How to Combat Cryptocurrency's Use within the Illicit Drug Trade

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Wild Blue Yonder, MAXWELL AIR FORCE BASE, Ala. -- With criminals finding the traditional ways of handling and exchanging their funds being easily blocked in the digital age, cryptocurrency has become their primary means to move and launder money in exchange for illegal activities, particularly the illegal drug trade. Given a nationwide opioid epidemic, a flooded market of fentanyl, and a decrease in law enforcement availability to focus strictly on drugs, cryptocurrency has allowed drug dealers to move historical amounts of money without having to deal with the issues associated with cash. While federal agencies tend to have a budget for analysts and financial crime experts to focus on this issue, smaller and under-resourced jurisdictions cannot deal with the exponential growth in the drug trade and the movement of profit through cryptocurrency. More efforts for training law enforcement organizations (LEOs) are needed at the local and regional levels to decrease the drug trade.

Although cash has been the preferred method of payment for the illegal drug trade, cryptocurrency provides some advantages that make it enticing for the illegal drug trade. Cryptocurrency involves three main entities: a user, an exchanger, and an administrator. While the administrator issues virtual currency and has the authority to redeem such virtual currency, the exchanger is a business that exchanges virtual currency for real currency, funds, or other virtual currency. Meanwhile, users can purchase or sell goods or services in exchange for virtual currency.[1] Cryptocurrency is viewed as property, not a real currency backed by a government. Individual users have their "property" kept digitally in crypto wallets, which can be maintained either offline or online. Although online wallets add convivence in being accessible anywhere, they are also more vulnerable to being seized. Conversely, offline wallets stored on USB drives, paper, or hardware wallets are more secure against potential cyber-attacks. Cryptocurrency can be spent or purchased in multiple ways, such as peer-to-peer direct transactions, the use of an exchange, and cryptocurrency ATMs. Thus, cryptocurrency is a secure, encrypted digital property that can be exchanged for real currency, goods, or services in a variety of ways.

Cryptocurrency's unique features make it highly desired in the drug trade. Owners of cryptocurrency can securely conduct business pseudonymously, which makes it difficult for law enforcement to deal with. Cryptocurrency wallets do not have personally identifiable information, just a wallet address (like a URL or account number) for the user. Furthermore, wallets are encrypted with private keys, which can be anywhere from 12-24 words that must be entered in a pre-determined order. Therefore, it is especially difficult for law enforcement to access the funds or connect the account with a dealer.

Criminals also enjoy cryptocurrency as it is easy to move currency at little cost to their operations. Traditional banking is no longer an option for illicit actors as regulations have made it difficult to evade detection and avoid seizure of assets. Furthermore, even for legal purchases, transfer fees associated both domestically and internationally remain high in comparison to cryptocurrency. (Domestic wire transfer fees for U.S. banks are, on average, $30 dollars outgoing domestically and $20 dollars incoming, while international transfers cost $50 dollars outgoing and $25 dollars incoming. [2]) In comparison, the most used cryptocurrency, Bitcoin, has maintained an average transaction fee less than that of traditional banks, even when its prices surged to a five-month high at $5.93 USD.[3] Thus, cryptocurrencies provide illicit actors with a method to easily avoid detection at a cost lower than what is available to the average bank customer.

Given cryptocurrency's inherent advantages for the illicit drug trade, law enforcement will need to adopt new measures to generate sufficient evidence and obtain the means to seize their cryptocurrency. First, law enforcement officers working in counterdrug activities should be cognizant of what to look for when conducting evidence collection. For private keys and seed words, they should look for various items that could contain this information, including notebooks or computer documents with alphanumeric codes and phrases written in order, as well as phone apps associated with cryptocurrency. Law enforcement should also be on the lookout for any USB drives, SIM cards, or other hardware that could be serving as an offline wallet. If officers are not trained to look for these things, they are likely to be overlooked during critical steps in the investigation.
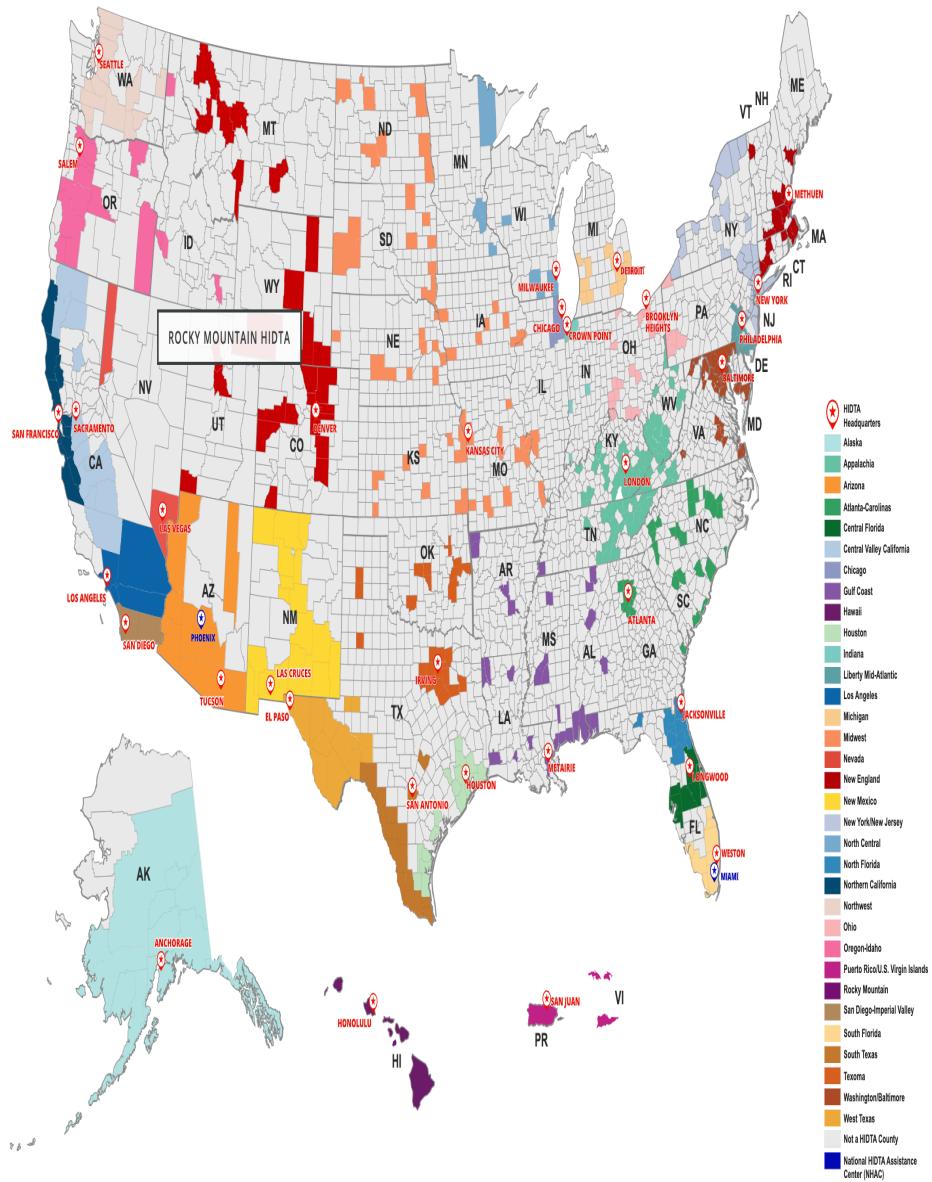
After the collection process, law enforcement requires special tools and additional training to properly analyze the evidence to build their cases. Software companies have developed products, such as Chainanalysis and Ciphertrace, that

help to build cases and see transactions that have occurred with a particular wallet on the blockchain (the ledger of cryptocurrency transactions associated with wallets). Along with tracking when a wallet has been used, they can see where a transaction took place and show what type of website or exchange this was. This information can build a case for pressing charges on a drug dealer when coupled with other evidence. However, using such complicated software requires that officers be trained on how to use it. For example, Chainanalysis reactor certification costs $699 per person to attend a two-day virtual training and requires annual recertification at an additional cost.[4]

While such expensive software may be available to federal agencies and larger state and local agencies, these tools are not necessarily available to officers working in smaller departments at the regional or local level. It takes a considerable amount of time and resources to keep up with cryptocurrency. Not only do smaller agencies not have sufficient financial means to purchase the software and training, but they may also not be able to support the amount of time required. A department's size limits how much time is available for training outside of mandated requirements, as normal operations, such as conducting patrols or testifying in court, consume the majority of an officer's time. Given that such training would be both a major investment of time and resources, smaller departments also have to contend with the likelihood that trained officers may likely leverage that training to seek employment elsewhere.

Smaller and regional jurisdictions can offset their training costs and issues by being part of larger drug task forces (TFs) and seeking federally funded training. Through the White House's Office of National Drug Control Policy, the DEA administers the High Intensity Drug Trafficking Areas (HIDTA) program. Created by Congress with the Anti-Drug Abuse Act of 1988, it provides assistance to Federal, state, local, and tribal law enforcement agencies operating in areas determined to be critical drug-trafficking regions of the United States.[5] Organized regionally throughout the US and its territories, the HIDTA program provides different training depending upon the drug TFs in their area. Therefore, HIDTA regions can support their TFs in whichever way best supports their region. A couple of examples include setting up an intelligence support center with dedicated analysts equipped with the necessary software to support local and regional departments in their area. It is also possible to set up and fund cryptocurrency training for those officers whose organizations have sufficient means to allow them to attend. While HIDTAs are an excellent resource for those in designated counties, many counties are not included, as seen on the following map.

Figure 1- HIDTA Program Map as of July 2023[6]

For non-HIDTA counties, local agencies can seek assistance from the National Guard Counterdrug program. With a mission to support the detection, interdiction, disruption, and curtailment of drug trafficking activities and use through the application of unique military skills and resources, the Counterdrug program has two primary means to support local law enforcement agencies in dealing with cryptocurrency.[7] Through approved State Plans (coordinated through each state's National Guard Headquarters, their respective Governor, and the National Guard Bureau), the National Guard can provide Soldiers or Airmen to jurisdictions fighting against illicit drugs to serve as analysts. In addition to their various skills from their military professions, these individuals get training in analytical support before being assigned to LEOs. With its budget being spread across the various states and territories, this program is limited in the number of analysts it can provide, and determinations on requests are based upon who requires more assets as there must be enough demand for their services to keep them actively engaged with investigations.

If a smaller jurisdiction does not have enough of a need to warrant having a dedicated analyst, they can get needed training and assistance from one of the five National Guard Counterdrug Training Centers (NGCS). Located in Pennsylvania, Iowa, Florida, Mississippi, and Washington, these 5 NGCSs each have an annual budget of $5 million to provide military or contractor-led training support to Federal, State, Local, Tribal, and Military law enforcement to combat illicit drugs. For example, Soldiers or Airmen who have distinct skills due to their military profession can develop and teach a course to law enforcement after it has been approved by DoD. Therefore, a DoD intelligence analyst trained in the use of cryptocurrency analysis tools could provide the needed training. There is also an opportunity to use contractors to provide expensive training, such as Chainanalysis, to law enforcement, once approved through DoD. While the departments would still need to purchase any necessary software, covering the associated training costs would lessen their financial burden.

Given its inherent benefits over traditional banking, cryptocurrency will continue to be an emerging form of finance for drug dealers. Therefore, law enforcement agencies must understand cryptocurrency as tracking and intercepting the flow of drug money is paramount in fighting the illegal drug market. While lacking the means of larger agencies, smaller departments have different avenues to obtain training and other resources. Programs like DOJ's HIDTA program and the National Guards Counterdrug program exist to help them contend with problems like cryptocurrency use in the illicit drug trade. An increased effort by these organizations to communicate their services is important, but working together regionally will be key to managing evolutions in cryptocurrency and other emerging threats in managing our nation's drug problems.

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NOTES

[1.] The U.S. Department of Treasury Financial Crimes Enforcement Network (FinCen) describes "virtual" currency as a medium of exchange that operates like a currency in some environments but does not have all the attributes of real currency. US Department of the Treasury, *Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*, FIN-2013-G001 (Vienna, VA: 2013), 1-2.

[2.] John Egan, "Wire Transfer Fees: How Much Banks Charge," *Forbes,* April 22, 2022, https://www.forbes.com/advisor/money-transfer/wire-transfer-fees/

[3.] Zoltan Vardai, "Bitcoin transactions reach a 5-month high," *Yahoo! Finance,* November 7, 2023, https://finance.yahoo.com/news/bitcoin-transaction-fees-reach-5-140713007.html.

[4.] "Chainalysis Reactor Certification," Chainalysis, https://www.chainalysis.com/chainalysis-reactor-certification/.

[5.] "HIDTA," Drug Enforcement Agency, https://www.dea.gov/operations/hidta.

[6.] "HIDTA," Office of National Drug Control Policy, https://www.hidtaprogram.org/index.php.

[7.] U.S. National Guard Bureau, "2017 Counterdrug factsheet," https://www.nationalguard.mil/Portals/31/Resources/Fact%20Sheets/Counterdrug%20Fact%20Sheet%20(Dec.%202017).pd