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Good afternoon, Chairman Pryce. I would like to thank you, as well as the distinguished Ranking Member, Ms. Maloney, and the other members of the subcommittee for providing an opportunity to discuss currency issues and trends in counterfeiting, as well as the introduction of new Federal Reserve Notes.

The United States Secret Service was established in 1865 to protect our fledgling financial infrastructure through the investigation of the counterfeiting of U.S. currency. At the time, a strong investigative agency was needed to combat the escalating problem of counterfeiting, as it was estimated that between one-third to one-half of all currency in circulation in post-Civil War America was counterfeit. Our mission to protect our payment systems and financial infrastructure continues as we mark 141 years of service to this country.

As you are aware, the Secret Service officially became a part of the Department of Homeland Security in March of 2003. Though our agency is no longer a component of the Department of the Treasury, we continue to maintain our historic ties and a robust partnership in the safeguarding of our currency and other payment systems. The Secret Service strongly believes that economic security is a central element of homeland security; therefore, the safeguarding of our financial infrastructure and monetary framework continues to be a paramount objective of our worldwide investigative efforts.

Trends In Counterfeiting

We continue to see the expanded, international use of the U.S. dollar as the world's currency of choice. Of the approximately \$762 billion dollars of genuine U.S. currency in circulation, roughly two-thirds of that amount circulates outside of our borders, making the U.S. dollar a truly global currency. In addition to "dollarized" economies – those nations that have adopted the U.S. dollar as their own currency – businesses and individual interests worldwide depend upon the integrity and stability of the U.S. dollar. This is why counterfeiting activity has such a profound effect on not only our economy,

but the economies of other countries as well. As we are all aware, counterfeiting reduces consumer confidence in our currency and has the potential to affect the perception, and thereby the strength, of the dollar and all dependent economies.

Because of the dollar's stability and value, as well as its widespread use overseas, it continues to be a target for transnational counterfeit activity. The counterfeiting of U.S. currency also continues to be associated with organized crime and drug trafficking. Recent trends in the counterfeiting of U.S. currency indicate a growing globalization in production and distribution of counterfeit notes. Because not all nations report U.S. counterfeit currency activity, it is difficult to provide precise figures detailing how much counterfeit U.S. currency is passed on a global scale each year. However, being the U.S. depository for counterfeit currency, the Secret Service received approximately \$56 million in counterfeit that was passed to the U.S. public in FY 2005.

Approximately \$52.6 million in counterfeit U.S. currency was seized last year by the Secret Service and other authorities worldwide. Of this amount, approximately \$14.7 million was seized in the United States. The remaining notes were seized overseas, with over \$14.4 million seized in Colombia alone.

It is also interesting to see the different methods utilized by counterfeiters both within the United States and outside of our borders. Last year, more than 44% of all counterfeit currency passed domestically was printed outside of the U.S. using traditional printing techniques, predominantly offset lithography. Virtually every note that was produced overseas and passed in the U.S. was produced by offset printing. In contrast, 46% of the counterfeit currency passed domestically last year was produced within the U.S. by individuals using digital technology such as computers, scanners, printers and multi-function devices.

In recent years, the Secret Service has enhanced its international anti-counterfeiting efforts. Today, our agency maintains 20 foreign offices and continues to target strategic locations throughout the world where significant counterfeiting activity is detected through joint task forces with our foreign law enforcement partners. Our investigative history has proven that the effective suppression of counterfeiting operations requires a close partnership between our foreign field offices and their local law enforcement counterparts, as well as an immediate response by the law enforcement community in order to develop investigative leads generated when a new counterfeit note is detected or an arrest is made. The Secret Service has long believed that the strategic placement of personnel promotes more aggressive law enforcement operations because agents are able to respond in a timely and consistent manner. Also, the ongoing presence of our agents in foreign field offices allows the Secret Service to build the same trusted partnerships with our foreign law enforcement counterparts as we have successfully built with our local police partners in the United States.

Today, Colombia is the second largest source of counterfeit U.S. currency in the world (after digitally-produced notes), accounting for approximately 14%, or \$8 million, of the \$56 million in counterfeit dollars passed in the United States last year. Colombian

counterfeiting operations tend to employ many of the same distribution networks and methods as those used in the trafficking of narcotics. A trend has emerged that indicates counterfeiting activity may increase in Latin America as Colombian organized crime and others take advantage of the counterfeiting opportunities associated with dollarization. Counterfeit printing plant suppressions and seizures in Colombia show that a number of Colombian counterfeiters are producing lower denomination counterfeit notes for distribution in fully dollarized countries.

In May of 2001, the Secret Service entered into a historic agreement with the government of Colombia to combat organized financial crime. This agreement included the establishment of a vetted anti-counterfeiting force (VACF) using agents from the Departamento Administrativo de Seguridad (DAS) and the Departamento de Investigaciones Judiciales de Intelligencia (DIJIN) of the Colombian National Police.

These VACF units work in conjunction with Secret Service agents from our Bogotá Resident Office in the identification and suppression of counterfeiting operations in Colombia. As of July 1, 2006, the cooperative effort between the Secret Service and Colombian law enforcement has resulted in the seizure of \$180 million in counterfeit U.S. currency, the suppression of 63 manufacturing operations, 360 counterfeit-related arrests, as well as the seizure of miscellaneous contraband (narcotics, explosives and firearms, and counterfeit U.S. visas).

An important aspect of this collaboration has been the enhancement of Colombian laws relating to counterfeit U.S. currency. A new Colombian counterfeiting statute mandates that anyone possessing over \$10,000 in counterfeit U.S. currency serve a minimum of three (3) years and a maximum of eight (8) years in prison, with no possibility of probation.

As a result of these efforts, there has been a 56% reduction in Colombian-produced counterfeit currency passed in the United States, from approximately \$19.5 million passed domestically in FY2001 to approximately \$8.6 million domestically passed in FY2005. This collaboration with the Colombian government has been a success story, and the Secret Service is eager to work with this subcommittee and the Congress to obtain the authority to continue these efforts both in Colombia and other troubled regions.

The “Supernote” – Quality vs. Quantity

The economic and social conditions that fostered significant counterfeiting of U.S. currency in Colombia are not restricted to South America. One family of counterfeit notes that has garnered significant recent media attention due to its very high quality as well as its origin is the “Supernote.”

The Supernote was first detected in 1989. Its primary significance is that it is of such high quality that it often goes undetected until it reaches a Federal Reserve Bank. Since its first appearance, the investigation into its origin and distribution has been one of our most significant strategic cases with national security implications. This investigation

thus far has resulted in more than 170 domestic and foreign arrests and involved more than 130 countries.

The Supernote primarily circulates outside of the United States. Supernote refers to a family of different versions of \$100 and \$50 denomination counterfeit notes. The note is printed using the same intaglio and typographic printing methods as those employed by the U.S. Bureau of Engraving and Printing in the production of genuine U.S. currency. It is also printed on reverse engineered paper similar in composition to that used in the printing of genuine U.S. currency, to include security features such as red and blue security fibers, a security thread, and a security watermark.

This family of counterfeit can be described as evolutionary. These notes continually evolve, and over time, we have discovered better and more deceptive versions of the Supernote. These new versions show corrections or improvements in the flaws that are used by banking and law enforcement to detect them.

Based upon the Secret Service's investigation efforts and forensic analysis, the Department of Justice has publicly identified a clear connection between these highly deceptive counterfeit notes and the Democratic People's Republic of Korea (DPRK). Without question, the Supernote continues to be produced and distributed under the auspices of the North Korean regime.

The first Supernote was detected by a Central Bank cash handler in the Philippines more than 16 years ago. Since then, the Secret Service has verified approximately \$50 million of the Supernote globally, which equates to seizures of approximately \$2.8 million annually. This amount is comparatively low in contrast to other known counterfeits. During the same time span as that of the Supernote investigation, our investigation into Colombian-produced counterfeit yielded seizures in excess of \$380 million. The amount seized is also low when compared to the large volume of genuine U.S. currency in circulation worldwide.

This leads us to the true concern regarding this family of notes. The disturbingly high quality of these notes, and not the quantity circulated, is the primary cause of concern for the Secret Service. As we just illustrated with the statistics provided above, the Supernote may not appear to bear a significant impact on the U.S. economy, based upon the comparatively low volume of notes passed. However, the injection of the Supernote into a micro economy can have a significant impact, not only due to the monetary losses sustained as a result of the Supernote passes but also because of the loss of integrity of the U.S. dollar. An example of this effect was seen in Taiwan in 2004 and in Peru in 2005. Many financial institutions and merchants in both of these countries refused to accept any \$100 notes after banks discovered small caches of Supernotes.

The Secret Service has developed and employed a three-pronged strategy to address the distribution of this counterfeit note. The first part of this strategy focuses on containment based upon an aggressive investigative response to all appearances of this counterfeit. Secret Service agents posted around the world work closely with foreign counterparts to

identify and arrest distributors of this counterfeit as rapidly as possible. Coordination of large scale investigations internationally can be very difficult, particularly when cooperation efforts and laws regarding currency counterfeiting differ from country to country.

The second part of our strategy focuses on disruption. With the support of the international law enforcement community through their representation at Interpol, this strategy seeks to deny the supplies and equipment required to manufacture high quality counterfeit.

The third part of our strategy focuses on education. The Secret Service provides global, detailed training seminars to financial institutions and law enforcement on the detection of counterfeit currency. These seminars are designed to equip cash handlers with the information necessary to detect these counterfeits. In the past year, the Secret Service has provided 138 training seminars in 23 countries, training approximately 7,800 financial institution and law enforcement personnel in support of our education strategy.

New Federal Reserve Notes

As new technologies continue to emerge, the challenges facing law enforcement are significant. The rapid and continual advancement of reprographic technology has enabled an expanding criminal element to conduct a variety of crimes. These advancements mean counterfeit currency and other obligations can be reproduced quickly and efficiently. Today's criminals need relatively little knowledge or specialized training to print counterfeit currency or other financial obligations. Utilizing equipment ranging from inexpensive, multifunction devices such as scanners, computers and printers, to large commercial presses, a counterfeiter or criminal organization can flood a region with counterfeit currency.

Domestically, the Secret Service is attacking counterfeit production and circulation from several fronts. First, with our partners in the Department of the Treasury and the Federal Reserve, we are continuing with the redesign of our currency. As a member of the Advanced Counterfeit Deterrence Steering Committee (ACD) and the Interagency Currency Design Committee (ICD), we have an active role in the research, design, and introduction of the new currency. The Secret Service is continually evaluating the methods currently employed by the counterfeiters and studying cutting-edge anti-counterfeiting technologies to enhance future redesigns of U.S. currency.

The Secret Service is also continuing our public education and training efforts in our strategy to suppress the manufacturing, distribution and sale of counterfeit U.S. currency, both domestically and abroad. Secret Service personnel conduct training seminars on topics such as financial crimes and computer forensics in an effort to augment the Secret Service's mission.

In 2006, the Bureau of Engraving and Printing (BEP) introduced the newly-designed \$10 FRN. As the subcommittee is aware, the BEP has recently announced plans to introduce the new design for the \$5 FRN, and a design change for the \$100 will follow.

Chairman Pryce, this concludes my prepared remarks. I would be pleased to answer any questions that you or members of the subcommittee may have.