purposes. These criminal organizations have outlived the state which fostered them.

As part of their reform programs, Russia and other successor states to the Soviet Union have moved -- in various degrees

-- to decentralize their economies, reduce the intrusive nature of their internal security apparatus and open their borders. Yet, these steps -- necessary for the transition to democracy and a market economy -- when combined with severe economic dislocation and widespread corruption, have led to significant expansion in organized crime.

Indeed, President Yeltsin stated in his Federation Address in February that organized crime was the number one problem facing Russia. Their statistics bear him out. According to the Russian Ministry of Internal Affairs there are roughly 5,700 organized crime groups in Russia, with an additional 1,000 in the other former Soviet republics. Many of these organizations are actually small, local groups of petty thieves, and would not fit a Western definition of "organized crime." However, of the 5,700, 200 are large, sophisticated criminal organizations engaged in criminal activity throughout the former Soviet Union and in 29 other countries. Evidence of this growth is widespread:

-- Russian interior ministry officials said earlier this year that 40,000 state and private enterprises are controlled by organized crime, and that criminal groups using such tactics as bribery, kidnapping and murder were gaining controlling influence over many of Russia's 1,800 banks.

-- A recent report prepared by President Yeltsin's staff concluded that 70-80 percent of privatized enterprises and commercial banks have been victims of extortion.

Russian criminal groups are actively involved in the illegal transport and sale of narcotics, antiques, icons, raw materials, stolen vehicles, illegal immigrants, weapons, and some nuclear materials.

We have not seen significant quantities of weapons-grade materials or any nuclear warheads smuggled out of the former Soviet Union, but there have been various reports of thefts of low grade nuclear materials. In many cases the thieves or smugglers have been apprehended. There have also been reports of offers to sell such materials on the black market, but these generally have been scams. However, we remain concerned about the potential for involvement of organized crime in this area because these groups have the resources with which to bribe nuclear weapons handlers or employees at facilities with weapons-grade nuclear material. They also have established smuggling networks that could be used to move such material out of the former Soviet Union.

Criminal groups are also targeting the financial sector, where economic reforms have led to explosions in the number of banks, in the complexity of their transactions, and in the geographic scope of their activities. Banking

regulators, long accustomed to watching over relatively few banks in a closed economic system, are overwhelmed. As such, these banks have become a particular target for money laundering schemes. Indeed, links have been forged between Russian and Italian organized crime groups to move money through the Russian banking system. In addition to taking advantage of these banks, organized crime groups have set up front companies throughout Eastern Europe and Russia.

The power of Russian organized crime is largely due to their ties to corrupt government officials. The low pay and inherent uncertainty of the political system appears to have convinced many officials at all levels to feather their nests while they can. Organized crime has been more than willing to exploit the situation:

-- Criminal groups may be spending as much as 30-50 percent of their profits trying to buy off well-connected government officials, including customs, militia and police officials.

-- Former and current security service officers are being recruited by organized criminal groups who seek to benefit from their operational skills and international connections.

-- The military has not been immune from the lure of organized crime. This should not come as surprise to anyone who has monitored the Russian armed forces since the

collapse of the Soviet Union. The rule has been inadequate funding, poor housing, erratic pay, insufficient food, fuel, and clothing, manning shortfalls, and declining morale. These conditions make members of the Russian military especially susceptible to criminals who want to purchase weapons or use military vehicles to transport contraband -- including narcotics. In addition, military personnel -- including special forces personnel -- are being recruited by organized criminal groups who value their skills, particularly with various types of weapons.

The assassination earlier this month of a reputed mafia kingpin in Moscow may provide a glimpse of the capability of some of these groups. The victim was shot once in the head and twice in the chest with a sniper's rifle from a distance of two hundred yards.

The proliferation of organized crime in Russia has also been followed by increased ties between these criminal groups and organized crime abroad. Let me cite several examples:

-- In mid 1992 Italian and Russian organized crime groups met in Czechoslovakia and allegedly agreed that the Italians would provide the "know-how" to acquire and distribute drugs, while the Russians would provide security for transit routes and distribution networks.

-- Russian criminal groups have forged similar ties with Colombian cocaine traffickers, helping them develop new routes into Europe. Russian criminals are also transporting narcotics from Iran, Afghanistan, Pakistan, and the Central Asian states to Russia for transshipment to Europe and North America.

-- In February 1993, Peruvian police broke up a drug ring that was allegedly shipping cocaine to Italy by way of Moscow in the soles of shoes.

So pervasive is the problem of organized crime in Russia that a poll conducted in Russian cities in March of this year reported a plurality of 23 percent who believed that organized crime was running the country -- while only 14 percent thought that President Yeltsin was in control.

Mr. Chairman, the ramifications are enormous. For Russia itself, there is a real threat that the surge in crime will sour the Russian people on Yeltsin's reform program and drive them into the arms of Russia's hardline political forces. Public fear of crime has been cited as a primary motivation for about three-fourths of those who voted for Valdimir Zhirinovsky in the December legislative elections, and a memorandum released by President Yeltsin's office this January explicitly warned that rampant crime threatens to

bring Zhirinovsky or other "national socialists" to power in the 1996 presidential elections.

Beyond the threat to Russian reform, the growth of organized crime could seriously affect our efforts worldwide to combat international crime. Today, Russian organized criminal groups do not yet constitute a "mafia" in the sense of a mechanism of central control over the various groups -- we could say that Russian organized crime is still in an "organizing" stage. But our concern is not only with the current problem of Russian organized crime, but with its future potential. Eventually, through a Darwinian process of survival of the fittest, many of these criminal groups could be eliminated or absorbed by stronger rivals. The daily occurrence of mob shootouts and executions is a manifestation of this process. If these groups move beyond their organizing stage and form what could be called a "criminal politburo," Russians and the international community will be dealing with a powerful and resourceful adversary.

Meeting the Challenge

Mr. Chairman, let me finally address the work we are doing in meeting the challenge posed by international organized crime.

There is no one body of expertise that will win the battle against international organized crime. The intelligence community uses historians, sociologists and linguists to track these groups, financial analysts and economists to expose money laundering schemes, technical experts to track efforts by organized crime to circumvent barriers or safeguards against the proliferation of weapons of mass destruction, and political analysts to assess the impact of organized crime on political and economic stability in the former Soviet Union or of narco-trafficking in Latin America or Asia.

I have also established in the National Intelligence Council the position of National Intelligence Officer for Global and Multilateral Affairs. In this position, Dr. Enid Schoettle oversees estimates on a whole range of issues, including organized crime, the environment, population and other demographic trends, the United Nations, multilateral peacekeeping, and AIDS. She brings considerable experience and expertise to the office based on her years at the Council on Foreign Relations and the Ford Foundation, as well as her scholarly research.

In addition we are devoting more resources to organized crime issues within the intelligence community, and I intend to review our resource commitments in this area over the next several months.

Mr. Chairman, since narcotics is the principal money-making venture for organized crime, we devote considerable resources to our counternarcotics center -- established five years ago this month -- to obtain information necessary for disrupting and dismantling key drug trafficking organizations. Our work has contributed to the success of Colombia's Pablo Escobar Task Force, arrests of drug kingpins in Bolivia and Peru, disruption of front companies in Panama and Venezuela, and seizure of large amounts of money and illicit drugs worldwide. We will continue to focus our attention on obtaining information necessary for disrupting and dismantling the entire process of drug trafficking -- from transportation, to finances, to the chain of command -- whether in Latin America or in the Far East.

The seizure of financial assets is critical to crippling drug organizations, and, indeed, can often prove more damaging to these organizations than confiscation of drugs themselves. Exposing money laundering operations, and highlighting the pernicious effects of money laundering on local economies may be paying off. Panama has tightened its cross-border currency regulations. Last year, Venezuela enacted that country's first anti-money laundering statutes. Soon after that law took effect, it was used to dismantle a

large criminal group which had been laundering over a million dollars per day for the Colombian cartels.

However, much still needs to be done. Governments in some countries -- such as the Bahamas, Colombia, and Russia -- have not yet criminalized money laundering.

The work against organized crime is resource intensive, requiring case officers and agents abroad, signals intercepts, and even satellite imagery. The work here is no less painstaking and demanding: unraveling local Chinese dialects used by some Chinese triads, tracing money transfers through three continents, or piecing together drug smuggling operations from South America or East Asia. In our world of diminished resources we are working to ensure that every dollar is spent judiciously and effectively.

We also need to ensure the closest of cooperation between the worlds of intelligence and law enforcement.

Last fall, Attorney General Reno singled out terrorism, drug trafficking, and international money laundering as achieving such a degree of sophistication as to threaten U.S. national security interests.

The creation of the Counterterrorism Center in 1986 has provided us with one means of bringing the operational,

technological, and analytical capabilities of the intelligence community together, with representatives from appropriate law enforcement agencies detailed to the centers to contribute their perspective and expertise. The successful prosecution in the World Trade Center bombings is an example of the importance and success of close cooperation between intelligence and law enforcement counter-terrorism efforts.

However, the conclusion that we should combine our assets to deal with organized crime is not so simple. While trasnsnational threats can blur the distinctions between intelligence and law enforcement, we still need to be cognizant of statutory law, constitutional rights, and the different missions of intelligence and law enforcement.

For this reason, the Attorney General and I set up a task force last year to examine the most effective way to enhance cooperation so that both intelligence and law enforcement officials benefit to the disadvantage of drug traffickers, smugglers, terrorists, and other criminals. That report is in its final stages, and, while it would be premature for me to go into great detail at this time, I think four points warrant particular mention:

-- First, the two communities need to understand one another better in order to be most effective at what each

does best. Rotational assignments and cross-training are two possibilities.

-- Second, because of the changing world and increasing overlap in areas of interest, we need to establish better mechanisms for information-sharing and effective information retrieval. As you are aware, over the last year CIA has been striving to implement a number of recommendations made by the Agency's Inspector General to improve recordkeeping in the Operations Directorate.

-- Third, while we will work to ensure that the needs of law enforcement agencies for our intelligence are met, we must be sensitive to the limitations -- legal and policy -- on the intelligence community's participation in law enforcement activities. Law enforcement is an important consumer of intelligence, but one that brings into play different cultures, different rules, and different objectives. These at times may create an understandable tension. Thus, it must be clear to all what we can and cannot do.

-- Finally, we must be sensitive to the important need to protect sources and methods of intelligence, not only to protect our own officers abroad as well as the agents they recruit, but to protect the invaluable intelligence liaison relations we have with key allies and friends worldwide.

This is not a new concern, but one that will bear careful handling as intelligence and law enforcement work closer together.

Mr. Chairman, while the recommendations of the task force can help bring our two worlds together, we have already worked to deepen the cooperative links between CIA and FBI. I meet regularly with the Attorney General, as well as with the Director of the FBI. For example, within the past few weeks the Attorney General and I reviewed a joint CIA-FBI presentation on Russian organized crime. One result of that session has been a series of interagency meetings as law enforcement and intelligence agencies better focus our efforts collectively on this critical issue.

In addition, over the past year alone, the CIA -- the Office of General Counsel, as well as the Directorate of Intelligence, the Directorate of Operations, and each of the centers -- has hosted numerous sessions with US Attorneys, prosecutors, and law enforcement officers, many of whom have had little if any previous exposure to the Intelligence Community. Through both general and specialized briefings and exchanges about counterterrorism, counternarcotics, nonproliferation and economic intelligence activities -- including activities directed at foreign bribery, corruption and other anticompetitive practices -- we are taking steps

to ensure effective cooperation and coordination between the two communities.

Let me conclude with one final point. Unlike wars fought in the past between nations, there will not be a decisive, final victory in the war against international crime. Rather, our success will be measured in increments: the arrest of a kingpin, the disruption of a money laundering enterprise. The struggle will be long, painstaking and arduous. Often the public will not read about our successes because we are trying to protect our sources and methods as we provide critical intelligence to the FBI, DEA, Customs and foreign intelligence services preparing to move against other targets. But I can promise the members of this committee, and the other members of Congress, that we will do our best to ensure that together -- the world of intelligence and the world of law enforcement -- we will remain active and vigilant in this fight against international organized crime. Thank you.