

U.S. Secret Service

**Testimony of Daniel G. Snow
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before

**The Subcommittee on Domestic Monetary Policy, Technology, and Economic
Growth**

**The House Committee on Financial Services
U.S. House of Representatives**

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Mr. Chairman and members of the Subcommittee, it is my pleasure to speak with you today and discuss the counterfeiting of U.S. currency and its impact on the integrity of the financial system of the United States. With me today is Tony Chapa, Deputy Special Agent Charge of Counterfeit Division, and until very recently, Resident Agent in Charge of our Bogota, Colombia Office.

Although best known among the public as the protectors of our Nation's leaders and visiting world dignitaries, the Secret Service continues its historic mission to suppress counterfeit activity – a mission that began in the 19th century and continues into the 21st century. Technological improvements with computers and reprographic equipment, coupled with the increasing expansion of international, organized criminal syndicates, has challenged the Secret Service to develop innovative investigative techniques.

Numerous worldwide and domestic counterfeit investigations conducted by the Secret Service indicate that counterfeiting U.S. currency has become a crime that has no territorial borders. Counterfeiting is a crime that is as likely to be committed by an organized criminal enterprise in Colombia, South America, as it is to be committed by a local street level criminal in America. And counterfeiting is on the rise. Counterfeit U.S. currency passed in the United States during the first eight months of this fiscal year increased 18 percent over FY 2000. Today's counterfeiters are often criminals who, because of the relative ease of the crime, choose counterfeiting over other non-violent crimes. But today's counterfeiters are also represented by ruthless offenders involved in violent crimes such as narcotics trafficking and homicide.

Computer-based, or digital counterfeiting, is now possible without a printing background, and is a crime that continues to escalate throughout the United States. As a result, the Secret Service has seen an increase in counterfeit currency manufacturing and distribution associated with gang activity, with gang members knowingly purchasing narcotics with counterfeit currency. For example, situations where a seller unknowingly accepts counterfeit currency in exchange for drugs can turn violent, sometimes ending in assaults and murder.

Staying ahead of the technologically advanced counterfeiter of the 21st century continues to be a challenge and a priority for the Secret Service. With reprographic equipment, computers, and computer software continuing to become more sophisticated and affordable, counterfeiters have been able to increase both the volume and the quality of their product. Domestically-passed counterfeit U.S. currency that has been manufactured utilizing digital technology rose from \$174,924 in fiscal year 1995 to \$18,460,249 in fiscal year 2000. Currently, 94 percent of the domestic counterfeit printing operations suppressed by the Secret Service in this fiscal year have been digitally-based. These significant increases are due largely to a growing number of criminals attracted to the seeming simplicity of the crime made possible by today's technology.

In response to this growing problem, the Secret Service is pursuing legislative changes to counterfeiting statutes that clearly define the fraudulent use of digital images as a violation of law. In addition, the Service's recently completed work with the U.S. Sentencing Commission resulted in recommended changes to the sentencing guidelines addressing counterfeit activity. The new guidelines provide for enhanced sentences for manufacturers of counterfeit currency, particularly those manufacturers that simulate security features. They also remove language that minimizes the significance of digitally-produced counterfeit.

The Secret Service is also staying ahead of modern counterfeiting operations through its involvement in the currency design process. The Secret Service enjoys a close working relationship with the Bureau of Engraving and Printing (BEP), as well as the Federal Reserve Board during the design phase of U.S. currency. These agencies all participate in the Advanced Counterfeit Deterrence Steering Committee (ACD), and together, select the security features for each new generation of U.S. currency. Additionally, the Secret Service and BEP work together in the Interagency Currency Design Technical Group. This group analyzes the technical attributes of potential security features for new designs and makes recommendations to the ACD based on the concerns of all agencies.

The Secret Service and BEP also work together in the ongoing campaign to educate the American public about the security features found in new currency designs. Most counterfeiters would be stopped before they could pass their first note if their intended victims took the time to look at their currency. An educated, aware American public is the best defense against today's counterfeiter. A survey is currently being devised to assess the effectiveness of the educational campaign implemented during the introduction of the 1996 and 1999 series of notes and how this education campaign can be improved for future use.

Almost half of the counterfeit U.S. currency being distributed to the American public is transported or "muled" into the United States from foreign countries, most often Colombia. Secret Service investigations indicate that counterfeit currency distribution networks closely follow that of Colombian drug distribution networks. Often a "mule", generally a Colombian national who is paid a nominal price for his services, transports the counterfeit currency into the United States through large cities such as Los Angeles, New York or Miami. In these cities, U.S.-based members of the organization take possession of counterfeit currency and orchestrate its street level distribution throughout the country.

To stem the flow of Colombian-originated counterfeit currency, the Secret Service concentrates its investigative efforts in these large cities and works closely with the U.S. Customs Service to scrutinize flights arriving directly from Colombia. Through our Bogota Resident Office, the Secret Service works with Colombian authorities, coordinating arrests, suppressing counterfeit printing operations, and seizing millions of counterfeit U.S. dollars in Colombia destined for the United States.

Counterfeit currency manufactured in Columbia poses a threat to the stability of the dollar in countries outside the United States as well. Economic uncertainty in some third-world countries -- many in Central and South America -- have led these countries to seek economic assistance by "dollarizing" their economy. These "dollarized" countries choose to accept the U.S. dollar, either officially or unofficially, as legal currency. For example, Ecuador officially "dollarized" its economy in April of 2000 in an attempt to slow inflation and the devaluation of their local currency, the sucre. As the U.S. dollar became the "coin of the realm" in Ecuador, Colombian counterfeiting operations began targeting the country by flooding the region with counterfeit currency. As recently as July 17, 2001, the Miami Herald reported the arrest of a major Colombian counterfeit U.S. dollar manufacturer in Ecuador. The offender was responsible for more than \$9 million in counterfeit currency passed in the United States and had over \$90,000 in counterfeit U.S. dollars when he was arrested in Quito.

The Secret Service works diligently to foster strong working relationships with foreign law enforcement officials by responding to their requests for assistance in counterfeit U.S. dollar investigations. In 1948, the Secret Service established its first foreign field office in Paris, France, to improve these international relationships. Since that time the Secret Service has learned the value of maintaining a presence abroad. The Secret Service currently has 17 offices throughout the world, as well as representation at Interpol in Lyon, France.

The Secret Service response to the threats posed by Colombian-based counterfeiting and “dollarization” follows our traditional methodology. The Secret Service pursued and received funding from “Plan Colombia” to increase our presence in Colombia and to fund Colombian law enforcement units that will, under the direction of the Secret Service, solely target counterfeit U.S. dollar operations. The Secret Service is also studying a plan that includes the creation of additional field offices in Central and South America to address the increasing challenges created by “dollarization.” By establishing offices in the regions threatened by Colombian counterfeiting, the Service will be in position to provide the immediate assistance and support needed to address these problems.

In addition, 18 U.S.C. § 470, a statute that makes it a crime to counterfeit U.S. dollars anywhere in the world, has been successfully used for the first time this past month to arrest a major Colombian counterfeit dollar manufacturer. The successful application of this law should lead to the indictment in the United States of other Colombian-based counterfeiters and assist in the dismantling of these large-scale organizations.

The Secret Service understands that to be effective in suppressing counterfeit activity, its partners in the law enforcement and financial communities need appropriate training. To accomplish this goal, the Secret Service continually provides training to state and local law enforcement agencies, banking institutions, and numerous merchants throughout the United States. These training seminars focus on the security features of genuine currency and the procedures to follow if a person receives a counterfeit note. Additionally, the Secret Service participates in training hundreds of foreign law enforcement officials in detecting counterfeit currency through international seminars and the International Law Enforcement Academies in Bangkok, Thailand, and Budapest, Hungary.

The introduction of the euro will present challenges for the European Union, the United States and the world. As the euro is first introduced, it is anticipated that demand for the secure and stable dollar will escalate. With this escalation will come

an increased market for counterfeit dollars. The Secret Service is ready to meet this challenge through its established working relationships with law enforcement entities in the European Union and Interpol, as well as with its developing relationship with Europol. In addition, as the euro becomes the target of international counterfeiters, it is anticipated that some counterfeiting organizations will produce both counterfeit euros and counterfeit dollars. The Secret Service is preparing for these joint investigative efforts by organizing joint training seminars with Europol and Interpol. By working together with our European partners first in a training setting, we will be better prepared to work together to combat these large-scale counterfeiting operations.

The Secret Service also measures counterfeit trends based on the proportion of counterfeit currency passed relative to the amount of genuine currency in circulation (reported as the amount of counterfeit passed per million dollars of genuine U.S. currency in circulation). Although the volume of counterfeit currency passed remained stable during the previous three fiscal years at about \$40 million, the increase in genuine currency in circulation in preparation for potential Y2K difficulties resulted in declining numbers. In FY98 the level was \$92; in FY99, \$78; and, in FY00, \$76. FY01 and FY02 were projected to be \$90 and \$83, respectively. Current figures indicate that the FY01 actual level will be approximately \$85.

In closing, counterfeiting will continue, to some extent, as long as genuine currency is a medium of exchange. However, the Secret Service continues to pursue ever-changing tactics of the modern counterfeiter and to educate law enforcement, the financial community, and the public about the security features of genuine currency.

Since our inception, the Secret Service has protected the security and stability of the dollar by stemming the flow of counterfeit. Without constant attention to this task, the modern counterfeiter could jeopardize the foundation of our financial system and our nation's currency. The Secret Service will continue to aggressively pursue this goal, as it has for more than 135 years.

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