

How crypto helps Latin America's drug cartels do business



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Published: September 03, 2023

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Members of the Sinaloa Cartel prepare capsules with methamphetamine in a safe house in Culiacan, Mexico, April 4,

What's the context?

2022.

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Crypto is being used for money laundering and to sell drugs online, posing a tough challenge for police fighting organized crime

- Cryptocurrency use growing among drug traffickers
- Bitcoin the most common payment in online drug sales
- Many law enforcement agencies lack crypto literacy

BOGOTA/MEXICO CITY - For decades, drug traffickers carried their cash in suitcases to dodge banking controls, and the police. Today, many are also using virtual cryptocurrency wallets installed on their cellphones.

When the U.S. Justice Department announced charges in April against four sons of jailed Mexican drug lord Joaquín "El Chapo" Guzmán, the indictment said they had used "untraceable cryptocurrency" to launder the profits of their U.S. fentanyl smuggling operation.

Known as the "Chapitos", the leaders of the Sinaloa cartel are accused of procuring chemicals from China to manufacture fentanyl, a synthetic opioid, in clandestine labs in Mexico for distribution in the United States.

On the same day in April, U.S. authorities also announced the arrest in Guatemala of a wanted money launderer who they say worked for the cartel, accusing him of collecting \$869,000 in drug profits and depositing the cash in cryptocurrency wallets.



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The cases highlight how drug cartels and crime gangs in Latin America have taken up virtual currencies to launder money, receive payments and sell drugs on the darknet because law enforcement authorities are finding it harder to detect the deals, researchers and officials say.

"The technology is basically getting better and better which is making it even more difficult for law enforcement to go after these bad actors because this process provides and allows for anonymity," said Gretta Goodwin, a director in the Homeland Security and Justice team at the U.S. Government Accountability Office (GAO), a congressional watchdog.

Criminals use cryptocurrencies because it is an easy and efficient way to do business, particularly across borders,

said Kim Grauer, a data scientist and cryptocurrency researcher.

"Cryptocurrency is really just used because it's a fast and instantaneous payment," said Grauer, head of research at Chainalysis, a blockchain analytics firm.

"We are seeing a lot more cases popping up," she said.

Cracks in regulation

It is a trend organised crime groups in Brazil and Central America are also tapping into, according to a report published in the Georgetown Journal of International Affairs in March.

The MS-13 criminal gang that operates in El Salvador, Honduras, and Guatemala has been using bitcoin as a way for victims to hand over extortion payments and as payment for transporting cocaine to Mexico, the report found.

It said organised crime groups are "discovering growing cracks in the regional anti-money laundering

architecture that make the switch to cryptocurrencies increasingly attractive."

The report's co-author Douglas Farah said using cryptocurrency for laundering drug money was easier in countries with lax crypto regulation or where bitcoin is classified as a legal tender, such as El Salvador.

"Dollars can come in and out of bitcoin with no traceability ... there's zero control on bitcoin transactions, but there's no monitoring, no attempt to do anything about it," said Farah, who heads IBI Consultants, a U.S.-based security consulting firm, in reference to El Salvador.



Representations of cryptocurrency exchange Binance and hard drugs are seen in this illustration taken, May 23, 2022.

REUTERS/Dado Ruvic/Illustration

To move money through cryptocurrency platforms, criminals are taking advantage of unregulated exchanges that do not require proof of identification or registration information, said crypto intelligence company CipherTrace.

In Mexico, to stop transactions being detected by authorities - who require registered cryptocurrency trading platforms to report transfers above 56,000 pesos (\$3,300) - criminals buy and launder small amounts of bitcoin, found a 2021 report by the International Narcotics Control Board.

Criminals operating in Latin America also hire the services of "tumblers" who, in exchange for a commission, mix identifiable crypto with illegal funds to make them harder to trace, according to CipherTrace.

Yet most countries in the region have not updated their anti-money laundering regulations to include

cryptocurrencies, according to the U.N. Office on Drugs and Crime (UNODC).

Countries with few or no compliance requirements around money laundering are proving attractive for criminals using cryptocurrency, said Goodwin from the GAO.

"They can use that to evade detection and identification by law enforcement, and we found that to be a major challenge," she said.

'No frontiers'

The adoption of cryptocurrency in the narcotics trade also goes hand-in-hand with the rise of drug sales on the darknet - a hidden part of the internet, according to a 2021 UNODC report.

It said Latin America and the Caribbean have experienced a "sustained growth" in the online trafficking of synthetic drugs and opioids, mostly using bitcoin - the first cryptocurrency to enter the market in 2009.

In May, U.S. authorities said "Operation SpecTor," which spanned three continents and aimed to disrupt fentanyl and opioid trafficking on the dark web, resulted in the seizure of \$53.4 million in cash and cryptocurrencies.

Drug traffickers have taken advantage of more people being online, and they also advertise drugs on dating sites and apps, such as Grindr and Tinder, the UNODC report says.

Once sellers and buyers connect, communications tend to move to encrypted messaging apps such as Telegram.

It is a trend that increased during the COVID-19 pandemic when online platforms selling drugs grew as people were stuck at home, said Mariana Kiefer, UNODC's cybercrime Regional Coordinator for South America.

"Most online activities involved in drug trafficking are through cryptocurrencies. This is appealing to drug traffickers as they can reach more people online. The internet has no frontiers," said Kiefer.

Crypto literate?

Many virtual currency transactions are permanently recorded on public blockchains, which show all transactions between wallets, meaning police and researchers can trace transactions provided they have the right tools, software and expertise.

In a 2021 study, Chainalysis was able to identify cryptocurrency addresses associated with suspected China-based fentanyl precursor sellers. It found the addresses had received more than \$37.8 million worth of cryptocurrency since 2018.

A breakthrough often hinges on whether it is possible to access the right cryptocurrency address that has received a payment allowing researchers to follow the money.

"We are making progress in how we are identifying these cryptocurrency addresses ... once you do, your world blows up with cryptocurrency because you have every single transaction that that address is ever associated with," said Grauer.

But a key challenge is ensuring U.S. law enforcement and drug agencies are literate in cryptocurrencies so they understand "what they are actually looking at," to build an investigation from complex databases, she said.

U.S. law enforcement agencies are partnering with other experts to trace cryptocurrency payments as criminals adapt and use new technology to avoid detection, said Goodwin.

"It requires really sophisticated computer software programs, and some of the law enforcement agencies don't really have the in-house expertise that they would need," she said.

(Reporting by Anastasia Moloney in Bogota and Diana Baptista in Mexico City; Editing by Helen Popper.)

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