

Understanding the Use of Cryptocurrencies By Cartels

TRM Insights Insights

Moments after he was sworn in as President, Donald Trump signed an Executive Order designating Mexican drug cartels as terrorist organizations.

Under Section 219 of the Immigration and Nationality Act (INA), the US Secretary of State can designate entities as Foreign Terrorist Organizations (FTOs) if they engage in terrorist activities and threaten US nationals or national security. Such a designation for Mexican drug cartels introduces significant legal and operational changes.

First, the designation makes it a federal crime to provide material support to these cartels, with severe penalties for those aiding them, including funding, logistics, or services.

In addition, the FTO designation allows the US to freeze all assets and financial networks linked to the cartels, including cryptocurrency wallets. Immigration measures would bar cartel members and supporters from entering the US and expedite deportations. Additionally, US law enforcement agencies like the FBI and DEA now have access to counterterrorism tools, including enhanced surveillance and intelligence-sharing, to combat cartel operations more effectively.

Cryptocurrencies — with their unique ability to enable rapid, cross-border, and pseudonymous financial transactions — are increasingly being leveraged by transnational criminal organizations, including Mexican drug cartels.

Among the most notorious of these groups, the Sinaloa Cartel has experimented with digital assets to launder proceeds from its lucrative drug trafficking operations. However, with a renewed focus and the use of new executive authorities, there is an opportunity to leverage blockchain intelligence to disrupt these networks. In fact, the crypto-based financial networks that facilitate the flow of profits between cartels and their Chinese facilitators may be easier to disrupt than the cartel's physical operations.

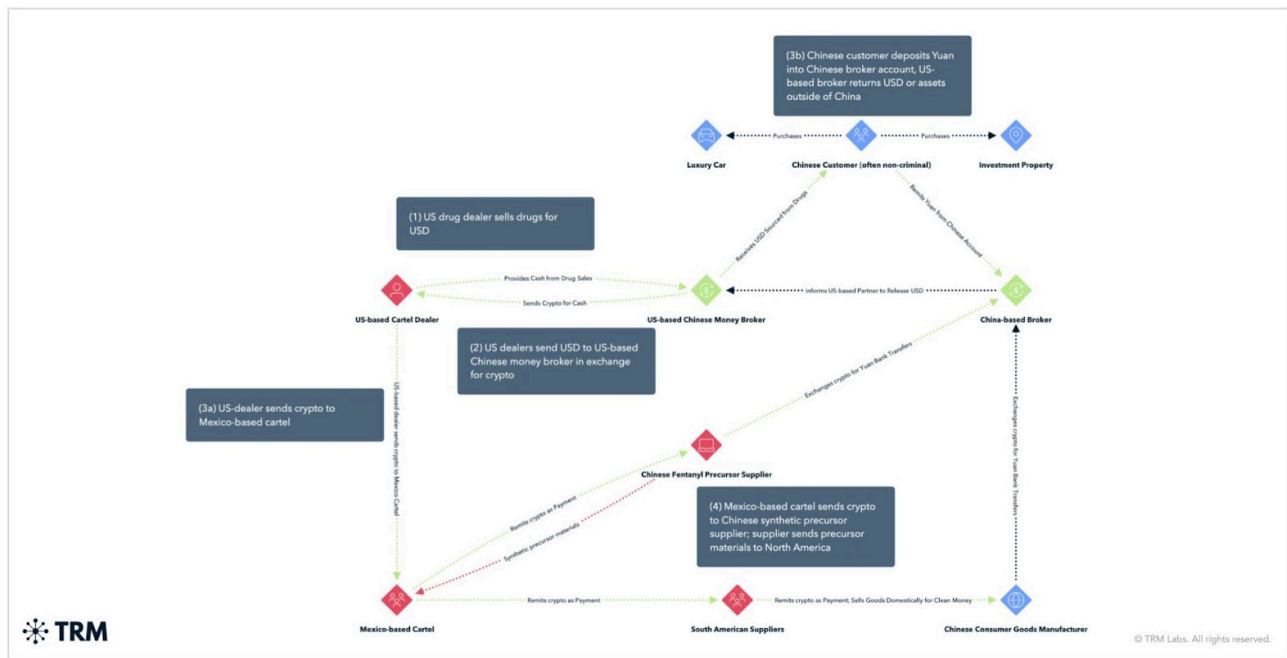
The mechanisms of crypto laundering by cartels

Collaboration with Chinese money laundering networks

A key evolution in cartel money laundering involves collaboration with Chinese money laundering networks. These entities facilitate the movement of illicit proceeds internationally, often using cryptocurrencies as an intermediary.

- Flow of funds: Drug proceeds from US sales are delivered to Chinese brokers, who convert cash into cryptocurrency. These digital assets are then transferred globally or used to purchase precursor chemicals essential for drug manufacturing.
- Precursor chemicals and drug production: Chinese suppliers play a crucial role in providing precursors for fentanyl and methamphetamine production. Cartels rely on these chemicals to manufacture drugs that are subsequently distributed worldwide. Of the more than 120 Chinese precursor manufacturers studied by TRM in 2024 — spanning 26 cities and 16 provinces — 97% offered payment in cryptocurrencies.

According to a TRM investigation, Chinese money laundering networks are integral to these operations. Many of these wallets have been sanctioned by the US Treasury, with the Office of Foreign Assets Control (OFAC) targeting addresses linked to cartel activities.



TRM graph visualizer, with explanations, showing how the cartels and Chinese brokers use cryptocurrencies to launder drug money

Direct conversion of illicit cash into cryptocurrency

Cartels like the Sinaloa Cartel have also themselves directly experimented with cryptocurrencies to obscure the origins of drug proceeds and bypass traditional financial scrutiny.

- Bulk purchases of cryptocurrency: Cartels have converted drug proceeds into cryptocurrencies via bulk purchases on exchanges, often facilitated by intermediaries or cash-intensive businesses.
- Use of crypto exchanges and wallet networks: Funds are moved through a network of wallets, sometimes using layering techniques to make the origins and ultimate destinations of the funds more difficult to trace. By integrating these activities with legitimate businesses, cartels can obscure their illicit operations.

One notable example, discussed more fully below, is the case of a Las Vegas man convicted of laundering millions in cartel drug money through cryptocurrency. His operation included setting up accounts on crypto exchanges, creating a web of wallets to obscure the movement of funds, and eventually converting them back into fiat currency.

Recent sanctions and enforcement actions

June 2024: DOJ indicts Los Angeles-based Sinaloa Cartel associates

In June 2024, the DOJ announced a superseding indictment against Los Angeles-based associates of the Sinaloa Cartel for laundering over USD 50 million in drug proceeds via Chinese underground banking networks. The indictment alleges that the group — led by Edgar Joel Martinez-Reyes — used trade-based money laundering and structured transactions to evade federal reporting requirements, and cryptocurrency purchases to conceal the origins of funds.

Law enforcement seized USD 5 million in cash, 302 pounds of cocaine, 92 pounds of methamphetamine, 3,000 Ecstasy pills, 44 pounds of psilocybin, ketamine, and firearms during the investigation. This case demonstrates the extensive collaboration between cartel operatives and Chinese underground banks in concealing and transferring illicit drug proceeds.

January 2024: Las Vegas man convicted of laundering cartel proceeds

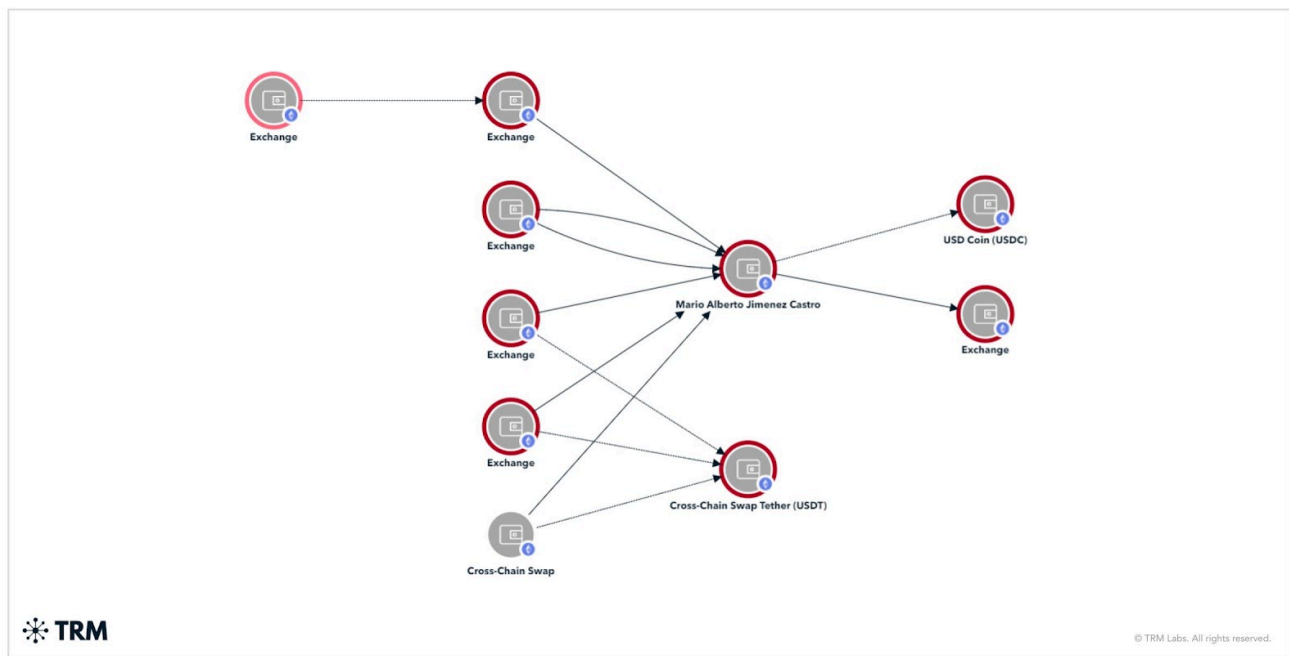
In January 2024, Martin Mizrahi, a Las Vegas resident, was convicted of laundering over USD 4 million in cartel proceeds and committing multiple fraud offenses. Mizrahi used cryptocurrency to obscure the origins of bulk narcotics cash, converting it into Bitcoin and layering transactions through multiple wallets. He collaborated with Mexican cartel operatives to launder funds and reinvest them in illicit activities.

This conviction highlighted the growing role of cryptocurrency in cartel money laundering operations and the importance of blockchain intelligence tools like TRM Labs in tracking and disrupting illicit financial flows.

September 2023: OFAC Targets Sinaloa Cartel Affiliates and Cryptocurrency Laundering

On September 26, 2023, OFAC sanctioned nine individuals linked to the Los Chapitos faction of the Sinaloa Cartel, a significant trafficker of fentanyl into the US. Among them, Mario Alberto Jimenez Castro was charged with running a money laundering network that used cryptocurrency and wire transfers to send proceeds from US fentanyl sales to cartel leaders in Mexico.

OFAC also designated a cryptocurrency address on the Ethereum blockchain tied to Jimenez Castro, which received over USD 740,000 between March 2022 and February 2023. This action marked the first time OFAC publicly identified the cartel's use of cryptocurrency for laundering drug proceeds.



As shown in TRM's graph visualizer, Jimenez Castro directed U.S.-based couriers to pick up cash in the United States and deposit it into various virtual currency wallets for payment directly to the cartel for reinvestment in fentanyl production

While cryptocurrency was not used to purchase drugs, it played a critical role in laundering the proceeds, highlighting the cartel's evolving financial strategies to evade detection and sustain operations.

October 3, 2023: OFAC sanctions and DOJ indictments against global drug networks

On October 3, 2023, OFAC sanctioned 28 individuals and entities connected to illicit drug production and distribution, including a China-based network involved in trafficking fentanyl, methamphetamine, and MDMA precursors. The sanctions targeted manufacturers of fentanyl precursors with ties to the Sinaloa Cartel and suppliers of counterfeit pharmaceutical equipment.

OFAC also identified 17 cryptocurrency addresses tied to six designated individuals and entities, which received over USD 3.7 million between October 2021 and October 2023. TRM Labs further uncovered additional cryptocurrency addresses linked to Hanhong Pharmaceutical Technology Co., Ltd., emphasizing its role in selling fentanyl precursors.

Simultaneously, the DOJ unsealed eight indictments in Florida against China-based chemical manufacturers for producing and distributing synthetic opioids, including fentanyl precursors. TRM Labs identified cryptocurrency addresses associated with two indicted companies — Lihe Pharmaceutical Technology and Xiamen Wonderful Biotechnology — accounting for over USD 130,000 in transactions from May to September 2023.

The Sinaloa Cartel's crypto ecosystem

Authorities are unraveling the complex system of laundering employed by the Sinaloa Cartel.

- **Bulk cash-to-crypto pipelines:** Cartel affiliates in the US collect bulk cash from drug sales and convert it into cryptocurrencies. Chinese brokers — whose primary interest is acquiring US currency for Chinese nationals seeking hard currency outside of China — launder the drug money through cash-based businesses in the United States and Latin America.
- **Chinese brokers as intermediaries:** Chinese money laundering organizations then transfer these funds globally, using cryptocurrency as a bridge. Crypto more efficiently lubricates international criminal networks that previously depended on complex and expensive shell companies and traditional bank accounts.

- **Supply chain financing:** These networks are also used to purchase precursor chemicals from China, which are essential for fentanyl and methamphetamine production, as well as novel synthetic opioids, especially nitazenes, which can be up to 500 times more potent than heroin.

A report by TRM highlighted that cartels often use wallets linked to sanctioned entities to carry out these activities. The US Treasury's sanctions have been effective in curtailing these flows, with a measurable drop in related transactions.

The China-Mexico connection

The collaboration between Mexican cartels and Chinese money laundering networks extends beyond cryptocurrency.

Precursor chemicals from China are critical to the production of fentanyl and methamphetamine, which are then distributed globally by cartels like the Sinaloa group. Mexican cartels rely on these Chinese suppliers for precursor chemicals, which are purchased using funds laundered through Chinese brokers. US enforcement agencies frequently target wallets linked to these kinds of transactions to disrupt the supply chain.

Transnational crime (and its use of crypto) is evolving

The use of cryptocurrency by cartels, particularly the Sinaloa Cartel, underscores the evolving nature of transnational crime. These organizations have adopted sophisticated techniques — from integrating cryptocurrencies into their laundering operations to collaborating with Chinese money laundering networks — to bypass traditional financial controls. While targeted sanctions, enforcement actions, and blockchain analytics have disrupted these networks, the adaptability of these cartels remains a significant challenge.

Importantly, the crypto-based financial networks now used by cartels to extract profits from the United States and facilitate trade-based money laundering abroad may be the soft underbelly of modern drug trafficking. These networks depend on

US-based Chinese operatives and their cash-based businesses to clean the illicit proceeds of the drug trade, while crypto replaces the hawala-like ledgers used to settle accounts in China, Mexico, and South America.

With the right tools and intelligence, these channels could be disrupted by freezes of the stablecoins used by the cartels and their brokers, crackdowns on cash-to-bank laundering inside the United States, and the aggressive use of legal authorities like the Patriot Act to subpoena and unveil the mainland Chinese companies and accounts used to facilitate the Chinese money laundering industry.

As enforcement agencies refine their strategies and regulatory frameworks evolve, combating the use of cryptocurrency in cartel operations will require ongoing vigilance, technological innovation, and international collaboration.