



# Mexican Money Laundering in the United States: Analysis and Proposals for Reform

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RESEARCH



## ABSTRACT

This article explains some of the mechanisms through which corruption by high-level Mexican politicians and other organized crime members is facilitated in the United States through money laundering operations. The analysis is based on information contained in court records related to key money laundering cases, as well as in news articles and reports from law enforcement agencies. These materials highlight the interrelationships among U.S. drug use, cartel activities in Mexico, human rights abuses, Mexican political corruption, and money laundering in the United States. This work demonstrates the pervasive use of legitimate businesses and fronts in the United States as a disguise for criminal activity. Finally, it provides recommendations for a reformation of policies and penalties directed toward U.S. institutions and persons that facilitate money laundering.

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## INTRODUCTION

Organized crime, corrupt politicians, and associated entrepreneurs involved in these activities have been routinely laundering hundreds of millions of dollars in the United States of America. These criminal acts include those by governors of several Mexican states, as shown by U.S. federal court actions in Texas and New York over the last 25 years, Mexican investigations and prosecutions, and by public media accounts, but the illegality is not limited to regional actors. Recent court actions have reached into the upper levels of the Mexican national security apparatus, as shown by the conviction of Genaro Garcia Luna, the Secretary of Public Security from 2006–2012, in US District Court in Brooklyn, New York, in 2023 (Halpert and Debusmann 2023).

Unfortunately, the Garcia Luna scandal was not the first to reach the upper echelons of Mexican political power. The first Mexican drug czar, Gen. Jesus Gutierrez Rebollo, was arrested in Mexico in February 1997 for accepting cartel<sup>1</sup> bribes and was later convicted in Mexico (CNN 1997). The ‘bribe notebook’ seized in Mexico with the arrest of Gulf Cartel boss Juan Garcia Abrego in 1996 indicated multiple bribes at the federal level of law enforcement in Mexico, of up to a million dollars, that included the head of the Federal Judicial Police, the chief of operations, and the federal police commander in Matamoros, Garcia Abrego’s home turf (Dillon 1996). Testimony from a cartel witness in the 2018–2019 New York federal trial of Joaquin “El Chapo” Guzman<sup>2</sup> included sworn statements from the witness stand that the immediate past president of Mexico, Enrique Peña Nieto, requested a Sinaloa Cartel bribe in the range of \$250 million but settled on a bribe amount of \$100 million (Feuer 2019). Peña Nieto denies the accusation. The New York Times has published additional information about other bribery allegations involving Peña Nieto (Kitroeff and Lopez 2022).

Beginning in 1994, various relatives of former Mexican president Carlos Salinas de Gortari (1988–1994) were implicated in large-scale financial scandals involving tens of millions of dollars in overseas accounts and transfers. The Swiss government froze various accounts. One of Salinas’ brothers was imprisoned for the 1994 murder of Guerrero ex-governor and sitting PRI party head Jose Francisco Ruiz Massieu but was later released. The decedent was the brother-in-law of then-President Salinas. Another brother was found dead in a vehicle with a plastic bag taped around his head. After President Salinas left office, he voluntarily exiled himself to Ireland for a number of years (U.S. General Accounting Office 1998). Meanwhile, with regards to cartel activity, the illegal flow of money took on a larger dimension, with tens of millions of dollars becoming hundreds of millions, as shown by the federal investigation of HSBC and other banks. In 2012, HSBC was penalized in excess of \$1.9 billion for laundering over \$880 million of cartel money (Viswanatha and Wolf 2012).

President Andres Manuel Lopez Obrador has augmented Mexico’s financial intelligence capabilities and appears to be prioritizing, at least to some degree, the effort against money laundering (Martinez-Fernandez 2021). However, low levels of trust and the synergistic effects of illegality have contributed to the persistence of corruption (Mishra 2006; Morris and Klesner 2010). At the same time, the drug trade itself has influenced, to some extent, the shape of Mexican institutions (Garay-Salamanca and Salcedo-Albaran 2015; Morris 2012). Furthermore, arbitrary powers exercised by functionaries at all levels of government, which manifest themselves in the phenomena of extortion and bribery, remain problematic (Rubio 2018). While some observers (e.g., Rodriguez-Sanchez 2019) argue that democracy reduces perceptions of corruption, Mexico’s judicial system lags behind in reforms towards independence (Rubio 2018). Morris (1999: 1) sums up a widespread sentiment: corruption is the system in Mexico.<sup>3</sup>

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1 The word cartel is wrongly utilized when referring to drug trafficking organizations or related transnational crime groups. When referring to this type of organization, we are not strictly talking about cartels, because their members do not negotiate nor do they establish peaceful agreements to control supply and, hence, prices with the aim of maximizing profits. On the contrary, they violently fight among themselves for control of territories and drug markets (also called *plazas*). Notwithstanding the last, we will continue utilizing this term in the present text due to the fact that it is widely used in the media, law enforcement agencies, and the public sphere in general.

2 See *United States of America v. Guzman* (2022).

3 While much of the anthropological literature on justice and legality in Mexico examines the relationship between indigenous customary law and state law, one study posits not so much a clash between customary law and Enlightenment-inspired rights guarantees but instead a clash in Mexico of legal traditions pitting an old-fashioned patronage network against adherence to codified rules. ‘We do not see significant competition that pits a legal order based on the universal application of codified jural rules against the uncoded customary law of rural communities; instead we see a social order dominated by adherence to codified rules of any sort in conflict with a pervasive patronage system of which both customary law and *impunidad* form integral parts’ (Kyle and Yaworsky 2008:70).

The present article outlines some methods frequently utilized by Mexican actors, including politicians and cartels, to launder money in the United States. It provides recommendations for reforming policies and assigning penalties directed toward US financial institutions and bankers that facilitate money laundering. Many of the facts discussed here derive from media stories, government and academic reports, and public records of court decisions and filings related to money laundering cases and other investigations occurring in Texas, New York, and Mexico over the last couple of decades.

## THE ESSENTIALS OF MONEY LAUNDERING IN THE UNITED STATES

Money laundering wears two coats. The oldest garment is as old as humankind itself: the inclination of a person who has acquired an asset illegally to hide this asset from public view in order to shield the wrongdoer and to prevent the seizure of the asset on behalf of its rightful owner. The recent garment is a product of modern times: the enactment of criminal statutes that establish the crime of money laundering and forfeiture of the identifiable proceeds and instrumentalities of money laundering. In the United States, the statutes on the federal level are Title 18 US Code, Sections 1956 and 1957, along with enabling forfeiture provisions. The criminal penalty is significant—up to 20 years for each offense under Section 1956 and up to 10 years for each offense under Section 1957. There is no parole in the federal penal system, and a sentenced inmate can expect to serve approximately 85 percent of his sentence with good behavior.

Enacted in 1986 and amended since then, the federal anti-money laundering laws provided new tools for prosecutors to use in the fight against financial crime and organized crime. Through time, such prosecutions expanded to money laundered in the United States by foreign politicians and their associates. These prosecutions have provided a window into the scope of criminal misconduct by drug traffickers, Mexican governors, and other politicians, as well as an understanding of illicit networks and complicities among different criminal actors.

At its core, Title 18, US Code, Section 1956, prohibits engaging in certain financial transactions with criminal proceeds from an enumerated list of crimes that is both expansive and focused. The law condemns engaging in such financial transactions in two different circumstances, either of which is sufficient to violate the provisions of Section 1956:

1. knowing that the transaction is designed in whole or in part to conceal or disguise the nature, location, source, ownership, or control of such proceeds.
2. or with the intent to promote specified illegal activity.

There are various other aspects of the statute, but the above expresses the heart of the federal crime of money laundering. Notably, the federal money laundering statute applies to proceeds generated by certain (but not all) illegal activity occurring in other countries, provided there is a nexus of these funds, such as their transfer, to the United States.

## REPRESENTATIVE SCENARIOS: TWO MONEY LAUNDERING SCHEMES

Though the U.S. money laundering laws are complex, the concept is simple. The following two examples demonstrate the operation of these statutes.

### EXAMPLE 1

Joe earns \$25,000 a year as a driver for a legitimate delivery service in Texas. He spends all of this money on living expenses for himself and his girlfriend, April. He also sells Zeta-supplied cocaine smuggled in from Mexico, clearing \$100,000 a year. April ‘keeps the books’ for Joe’s cocaine operation and is a knowing accomplice. Joe never bought or sold cocaine on credit, as he believed that drug debts were a cause of violence, which he abhorred. From his drug dealing, Joe acquired a cash hoard of \$80,000 and wants to buy a new drag racing vehicle.

Joe and April shop together for the vehicle, finding one with a total cost of \$74,500. Joe gives April \$74,500 in cash from his drug money, instructing her to procure a cashier’s check at the bank, where she has checking and savings accounts. The cashier’s check is to be issued in her name in this amount and is to be made payable to a car dealer from whom she will buy the

vehicle. Joe instructs her to have the title to the vehicle placed in her name. Joe tells April to tell the bank, if asked, that the money came from an inheritance from her grandmother—information the bank may put on the Suspicious Activity Report (SAR) if it chooses to fill one out. Whether April uses the cash directly to purchase the cashier's check or deposits the money into one of her accounts and then uses proceeds from that account to purchase the cashier's check, the bank will fill out a Currency Transaction Report (CTR) required for all currency transactions at the bank in excess of \$10,000. Upon receipt of the cashier's check, she takes it to the car dealer, pays for the vehicle, and has the sales documents and title placed in her name.

In this example, Joe and April have both violated the federal money laundering laws. They have knowingly used criminally derived drug proceeds to engage in a series of related financial transactions: the purchase of the cashier's check with drug money using a front name (April's) and the subsequent use of the cashier's check to buy the vehicle, also using April's name. Though the law does not require that April and Joe know the exact type of crime that generated the criminal funds, they clearly do, as they both participated in the cocaine operation. It is important to understand that Joe and April's mere possession of drug money does not constitute money laundering. A transaction must occur under specific circumstances. The money laundering statutes also contain conspiracy provisions.

## EXAMPLE 2

Jose is the corrupt governor of a Mexican state. He and his cronies have devised schemes to acquire state funds illegally. One of these schemes is to award state contracts to Roberto's construction company for inflated amounts, some 10–20 percent above what would normally be paid for comparable work. As Jose is the chief executive of the state, he gets 1/3 of the overage or upcharge as a bribe to award the contracts, with his 1/3 being held in several specific bank accounts in Mexico under Roberto's name. Los Hombres drug cartel also makes payments to Roberto on Jose's behalf for the non-interference of state law enforcement with Los Hombres drug operations. These drug payments are disguised as construction income, using phony contracts in the name of Roberto's construction company, and are deposited into the same accounts as the commercial bribe money. One of these accounts has the Mexican peso equivalent of \$2,000,000.

Jose tells Roberto to wire transfer the \$2,000,000 to a bank in Utah, specifically into a newly established corporate account in the name of AZTEC, Inc. Jose's son, Junior, established AZTEC, Inc., which is a shell entity, meaning it has no real business, only a corporate charter and a bank account at the bank in Utah. Once the funds are deposited in the AZTEC, Inc. account at the Utah bank, they are used by Junior to buy real estate in Utah. The deed to the real estate is placed in the name of AZTEC, Inc. Junior owns 100 percent of the stock of AZTEC, Inc., as a front for Jose. Emails between Junior and Jose show that Junior carries out activity related to AZTEC, Inc. as instructed by his father, Jose.

This second example is, in essence, the same scenario as set out in example 1, with the addition of the international movement of drug and commercial bribery funds gained by a Mexican public official. The structure is the same: Jose engages, through others, in a financial transfer of illegal proceeds to a US bank and then uses the proceeds to acquire an asset in the United States, all done using front names. The demonstrated intent here is the same, which is to disguise the nature or illegal source of the funds and to disguise the true ownership and control of the illegal funds. Jose and his co-conspirators have violated the provisions of the US federal money laundering laws.

There are similarities and differences between the two examples. Both involve funds from prohibited sources, called specified unlawful activity in the anti-money laundering statutes. Both involve multiple parties, activities that qualify as transactions, and the intent to hide or disguise the nature, location, source, ownership, or control of funds from specified unlawful activity. Example 1 involved an actual currency transaction at a US bank, but example 2 did not. As example 1 involved a currency transaction over \$10,000 at a US bank, the bank was required to file a CTR. Example 2, as stated, did not involve any currency transactions at a US bank, only wire transfers, so no CTR was required. Both banks could have filed a SAR if the bank employee deemed the transaction suspicious, out of the ordinary, or thought that the account holder was trying to hide something or was engaging in illegal activity.

The examples of Joe and Jose illustrate money laundering via bank accounts, wire transfers, and checks in the acquisition of assets in front names. Other processes used to achieve the same purposes include currency exchanges (*casas de cambio* in Spanish), trade-based schemes, bulk cash smuggling, uploaded credit cards, bearer certificates, crypto currency, and hawalas. Hawalas, which originated in Asia, do not involve the actual instant international transfer of funds but of identifying information and passwords among at least four persons, being the sender of funds, the recipient of funds in another country of the equal amount of funds less the hawala fee, and two currency traders or brokers that operate with each other on a basis of trust (Jorgic 2020; U.S. House Committee on Oversight and Accountability 2023). Records are informal, limited, and can be coded. As a laundering platform, direct hawala methodology is a late arrival to the Mexican trafficker money laundering scene. It bears some resemblance to trade-based laundering where goods, not money, are transferred internationally, as the hawala money traders involved must at some point balance their accounts, and international trade of goods is one way to do it (Jorgic 2020; U.S. House Committee on Oversight and Accountability 2023).

There is a basis to assert that hawalas will become more important to Mexican traffickers due to the connections established with Asia, China in particular, to support the trafficking in fentanyl and its precursors. Tracing such transactions is made more difficult when a third country with difficult access to bank records, such as China, is added to the chain. Even now, hawala is cited as being a huge driver of the global economy (Jorgic 2020; Altman 2006).

Using China-sourced precursor materials, Mexico has become the leading trafficker of methamphetamine, or meth, to the United States, supplanting a homegrown US cottage industry of years past. This meth evolution was itself a precursor to what was to come. Fentanyl is a synthetic opioid that is up to 100 times more potent than morphine. Mexico is currently the major entry point for fentanyl and fentanyl-laced drugs into the United States, with deadly effects on illegal drug users. Most fentanyl currently entering the United States originates in China, either as a produced product or via precursors sent to Mexico. Border seizures of fentanyl exploded from a few hundred pounds in 2016 to about 11,000 pounds in 2021 (Beittel 2022: 21).

The Chinese fentanyl problem has led US leaders to seek greater Chinese efforts to stem the rising tide of Chinese-sourced products in the fentanyl trade flowing through Mexico to the United States. It was raised in the November 2023 meeting between Presidents Biden and Xi Jinping in California. It was also raised as the main topic in a meeting between a bipartisan group of six US senators, including majority leader Charles E. Schumer, and Xi Jinping in October 2023 in Beijing (Swanson and Bradsher 2023). China's cooperation in such matters can be selective, spotty, and subordinate to larger Chinese foreign policy interests. Indeed, when then-Speaker of the House Pelosi visited Taiwan in 2022, China halted counter-narcotics cooperation in retaliation (Felbab-Brown 2022; Swanson and Bradsher 2023).

China's dominance as a source country for fentanyl and its precursors has resulted in the enhanced use of hawala in the Western Hemisphere to the point that such money-transmitting groups are now a major factor and are said by some to be the dominant money-laundering factor in the Americas (U.S. House Committee on Oversight and Accountability 2023). Whether hawala will emerge and endure as the primary money laundering platform for Mexican traffickers remains to be seen, as there remains the well-documented use by traffickers and others of the US banking system, as exemplified by the HSBC scandal and related 2012 Senate hearings. Cash hoards are risky. Witness the fate of Zhenli Ye Gon's hundreds of millions seized in 2007 from his apartment in Mexico City.<sup>4</sup> Criticisms have been raised that the United States has tools it is unwilling to use to combat Chinese money laundering for fear of a negative impact on the global economy (U.S. House Committee on Oversight and Accountability 2023; Porter 2007).

We now turn to several real-world cases of the international movement of funds that exemplify the phenomenon of money laundering in the United States.

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<sup>4</sup> Ye Gon is a Chinese-Mexican methamphetamine entrepreneur accused of providing Chinese chemicals to Mexican cartels and being involved in money laundering.

## CASE 1: LOS ZETAS IN THE HORSE-RACING BUSINESS

This case involved the laundering of currency from the sale of illicit narcotics by purchasing, breeding, training, and racing horses.<sup>5</sup> Los Zetas were a powerful offshoot of the Gulf Cartel, whose power was centered in the northeast border areas of Mexico, the general area of the Mexican state of Tamaulipas, and some areas of Mexico's Gulf Coast. Formerly, Los Zetas were the enforcement arm of the Gulf Cartel, and its original members were former anti-drug Mexican military personnel. But by 2007–2008, the Gulf Cartel had split in two, and Los Zetas became a cartel in its own right.

Los Zetas were extremely violent and dominated many of the major drug trade zones (or *plazas*) along the Texas-Mexico border and several other regions of Mexico. In addition to drug trafficking, Los Zetas also engaged in various other crimes, including extortion, kidnapping, murder, fuel theft, bribery, and human smuggling. Their influence went far beyond their regional origins, and by the first few years of the 21<sup>st</sup> century, Los Zetas had transformed the configuration of organized crime in Mexico through the militarization of its forms of operation and strategies and the diversification of its activities beyond the drug trade (Correa-Cabrera 2017).

Miguel Angel Trevino Morales and his brother, Oscar Omar Trevino Morales, were leaders of this transnational criminal organization, which 'with their drug money...directed individuals to purchase horses in the United States at auctions and through private sales.'<sup>6</sup> The money they earned through cocaine sales was used to pay for 'training, breeding, vet bills, boarding and race expenses.'<sup>7</sup> The Trevino Morales brothers recruited their brother, Jose Trevino, to use his name for horse purchases. There was also violence associated with this horse operation, including kidnappings and murders.

Testimonies from the trial of various conspirators of this criminal organization revealed that during a 30-month period, key members of Los Zetas spent nearly \$16 million in Texas, Oklahoma, New Mexico, and California on horse operations (FBI 2013a). Los Zetas drug money was laundered by acquiring land, purchasing, breeding, caring for, training, and racing quarter horses using fronts. Illegal drug proceeds from sales in the United States were, at times, delivered in cash to operatives in the United States to support the horse operation, rather than delivering all the profits back to Mexico. Within the horse operation, the same horse would be sold and resold in a continual cycle at different legitimate horse auctions in the United States using drug money for purchases; this was performed in order to give the false appearance that the horse auction proceeds were legitimate.

The laundering of proceeds included semen 'laundering,' where semen from one Zeta-owned horse was used to impregnate another Zeta horse. The resulting stud fees that were transferred between and among the conspirators could then be claimed as 'clean.' The Zetas also intermingled the horse laundering business with their kidnapping and extortion business. One victim of kidnapping, after suffering from several beatings, torture, and a ransom demand of \$4.5 million, was released and thereafter instructed to fly to Oklahoma City for a horse auction, where he paid \$310,000 for a horse worth only \$15,000, thus laundering \$295,000. This same victim turned over his home to the Zetas, paid attorney's fees for a Zeta operative, and was told to send hundreds of thousands of dollars in checks to the horse operation (United States of America v. Francisco Antonio Colorado Cessa, et al. 2015).

The reach of the Zetas extended even to the premier national quarter horse race in the United States, the 2010 All American Futurity Race, equivalent to the Kentucky Derby. Approximately \$110,000 in bribes were paid to the gate openers, those who open the starting gate for each horse, to delay the openings slightly to give the Zeta horse, Mr. Piloto, an advantage. Mr. Piloto won 'by a nose.' The person who arranged for the delayed gate openings was paid in kilos of cocaine for his corrupt services.<sup>8</sup>

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5 See *United States of America v. Francisco Antonio Colorado Cessa, et al.* (2015). For further details and analysis, see Del Bosque (2017) and Del Bosque and Ulloa (2014).

6 See *United States Brief of Appeal*, p. 17, filed in *United States of America v. Francisco Antonio Colorado Cessa, et al.* (2015).

7 *United States Brief of Appeal, supra*, at p. 19.

8 See *United States of America v. Francisco Antonio Colorado Cessa, et al.* (2015).

The crimes committed by Los Zetas in the United States were not limited to laundering money. During one of the Zeta trials, one of the Zeta defendants, his son, and another associate endeavored to bribe the federal trial judge for a favorable sentencing ruling in exchange for \$1.2 million (FBI 2013b). In sum, a legitimate US industry in several states was penetrated by a corrupt US horse farm money laundering operation through the use of drug money, kidnappings, extortion, murder, and business fronts. In fact, Los Zetas laundered \$22 million via activities spanning Texas, California, New Mexico, and Oklahoma and fixed the premier U.S. national quarter horse race (FBI 2013a: 1).

The Zeta money laundered in the horse farm operation was but a small slice of a much larger quantity of Zeta money flowing through the US financial system. Los Zetas was one of several cartels cited for the movement of illegal money through HSBC. The amount of drug money involved was officially found to be \$880 million. The total penalties, forfeitures, and structural costs assessed were in the range of \$1.9 billion.<sup>9</sup>

The Zeta horse farm case, though laced with exotic facts, is, in essence, Joe and April in example 1 but with a lot more money. Corrupt Zeta funds were cycled through multiple and diverse financial transactions to create and expand an asset [the horse farm operation] that appeared to be a legitimate operating piece of a legitimate industry. Joe and April were only involved with a single vehicle, whereas the Zetas were involved with hundreds of horses in a much more elaborate and violent scheme that existed over years. But the money laundering schemes were the same; they used illegally derived proceeds to engage in financial transactions with the intent to hide or disguise the nature, location, source, ownership, or control of such proceeds. Joe never engaged in violence, but he and a thousand other Joes just like him provide the lifeblood of organizations that do.

By dissecting a well-known Zeta case, we are not suggesting that this is the current ‘industry-wide standard’ for money laundering. Cartel evolution is somewhat similar to division or reformation on a cellular level (Beittel 2022: 29–30). So too, money laundering methods evolve.<sup>10</sup> Drug musclemen ferrying duffel bags stuffed with rubber-banded US currency into bank lobbies have been replaced with corporate types representing shell corporations. Traffickers will continue to seek better methods to launder money as well as to identify perceived weaknesses in the U.S. financial system.

## CASE 2. CORRUPTION IN A MEXICAN BORDER STATE: COAHUILA

Humberto Moreira was born on July 28, 1966. He served as mayor of Saltillo (the capital city of the Mexican state of Coahuila) from January 1, 2003, through June 15, 2005. Later, he became governor of Coahuila, from December 1, 2005, into 2011. Moreira also served as President of the Institutional Revolutionary Party (PRI, for its acronym in Spanish) from March 4, 2011, until later that year. Under his governorship, Coahuila’s debt increased immensely, from \$27 million to \$2.8 billion, and financials were downgraded six levels (Buch 2014). Moreira resigned in response to the debt scandal, both as governor and as head of the PRI.

At that same time, Los Zetas had a strong presence in the state, controlled several illicit businesses, and fought brutally with other criminal groups for the control of drug *plazas* or key territories, with the aim of extracting rents from its inhabitants (Correa-Cabrera 2017). On October 3, 2012, Moreira’s eldest son, Jose Eduardo, age 26, was assassinated in Coahuila’s municipality of Ciudad Acuña, reportedly over a financial dispute between criminal factions (Fox 2012). Evidence suggests that the Zetas were essentially given control of key *plazas* in the state of Coahuila after they paid Moreira multiple bribes; this information can be found in court proceedings. Moreira was subsequently listed as one of the ‘10 Most Corrupt Mexicans of 2013’, according to Forbes magazine (Estevez 2013). Evidence suggested that he used an intermediary, Rolando Gonzalez Trevino, to launder money in Texas. Trevino pleaded guilty in Texas. It was established that he took funds from the treasury and invested in radio stations.

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<sup>9</sup> See Zapata, et al. v. HSBC Holdings, et al.

<sup>10</sup> There are indeed differences in terms of money laundering strategies among the different groups of organized crime operating in Mexico. One thing to note is that the Zetas were a border-centered group that operated elsewhere too. Hence, their money laundering tended to reflect their border headquarters. This explains their preference for types of investments/platforms that could be nearby in Texas. Other groups, such as those centered in Guadalajara or Michoacán (e.g., the CJNG, the *Familia Michoacana*, or the Knights Templar Cartel), didn’t have that type of ready access as they were further away.

Moreira was replaced by Jorge Torres Lopez as Governor of Coahuila in 2011.<sup>11</sup> Moreira has not been charged with a crime in the United States.

Jorge Torres Lopez was interim governor of Coahuila from January 4, 2011, until December 1, 2011. Earlier, he was the General Director of Promotion and Development and Secretary of Finance of the state of Coahuila. He also served as municipal president (or mayor) of Saltillo from 2008 to 2009. Torres Lopez was charged with conspiracy to launder money in Texas in November of 2013. He conducted financial transactions in the United States to conceal bribes in return for road-building contracts in Coahuila. Torres Lopez was taken into custody on February 5, 2019, and extradited to the United States on October 29, 2019. He pleaded guilty on June 16, 2020, and was handed a 36-month sentence. The former interim governor also agreed to forfeit a piece of property in the United States. He only served about eight months in prison before being released in September 2021, with time served while awaiting trial being a factor. Torres Lopez was succeeded by Humberto's brother, Ruben Moreira.

Hector Javier Villarreal Hernandez, Secretary of Finance (Treasurer) of Coahuila from 2008 to 2011, pleaded guilty to conspiracies involving money laundering and transporting stolen money in foreign commerce. He quit as Treasurer of Coahuila after the \$2.8 billion debt became known. At one point, Villarreal Hernandez skipped bond in Mexico. He also took \$250 million in fraudulent loans by using the credit of the state as collateral. Villarreal Hernandez used this money to buy property in Texas and launder money through Texas and Bermuda banks. He surrendered to U.S. authorities at the Paso del Norte Bridge between Ciudad Juárez and El Paso, Texas, in February 2014.

Underlying the Coahuila financial offenses is a deeper story. Trial testimony indicates that Los Zetas paid bribes to top officials in Coahuila so that Los Zetas could have 'free reign' to conduct their deadly business without interference (Buch 2021a; Buch 2021b). Through the strong presence of Los Zetas in the state, they controlled several illicit businesses and fought brutally with other criminal groups for the control of drug *plazas*, all with the aim of generating billions of dollars from cocaine sales in the United States while, at the same time, extracting wealth from the people living in Coahuila (Correa-Cabrera 2017). Los Zetas treated both competitors and ordinary citizens with extreme brutality.

The Coahuila case does not easily lend itself to either of the examples. This is because, underneath the massive fraud and bribery carried out by state officials and their allies, there are much more troubling details, such as the sale of various levels of law enforcement and political offices to a vicious drug organization. But still, there is common ground. The money used by the Zetas 'to buy the state' of Coahuila and the money used by Joe and April in example 1 to buy the racing vehicle came from the same source: illegal drug users in the United States. (Agren 2017; Human Rights Clinic, The University of Texas School of Law 2017).

### CASE 3. THE CASE OF TAMAULIPAS

Tomas Yarrington was elected governor of the state of Tamaulipas in 1998 and served out his full term from 1999–2005. Thereafter, he sought to become the President of Mexico, unsuccessfully seeking to become the PRI candidate for the Presidency. In 2013, he was indicted in Texas, along with a Tamaulipas businessman, on various charges relating to corruption. In 2021, he pleaded guilty to the charged money laundering conspiracy spanning 1998–May 22, 2013, following his extradition from Italy, where he fled and assumed a false identity. During the conspiracy, he used a variety of fronts in the United States to hide portions of his corrupt wealth derived from bribery and theft.

According to the factual summary filed in his case on March 25, 2021, in support of his guilty plea, the bribes included payments from persons and companies in exchange for favorable treatment of those persons and companies via the award of contracts with the State of Tamaulipas.<sup>12</sup> Other information made public from court records indicated that major traffickers in Tamaulipas established a conduit to Yarrington and others for the purpose of

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<sup>11</sup> See *United States v. Hector Javier Villarreal Hernandez and Jorge Juan Torres Lopez*.

<sup>12</sup> See *United States of America v. Tomas Yarrington Ruvalcaba and Fernando Alejandro Cano Martínez and Contreras* (2018).



obtaining political protection for their operations.<sup>13</sup> Assets seized in the investigation include Texas real estate acquired in front names. The former Mexican governor was sentenced to 9 years for money laundering in 2023 ([US Attorney's Office, Southern District of Texas 2023](#)). The same district also indicted Yarrington's successor, Eugenio Hernandez Flores, in 2015 for money laundering.

The Yarrington case is similar to the facts in both examples. Boiled down to the basic elements, Yarrington acquired corrupt money via bribery and theft, both during his term as governor and otherwise. Portions and proceeds of the corrupt funds were then transferred to the United States and placed or invested in front names in order to 'conceal the nature, source, location, and control of the illegal proceeds.'<sup>14</sup> While his status would seem to parallel Governor Jose's in example 2, Yarrington's money laundering also mimics Joe's conduct in example 1 through the use of trusted fronts to acquire assets in the United States funded by corrupt money.

These three investigations do not represent the entirety of US money laundering by powerful interests in Mexico. At best, they are only emblematic of a deeper and not well understood or discussed dynamic. Various other investigations have been carried out in Mexico and in the United States that focused on Mexican corruption, theft, bribery, and money therefrom laundered in the United States. Several of these are listed below:

- Mario Villanueva Madrid, former PRI governor of Quintana Roo (1993–1999), was convicted of money laundering in federal court in New York by plea of guilty in 2012 ([U.S. Attorney's Office, Eastern District of New York 2013](#)).
- Andres Granier Melo, former PRI governor of Tabasco (2007–2012), arrested for embezzlement and other charges in Mexico ([Reuters 2013](#)).
- Cesar Duarte, former PRI governor of Chihuahua (2010–2016), was extradited from the United States to Mexico in 2022 to face public corruption charges there ([Reuters 2022](#)).
- Roberto Borge Angulo, former PRI governor of Quintana Roo (2011–2016), was arrested in 2017 on Mexican money laundering charges at the airport in Panama while boarding a flight to Paris ([Reuters 2017](#)).
- Roberto Sandoval Castaneda, PRI governor of Nayarit (2011–2017), was charged with corruption and accused of receiving bribes from cartels in exchange for protection. His acting Attorney General, Edgar Veytia, was also arrested for allegedly participating in an international narcotics distribution conspiracy ([McDonnell 2020](#)).
- Jaime ('El Bronco') Rodriguez Calderon, former governor of Nuevo Leon (2018–2021) and Presidential candidate (2018), was arrested in Mexico in 2022 for election fraud ([Infobae 2022](#)).

Neither our research nor experience show that corrupt Mexican officials have involved themselves in the laundering of cartel funds while in cartel possession or that such officials look to the cartels to launder the bribes once ownership has passed to those in governmental power. Essentially, the bribes are 'fee for service', the fee being the bribes and the service being a degree of the officials' non-interference (and sometimes assistance) with cartel operations. Our focus has been on elected officials on the Mexican state level—the governors—who climbed in political power in the states where they were then elected. The areas of cartel operations, and hence more active bribery, are on the state level, especially those Mexican states that serve as entry and exit platforms into and out of the territory of Mexico. Note the plight of the Mexican states of Quintana Roo and Tamaulipas. Each has had two governors implicated in major corruption matters. Each is a border state. Each has had a governor serve time in a U.S. prison, along with a governor from Coahuila, which is also a border state. Clearly, Mexican national leaders have been implicated in trafficker bribery allegations, but that is not where the day-to-day action is.

What is the overriding significance of the phenomenon of political money laundering described here? Our answer is simple: money laundering on this scale is indicative of and/or directly facilitates widespread theft, fraud, corruption, drug trafficking, mass murders, and grotesque human rights violations. The overall Mexican victims in these cases are the common citizenry,

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<sup>13</sup> See *United States of America v. Antonio Pena Arguelles, Document 3*, Affidavit in support of criminal complaint, filed in support of an arrest warrant in case 5:12-mj-00120-NSN.

<sup>14</sup> Affidavit, p. 2.

or, in other words, the powerless elements of the Mexican population. The criminals are a relatively small yet powerful clique of corrupt politicians, drug traffickers, members of other illicit businesses, and their allies. In this avalanche of data and heartbreak, we should caution that this is not simply a Mexican problem.

While impunity is at the center of this problem, so too is the bottomless US appetite for illegal drugs that supplies much of the money in the first place. On a macro level, the overall toll over just the last few years is staggering. By the authors' estimate, the sum of the Mexican drug war deaths, plus the number of disappeared and the number of illegal drug overdose deaths in the United States, fueled primarily by fentanyl smuggled in from Mexico, now about equals, if not exceeds, the total US military war dead from all wars the United States has fought since 1900, a period of nearly 125 years. It's a quagmire that involves Mexican politicians who take bribes, their fronts, US bankers who are deliberately ignorant, and millions of illegal drug users in the United States who provide money. And much of the illicit money involved in this crisis is laundered right here in the United States of America.

## CONCLUSION: WHAT IS THE WAY FORWARD?

It is both easy and convenient to dismiss a money laundering case as just another white-collar crime that is merely a small scratch in the paint of the massive US financial system. We do so at our own peril, for beneath the surface of such cases can be deadly international crime networks and, beneath them, the insatiable US appetite for illegal drugs. The activities of these criminal groups forming complex networks have been central to explaining a human tragedy on both sides of the border. In their country of origin, they have caused massive destruction and recurrent deaths; some sources report more than 350,000 homicides in Mexico between 2007 (the beginning of the so-called 'drug war') and 2021 (Inegi 2023; Pardo Veiras and Arredondo 2021). In the United States, the problem of drug addiction and consumption has reached its highest levels in history; the opioid epidemic and the fentanyl crisis have been characterized by an unprecedented number of drug overdose deaths. The CDC's National Center for Health Statistics reported almost 110,000 overdose deaths in the United States during 2022, after years of significant increases (CDC 2023; Weiland 2023).

The recently proposed (2023) ENABLERS legislation, which would amend the 52-year-old Bank Secrecy Act by requiring more attention to suspicious activity, would help in combating money laundering. We argue that there is more that can be done. In this section, we provide our ideas that might contribute to useful reforms to undermine money laundering.

First, we need an informed citizenry. There are precedents for how to go about doing this mission. For example, in the later part of the 1940s, the grip of organized crime in the United States was growing but was ignored by the FBI. The Kefauver Hearings (1950–1951), much like the Watergate Committee Hearings in later years, were broadcast on television and turned on the lights to the subject of the mafia as it then existed. The hearings helped to broaden the public's understanding of corruption at the local level and organized crime in the United States. We suggest that it is time for such a round of congressional hearings in the United States. The purpose would be to fully inform the citizenry of the United States of the overall size, scope, and consequences of transnational organized crime and its financial arrangements. Specific details from past investigations should be made available in a form that does not endanger the sources of the information. We recommend these hearings because, we argue, an informed citizenry is more likely to support solutions than is an uninformed and, hence, disconnected citizenry.

Second, we should enact enabling civil legislation at the federal and state levels that would allow US citizens and non-citizen residents of the United States to sue financial institutions and certain bank employees that have received, possessed, or transferred funds of a criminal organization where the person bringing the suit has:

- a) suffered harm as a result of the acts of the criminal organization or its associates, including the use of its products; or
- b) is the estate of a deceased person who died as the result of acts of the criminal organization or its associates, including the use of its products.

Rebuttable presumptions need to be enacted as part of the enabling legislation that allows the jury to draw inferences about corrupted proceeds and association with a criminal organization when certain predicates are shown.<sup>15</sup> Monetary recoveries under such new statutes would be cumulative to any fines, penalties, seizures, forfeitures, or costs levied on the financial institution by a federal or state governmental or regulatory entity.

The law should look askance at banks and bankers who claim they did not know that funds they manage were from a corrupt source or that the persons who were bank customers were associated with or fronting for organized crime. As required by current law, regulations, and industry standards, it is their job to know. KYC ('know your customer') and its offshoot KYB ('know your business') are the prevailing, required legal and industry standard in banking, existing under various headings such as CDD (Customer Due Diligence) and CIP (Customer Identification Program).<sup>16</sup>

Third, we must assess if the current criminal penalties for money laundering are sufficient to deter criminal conduct. Where financial crimes are committed in the United States that involve or may involve proceeds of foreign corruption, the law should be changed to establish minimum mandatory sentences of five years to serve, scaled upwards based on the amount of money involved. In the investigation of HSBC, not one banker was criminally charged, and the bank was let off with a deferred prosecution agreement, despite the bank's failure to properly monitor what is claimed to be additional billions of dollars in wire transfers from Mexico.<sup>17</sup> The alleged billions of improperly monitored transfers dwarf the \$1.9 billion assessment against HSBC. It is a fair question for the citizenry to ask if the amount of the penalties and assessments levied against HSBC was sufficient to deter future wrongdoing by any bank or to ensure compliance. We should also consider if the structure of our federal money laundering statutes is too complicated and if simplification would be beneficial.

Fourth, federal banking regulations should provide regulatory authority to readily ban a person from employment in a bank where it is shown that the person was the officer of responsibility for an account used to launder money for a criminal organization, even if the officer himself was not convicted of a related crime. This may already exist to some degree.

Fifth, where a foreign bank or branch has played an ongoing or significant role in receiving, possessing, or transmitting substantial sums to US financial institutions shown to be proceeds of organized crime or political corruption, the law should terminate that bank's access to the US financial system.

Sixth, have we devoted enough resources to fighting the laundering of corrupt foreign money in the United States? In 2019 alone, over 2.3 million SARs were filed (Jimenez 2020). Within the volume of SAR reports, there is a subcategory for Suspected Public/Private Corruption (Foreign). Between January 2019 and March 2022, 3,207 such SARs were filed (Jimenez 2022). In a federal case in 2019, when a federal judge inquired of the prosecution why it was dropping foreign kleptocracy-type cases, the response indicated that the office lacked sufficient resources to pursue them (Buch 2021a). Experience has shown that these cases are much more frequently developed in certain areas of the United States, especially Texas and New York. Do federal investigative and prosecutorial resource allocations reflect that? It is also in the best interests of those states to dedicate additional state-level resources of their own to either develop or enhance such investigations. Should the ENABLERS Act or similar legislation pass, the workload of financial investigators and prosecutors will increase, perhaps very significantly. Where will the resources come from to enforce such new legislation?

We do not believe that our proposals will eliminate all money laundering; in fact, we recognize that the reforms we support will only do so much. It is a complex transnational situation that confronts us. We are operating in an arena of legal pluralism, and there are political and foreign

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<sup>15</sup> Presumptions are part of the legal fabric of US law and are used in both criminal and civil litigation. The presumption of innocence in criminal cases is probably best known and is rooted in the Constitution. A rebuttable presumption means that the presumption can be disproven. Typically, the burden of disproving a presumption lies on the litigant against whom the presumption operates.

<sup>16</sup> 31 USC §5311, et seq., *Bank Secrecy Act*); See [www.fincen.gov](http://www.fincen.gov) "Information on Complying with the Customer Due Diligence (CDD) Final Rule; 31 CFR Sec. 1020.220 (CIP); [www.law.cornell.edu](http://www.law.cornell.edu): "Customer Identification Program Requirements for Banks."

<sup>17</sup> See complaint filed in *Zapata, et al. v. HSBC Holdings, et al.*

policy considerations too numerous to fully address here. Yet we hope this short paper helps initiate discussion on the reforms we have proposed. As long as the proposed solution doesn't require breaching the laws of physics, presumably any problem can be solved, and we hope our paper contributes to this project.

## COMPETING INTERESTS

The authors have no competing interests to declare.

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78

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