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THE WHITE HOUSE

WASHINGTON

October 21, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS *JGR*

SUBJECT: Treasury Testimony on S. 1870  
Credit Card Fraud

OMB has asked for our views by noon today on proposed Treasury testimony on S. 1870, the Credit and Debit Card Counterfeiting and Fraud Act of 1983. The proposed testimony makes five salient points concerning credit and debit card fraud:

1. There has been a dramatic increase in such fraud.
2. The bank and credit card industry is beginning to recognize the problem and is increasing its security against such fraud.
3. S. 1870 would close loopholes in existing laws, for example, the judicial decision that use of a credit card account number was not prohibited by the statute which covers fraudulent use of credit cards, and the decision which has held that a credit card sold by the original cardholder to someone who intends to use it to defraud is not "fraudulently obtained" within the meaning of the pertinent statute.
4. Use of credit and debit cards will increase dramatically in the years ahead.
5. Federal investigative efforts must correspondingly increase, and S. 1870 effectively provides the tools for that investigative effort.

I have reviewed the proposed testimony, and have no objections to it.

Attachment

THE WHITE HOUSE

WASHINGTON

October 21, 1983

MEMORANDUM FOR JAMES C. MURR  
ASSISTANT DIRECTOR FOR LEGISLATIVE  
REFERENCE, OMB

FROM: FRED F. FIELDING *Orig. signed by FFF*  
COUNSEL TO THE PRESIDENT

SUBJECT: Treasury Testimony on S. 1870  
Credit Card Fraud

Counsel's Office has reviewed the above-referenced testimony, and finds no objection to it from a legal perspective.

FFF:JGR:aea 10/21/83

cc: FFFielding  
JGRoberts  
Subj  
Chron

## WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

- D - OUTGOING**  
 **H - INTERNAL**  
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Name of Correspondent: James C. MURR

**MI Mail Report** User Codes: (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C) \_\_\_\_\_

Subject: Treasury testimony on S. 1870  
Credit Card Fraud

**ROUTE TO:**

**ACTION**

**DISPOSITION**

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response Code	Completion Date YY/MM/DD
<u>CUBOCL</u>	<u>ORIGINATOR</u>	<u>83,10,20</u>		<u>1 1</u>
<u>WATIB</u>	<u>D</u>	<u>83,10,20</u>	<u>S</u>	<u>83,10,21</u>

**ACTION CODES:**

- A - Appropriate Action
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**FOR OUTGOING CORRESPONDENCE:**

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

October 20, 1983

**SPECIAL**

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer  
Department of Justice

SUBJECT: Treasury testimony on S. 1870, Credit Card Fraud

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please provide us with your views no later than  
NOON FRIDAY, OCTOBER 21, 1983

Direct your questions to Gregory Jones (395-3856), of this office.

  
James C. Murr for  
Assistant Director for  
Legislative Reference

Enclosures

cc: F. Fielding M. Uhlmann J. Mitrisin K. Wilson A. Curtis

OCT 20 1983

9 am

Mr. Chairman and Members of the Subcommittee,

Thank you for the opportunity to testify before your committee concerning the Credit and Debit Card Counterfeiting and Fraud Act of 1983, S. 1870. With me today is Special Agent Gordon May, of our Fraud and Forgery Division.

Mr. May and I will be pleased to answer any questions you might have at the conclusion of my statement.

The U. S. Secret Service has been meeting with bank and credit card industry representatives at their request on the issue of credit and debit card fraud for the last nine months. As a result of these meetings and others with federal and local investigators, we have studied the operational systems of the bank and credit card industry and how they are being victimized by the criminal element. This effort has led us to five basic conclusions about credit and debit card fraud and, for the purposes of today's testimony, I would like to briefly address each.

1. Major Increases in Credit and Debit Card Fraud

There has been a dramatic increase in card fraud, particularly in the area of counterfeiting. All indications are that it will continue to escalate at an alarming rate. The present magnitude of credit and debit card fraud and the statistical predictions of future growth, as well as the methods in which criminals perpetrate this fraud, has been adequately expressed to this committee by others and warrants no additional elaboration.

## 2. Improved Fraud Control by Card Industry

Until recently, the bank and credit card industry appeared to have little need to protect the security of the credit card system. The losses were not great enough to warrant sizeable investment in new security programs. However, because the system came under a major criminal attack in 1981, and again in 1982, and as losses multiplied, the industry had little choice but to make a commitment towards fraud control both inside and outside the system.

Security staffs were expanded with former federal and local criminal investigators. In conjunction with the American Bankers Association (ABA), a task force was formed to identify and recommend methods to reduce altered and counterfeit card fraud

losses. The Battelle Research Institute of Columbus, Ohio, was commissioned by the task force to conduct research into "card secure" properties which could be added to make altering and counterfeiting more difficult. The work of the ABA task force has recently been presented at a card fraud management seminar. The card industry has already adopted many of the task force recommendations, and is educating their personnel on methods to detect and report fraud.

In addition, the card industry is educating the law enforcement community on card systems and fraud and provides financial aid in support of these investigations.

### 3. Absence of Effective Federal Legislation

S. 1870, as proposed, would do much to close the loopholes which presently exist within the Truth in Lending Act, 15 U.S.C. 1644, and the Electronic Fund Transfer Act of 1978, 15 U.S.C. 1693n.

These Acts have a number of weaknesses. Some are built in, whereas others are the product of judicial interpretation. These weaknesses have certainly contributed to the growth of card fraud.



Differing case law in the circuits has impeded effective prosecution of card fraud. In United States v. Callihan 666 F.2d 422 (9th Cir. 1982), the court held that credit card account numbers were not the same as credit cards for the purposes of this statute. The Fourth Circuit, in United States v. Bice-Bey, 701 F.2d 1086 (4th Cir. 1983), reached a different conclusion and upheld the prosecution of an individual under this statute for using just the credit card numbers. The court stated that "the core element of a credit card is the account number, not the piece of plastic." However, there are other limiting decisions. The court in United States v. Mikelberg, 517 F.2d 246 (5th Cir. 1975), confined the aggregation of purchases only to those made in transactions affecting interstate or foreign commerce, excluding any transaction in intrastate commerce. In United States v. Kasper, 483 F. Supp. 1208 (D. Pa. 1980), the court held that where credit cards were obtained by original card holders without any intent to defraud issuing companies and were, thereafter, sold or given to defendants with the knowledge that defendants would use the card to make charges without paying them, the credit cards were not "fraudulently obtained" within the meaning of this section which prohibits using or transporting in interstate commerce any "fraudulently obtained" credit card.

(5)

The proposed statute, on its face and to the extent necessary through the legislative history, provides an excellent vehicle to correct these loopholes and clarify the intent of Congress. The bill would make it a crime to knowingly and with intent to defraud, produce, buy, sell, or transfer, a "fraudulent payment device", or knowingly possess five or more such devices, or knowingly produce, buy, sell, transfer or possess "device-making equipment". This is aimed at trafficking and counterfeiting activities, areas not covered by current law.

Under current law (15 U.S.C. 1644 and 15 U.S.C. 1693n (b)) the maximum penalties include a \$10,000 fine and imprisonment of up to 10 years. Under the proposed act, a simple violation would result in the same penalty. However, when the offense involved "device-making equipment" or five or more "fraudulent payment devices" the penalty could be as much as a \$50,000 fine and/or fifteen years imprisonment. In the case of repeat offenders, a fine of \$100,000 and/or imprisonment of not more than 20 years can be imposed.

Federal jurisdiction is applicable if the offense affects a "financial institution" which is defined in the statute to include institutions with deposits or accounts insured by the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or the National Credit Union

Administration. Thus, it appears that a wholly intrastate violation affecting one of the above institutions could invoke federal jurisdiction.

If the Credit and Debit Card Counterfeiting and Fraud Act of 1983 becomes law, federal investigators and prosecutors would be equipped with additional tools to combat the real and growing problems of card fraud.

#### 4. Future Credit/Debit Card Role

Credit and debit cards are playing an increasingly important role in our national payment system. Approximately 35 percent of all retail transactions are made via the credit card and all indications are that these cards will be the consumer's primary means of financial exchange in the future.

Today, most cards function as either a credit or debit instrument. However, the present trend is towards providing a card that offers both credit and debit services. This kind of card offers the best of both the credit and debit world, to the consumer and to the criminal element alike.

The "electronic card" is still in a developmental stage in terms of technology and functional use, and may be the plastic

card of the future. This card features embedded microcircuitry which contains both memory and logic, giving it a certain amount of intelligence. Some areas which have emerged as applications for the card are point-of-sale transactions, home banking, and portable medical files. As technological developments continue to take place in microcircuitry, telecommunications and production capabilities, new applications will be developed for the use of card payment mechanisms.

We are headed toward a cashless society. Already, cash payments represent only one percent of the total value of payments made in this country. Experts believe that in the not too distant future, cash and check payment systems will be largely a thing of the past.

##### 5. Need For An Expanded Federal Investigative Presence

The present magnitude of card fraud and the real potential for continued dramatic growth, warrants an expanded federal investigative and prosecutive effort. As this nation's payment systems rely more heavily on credit and debit cards, we can expect to see an increase in sophisticated fraudulent schemes having national and international ramifications.

The major credit and debit card fraud investigations show there is a substantial problem with criminal ring activity. The activities of these groups are often interstate and international in nature. From a practical standpoint, it is frequently beyond the resources of local and state officials to deal effectively with this problem.

The credit card industry reported that losses from counterfeit cards rose from \$15 million in 1981, to over \$50 million in 1982, an increase of over 230 percent in one year. Of the total, all but \$3 million of the losses occurred in the United States.

We believe that counterfeit credit and debit card fraud represents the main threat to the card system and that the proposed legislation (S. 1870) effectively deals with the counterfeiting of credit and debit cards.

We appreciate the opportunity to share our views with you. At this time, Mr. May and I would be happy to answer any questions that you may have.

THE WHITE HOUSE

WASHINGTON

October 24, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS *JGR*

SUBJECT: Statement of Francis M. Mullen, Jr.  
Regarding Drug Trafficking on the  
Gulf Coast - October 28, 1983

OMB has provided us with a copy of the statement Bud Mullen proposes to deliver before Senator Denton's Subcommittee on Security and Terrorism in Mobile, Alabama, on October 28, 1983. Mullen's testimony is a comprehensive overview of marijuana and cocaine trafficking in Alabama, Mississippi, Louisiana, and Arkansas. It begins with a discussion of the source countries, principally Columbia, and the difficulties to law enforcement presented by the jagged Gulf Coastline. Mullen then reviews the staffing of DEA offices in the area, and seizure statistics. The testimony concludes by noting the excellent cooperation that DEA has received from state and local law enforcement officials in the area. I have no objections.

Attachment

THE WHITE HOUSE  
WASHINGTON

October 24, 1983

MEMORANDUM FOR GREGORY JONES  
LEGISLATIVE ATTORNEY  
OFFICE OF MANAGEMENT AND BUDGET

FROM: FRED F. FIELDING Orig. signed by FFF  
COUNSEL TO THE PRESIDENT

SUBJECT: Statement of Francis M. Mullen, Jr.  
Regarding Drug Trafficking on the  
Gulf Coast - October 28, 1983

Counsel's Office has reviewed the above-referenced statement, and finds no objection to it from a legal perspective.

FFF:JGR:aea 10/24/83

cc: FFFielding  
JGRoberts  
Subj  
Chron

100013  
49006-01

John

# WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

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Name of Correspondent: Greg Jones

MI Mail Report      User Codes: (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C) \_\_\_\_\_

Subject: Statement of Francis M. Muller, Jr  
re drug trafficking on the Gulf Coast  
October 28, 1983

### ROUTE TO:

### ACTION

### DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
<u>CWHOLL</u>	<u>DD</u> ORIGINATOR	<u>8310121</u>			<u>1/1</u>
<u>CWBT 18</u>	<u>DD</u> Referral Note:	<u>8310121</u>		<u>S</u>	<u>8310121</u>
	Referral Note:	<u>1/1</u>			<u>1/1</u>
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**DRAFT**

STATEMENT OF

FRANCIS M. MULLEN, JR.  
ADMINISTRATOR

180619

DRUG ENFORCEMENT ADMINISTRATION  
DEPARTMENT OF JUSTICE

on

DRUG TRAFFICKING ON THE GULF COAST

before

THE SUBCOMMITTEE ON SECURITY AND TERRORISM  
UNITED STATES SENATE

JEREMIAH DENTON, CHAIRMAN

MOBILE, ALABAMA  
OCTOBER 28, 1983

**DRAFT**

Senator Denton, I thank you for the invitation to appear before your Subcommittee today. I am aware of your deep concern for our country, especially its youth, due to the drug trafficking and abuse problem. I have appeared before you on other occasions and addressed the problem nationwide, today I will focus on the trafficking situation on the Gulf Coast.

As you are aware the two drugs most frequently encountered in the illicit traffic in Alabama, as well as throughout the Gulf Coast and the Southeast United States are cocaine and marijuana. All of this cocaine and much of the marijuana available in this area and throughout the United States is cultivated and processed from agricultural sources in Latin America and the Caribbean. Over the past two years, we estimate between 30 to 60 tons of illicit cocaine entered the United States. For marijuana, again of foreign source, we estimate the annual imports to have been between 8,700 and 12,700 tons.

DEA personnel are stationed in foreign countries to support host country efforts to eliminate cultivation, production and conversion of drugs and to stop shipment of drugs destined for the United States. These efforts include the provision of technical assistance through training and exchange of intelligence in cooperative investigations. Stopping drugs within the source country or as close to the source as possible has proven to be an effective approach to reducing the supply of illegal drugs. DEA has Special Agents and support personnel in 60 offices in 40

countries. Specifically in Latin America, our personnel are assigned to 25 cities in 16 countries.

Colombia continues to be the primary source of the marijuana and cocaine destined for the United States. Jamaica has become an increasingly important marijuana source for the United States. Similar to many other countries in the Caribbean, Jamaica is also a transshipment country of illicit narcotics. The numerous islands in the Caribbean provide a series of stepping stones through which traffickers transit enroute to the United States. The indictment earlier this year of high-ranking officials of Cuba and the hearings you held earlier this year in Miami have brought to the public's and the international community's attention the apparent complicity of the Government of Cuba in the illicit drug trade.

Although Mexico is still a source country for marijuana destined for the United States, its share of the overall illicit United States market has declined markedly in the past three or four years because of the successful use of paraquat by the Mexican Government in its eradication program and the success of related enforcement activities.

While we believe there has been some progress in the cocaine and marijuana situation in South America, we recognize that fragile economies, political influences and other considerations all serve to hamper crop eradication and control efforts in source

and production countries. Until progress is made in eradicating a significant percentage of the coca and marijuana cultivation in South America, interdiction and dismantlement of the major smuggling and trafficking organizations must be primary strategies in attacking the illicit drug trade. The present Administration has significantly strengthened and improved these two strategies.

The Organized Crime/Drug Enforcement (OCDE) Task Forces are now operational throughout the country to investigate and prosecute major organized criminal groups involved in drug trafficking. This initiative has brought greatly increased resources into the drug enforcement effort. As of August 30, 1983 DEA has participated in 253 OCDE investigations. By definition an OCDE investigation involves at least two agencies and in most cases more, so you can see that interagency coordination and cooperation is paramount in this effort. These investigations to date have resulted in the indictments of 483 individuals and the seizure of over \$17 million in assets. I can assure you that results such as these will be increasing in the months ahead.

An intensified air and sea interdiction force has been placed in effect in the Caribbean, composed of the U.S. Coast Guard and the Customs Service with significant resource assistance from the military services. DEA has fully supported these efforts through the constant provision of intelligence regarding routes, methods of concealment, identification of vessels, planes and persons

**DRAFT**

involved in the traffic. This invaluable intelligence is gathered through our cooperative efforts with foreign enforcement agencies as well as our domestic investigations. The recently implemented National Narcotic Border Interdiction System (NNBIS) further intensifies the interdiction effort by applying to all our nation's borders the strategies that have proven effective in South Florida and the Caribbean.

I will now focus my remarks on the Gulf Coast. DEA's New Orleans Divisional Office's area of jurisdiction includes four southern states: Alabama, Mississippi, Louisiana and Arkansas. All except Arkansas have coast lines on the northern Gulf of Mexico. The district encompasses an area of 200,925 square miles and has a population of 12,144,000. There are a total of 671 airports within the district as well as an estimated 1,000 landing strips which could be used by small aircraft. There are six deep water ports capable of loading ships, including New Orleans which has surpassed New York as the largest port in the United States in terms of gross tonnage.

The State of Louisiana has over 600 miles of jagged, irregular coastline which is highly conducive to maritime smuggling. This coastal area, largely unpopulated, has long been used as a haven for smugglers, having been used in the late 1700's and early 1800's by the infamous pirate, Jean Lafitte.

**DRAFT**

Louisiana is attractive for smuggling not only because of the vast, mostly unpatrolled waterways, but also because of the presence of hundreds of vessels engaged in maritime activities. These activities include shipping, servicing offshore oil rigs, and fishing for shrimp, oysters, and menhaden.

Alabama and Mississippi are equally attractive to narcotics smugglers. Although only a relatively minor portion of Alabama's boundary is accessible by water, over 100 miles of shoreline are available to the maritime smuggler. Mobile, situated on Mobile Bay, is a major deep water port for international shipping. Mississippi has deep water ports in Gulfport and Pascagoula capable of handling large cargo vessels and numerous banana boats from South America. A chain of uninhabited barrier islands off the coast of Mississippi have been utilized on numerous occasions to facilitate smuggling.

Although Arkansas is not as attractive for air smugglers as the previously mentioned states because of its distance from the coast, several instances of marijuana smuggling have been reported. Arkansas has limited access for maritime smuggling through the Mississippi River which forms the eastern boundary of the state.

Because much of the DEA New Orleans Division's jurisdiction encompasses Gulf Coast states, a large percentage of the drug removals are seizures involving multi-ton quantities of marijuana

and multi-pound quantities of cocaine. Cocaine seizures in the four state area increased from 30 pounds in 1981 to 1560 pounds in 1982 to approximately 1700 pounds thus far in 1983. Over 1500 pounds of this cocaine were seized by local authorities here in Alabama from two aircraft.

Marijuana seizures in this same geographical area have declined significantly from 340,649 pounds in 1981 to approximately 100,000 pounds in 1982 to 85,000 pounds to date in 1983.

Nationwide statistics reflect a reduction in the amount of marijuana seized from maritime vessels by U.S. personnel from 1,011 metric tons during the first six months of 1982 to 612 metric tons during the first six months of 1983. We think several factors are involved in this reduction: (a) a low-yield fall crop in Colombia during 1982; (b) more effective Colombian enforcement activity; and (c) adoption of more secure transportation techniques by international marijuana trafficking groups. There are indications of increased use of routes farther out in the Atlantic with final destinations to the East Coast, smaller loads using concealment techniques, and increased use of countersurveillance.

In Alabama and throughout this general area we are seeing marijuana smuggling efforts involving smaller vessels and small private single and twin engine aircraft that are flying either to Jamaica or Colombia bringing back quantities ranging from 500 to 1500 pounds per load. This is a notable shift from the use of

large fishing vessels which are capable of holding quantities of 25,000 to 40,000 pounds or large military surplus aircraft which could hold 5,000 to 18,000 pounds.

I believe that the concentration of resources in South Florida and in the Caribbean passages has had good results. Certainly, large scale marijuana smuggling into the Gulf area, as well as directly into Florida, is down, although some vessel traffic has moved up the East Coast into Georgia and the Carolinas. Also it appears that some air traffic has been diverted from Florida to nearby states. But our investigations reflect that the drug trafficking organizations are still centered in South Florida, and in many cases, especially those involving cocaine, the drug is physically transported back to South Florida for distribution even though it was smuggled into the country via a Gulf or East Coast state. We are aware that the traffickers will react to enforcement pressures and through the OCDE and NNBIS programs we plan to constantly attack their organizations and smuggling routes, to assure that they have no safe routes or havens in this country.

While the smuggling of marijuana processed in other countries still provides the bulk of the marijuana abused in this country, I should note that cannabis cultivation in our own country has increased significantly over the past several years. We estimate that as much as twenty percent of the total U.S. supply is provided by domestic production, and much of this is on public



**DRAFT**

lands. Together with other Federal and state authorities DEA has mounted a national Marijuana Eradication and Suppression Program.

The program has expanded from 5 states in 1981 to 25 states in 1982 to 40 states in 1983. In 1982, approximately 2.5 million cannabis plants were eradicated in this program. While final figures for 1983 are not yet available, we believe they will far surpass the 1982 total. State and local enforcement authorities in Alabama alone have located and eradicated approximately 58,500 marijuana plants through the first eight months of this year.

As you are well aware, DEA in cooperation with the U.S. Forest Service, sprayed paraquat on illicit marijuana cultivation sites on national forest land in Georgia and Kentucky. Our Ambassadors have remarked that the eradication and enforcement actions in the United States are important not only because they reduce the domestic availability of marijuana, but also because they demonstrate to other nations that we are willing to take necessary measures to curtail our domestic production.

In closing I want to leave you Senator with a status report on the relationships DEA has with our counterpart enforcement agencies in Alabama.

The Drug Enforcement Administration presently has two separate offices located in the State of Alabama. One office is located in Mobile, Alabama and is staffed with a Resident Agent in Charge

**DRAFT**

plus four Special Agents. In addition the Alabama Bureau of Investigations has four investigators assigned full time to our Mobile office who work side-by-side with our Special Agents. I cannot overstate the value of the assistance DEA has received from that agency. The other office is located at Birmingham, Alabama and is staffed with a Resident Agent in Charge and one additional Special Agent. Because of the resource enhancements of the Organized Crime Drug Enforcement Task Forces (OCDETF), the Mobile Office is being expanded by three Special Agent positions and the Birmingham Office is being expanded by one Special Agent position.

The Mobile Office is responsible for drug law enforcement in the Southern and Middle Judicial Districts, while the Birmingham Office is responsible for enforcement in the Northern Judicial District. Because of the vast area of the State of Alabama and the limited manpower available to the Drug Enforcement Administration, a very close cooperative effort has been developed between DEA and other law enforcement agencies at Federal, state and local levels. DEA works very closely with the Federal Bureau of Investigation in investigating significant drug traffickers and conducting financial investigations of suspected traffickers and dealers. In addition, DEA works with the U.S. Customs Service in an attempt to identify and immobilize significant organizations that are using the State of Alabama to smuggle both marijuana and cocaine.

**DRAFT**

Close cooperation between DEA and local and state officials can be seen in the investigation of the seizure of approximately 730 pounds of cocaine on an airplane at Dothan, Alabama. The initial investigation was conducted by the Dothan, Alabama Police Department and the Dale County Sheriff's Department. After securing the airplane and the cocaine, Chief Kater Williams of Dothan, Alabama Police Department and Sheriff Bryan Mixon of the Dale County Sheriff's Department contacted DEA and requested assistance in the investigation, which continues.

Another example of close cooperation between DEA and state law enforcement officials involved the seizure of approximately 815 pounds of cocaine at Montgomery, Alabama. Major Bob Milner of the Alabama State Narcotics Unit immediately contacted DEA for assistance and help in the continuing investigation. Thus far seven defendants have been arrested and two vehicles and an airplane have been seized in addition to the cocaine. This investigation is continuing and additional indictments are anticipated. These are but two examples which depict the close cooperation and assistance between DEA and other law enforcement agencies.

The current trafficking trends have challenged the law enforcement resources in this area. We have had our successes. I want to emphasize that these accomplishments have been made possible due to the cooperation, professionalism and dedication of the enforcement personnel of all the agencies, Federal, state

**DRAFT**

and local, working together. We will have more successes as a result of the activities of the Organized Crime Drug Enforcement Task Forces and the National Narcotic Border Interdiction System. I believe we, the coordinated law enforcement community, will successfully meet the challenge.

THE WHITE HOUSE

WASHINGTON

October 26, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS *JGR*

SUBJECT: Statement of Robert M. Stutman  
Regarding Drug Smuggling on the  
New England Coast on October 31, 1983

OMB has provided us with a copy of the statement Robert Stutman, DEA Special Agent in Charge of the Boston Field Division, proposes to deliver before the Senate Foreign Relations Committee at Newport, Rhode Island, on October 31. The testimony reviews initiatives to confront the drug smuggling activity along the New England Coast, focusing on the recent successes of three task forces formed in the area. The testimony concludes by stressing the highly organized structure of smuggling operations, and their connections to traditional organized crime. I have no objections.

Attachment

THE WHITE HOUSE

WASHINGTON

October 26, 1983

MEMORANDUM FOR GREGORY JONES  
LEGISLATIVE ATTORNEY  
OFFICE OF MANAGEMENT AND BUDGET

FROM: FRED F. FIELDING  
COUNSEL TO THE PRESIDENT

SUBJECT: Statement of Robert M. Stutman  
Regarding Drug Smuggling on the  
New England Coast on October 31, 1983

Counsel's Office has reviewed the above-referenced statement, and finds no objection to it from a legal perspective.

FFF:JGR:aea 10/26/83  
cc: FFFielding/JGRoberts/Subj/Chron

4900601

WHITE HOUSE  
CORRESPONDENCE TRACKING WORKSHEET

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Name of Correspondent: Greg Jones

MI Mail Report User Codes: (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C) \_\_\_\_\_

Subject: Statement of Robert M. Stutman re: Drug Smuggling on the New England Coast in October 31, 1983

ROUTE TO:

ACTION

DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
<u>CUTROLL</u>	<u>ORIGINATOR</u>	<u>83110125</u> <sup>WJS</sup>			<u>1/1</u>
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<u>CVAT 18</u>	<u>D</u>	<u>83110125</u> <sup>WJS</sup>		<u>S</u>	<u>83110130</u>
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ACTION CODES:

- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure

- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

DISPOSITION CODES:

- A - Answered
- B - Non-Special Referral
- C - Completed
- S - Suspended

FOR OUTGOING CORRESPONDENCE:

- Type of Response = Initials of Signer
- Code = "A"
- Completion Date = Date of Outgoing

Comments: \_\_\_\_\_

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Statement

of

Robert M. Stutman  
Special Agent in Charge  
Boston Field Division

Drug Enforcement Administration  
Department of Justice

on

Drug Smuggling on the New England Coast

before

The Foreign Relations Committee  
United States Senate

Newport, Rhode Island  
October 31, 1983



**DEAL**

Mr. Chairman and Members of the Committee:

I am pleased to represent the Drug Enforcement Administration and to appear before this committee to discuss the changing drug smuggling situation in the New England area and present the Drug Enforcement Administration's response to this problem.

Large-scale marijuana smuggling has long been a major law-enforcement problem in the New England area. The trend of marijuana smuggling utilizing "motherships" in the New England area first became apparent to the Drug Enforcement Administration in late 1977. Since that time, DEA Boston Division, along with the U.S. Coast Guard, U.S. Customs and the Task Forces composed of state and local investigators coordinated by DEA, have seized approximately 1,061,275 pounds of marijuana and approximately 1,240 pounds of hashish in the New England area.

A breakdown of the miles of shoreline are as follows:

- Maine - 3,478 miles of shoreline;
- Massachusetts - 1,519 miles of shoreline;
- New Hampshire - 131 miles of shoreline;
- Connecticut - 618 miles of shoreline;
- Rhode Island - 384 miles of shoreline;

The states of Maine, Massachusetts and Rhode Island are the preferred areas utilized by large-scale marijuana trafficking organizations to offload "motherships" as well as being used as

storage areas for the ultimate transshipment of marijuana to other areas of the country.

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During the last two years, we have seen a dramatic increase in maritime smuggling in the New England area. In 1981 approximately 46,400 pounds of marijuana were seized; in 1982 approximately 416,320 pounds of marijuana were seized and to date in 1983, we have seized approximately 242,000 pounds of marijuana.

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Anticipating that the success of the South Florida Task Force would increase maritime smuggling in the New England area, DEA and other state and local agencies formed anti-smuggling Task Forces with New England. One Task Force has been formed in Maine and is comprised of DEA Special Agents and Maine State Police Officers. The Task Force, code named "Operation Casco", is directed and funded by DEA and has been successful in curbing the smuggling of marijuana into Maine. Since its inception, approximately 86 tons of marijuana have been seized, 1,000 pounds of hashish have been seized, and asset seizures totalled approximately \$1,000,000 (3 aircraft were seized, 30 motor vehicles were seized and 7 vessels were seized) and there were 203 arrests.

During the summer of 1982, Task Forces were formed in Cape Cod and in the state of Rhode Island. The Cape Cod Task Force, code named "Operation Cranberry", is comprised of officers from

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local police departments from Barnstable, Bourne, Brewster, Chatham, Dennis, Eastham, Falmouth, Harwich, Mashpee, Orleans, Provincetown, Truro, Sandwich, Wellfleet, Yarmouth, as well as the Massachusetts State Police, ATF, U.S. Coast Guard, Marine Fisheries and the National Park Service.

A Policy Board has been established to set policy for this Task Force. The board consists of the Chiefs of Police of full-time member departments, the Sheriff of Barnstable County, the Barnstable County District Attorney, and the Special Agent in Charge of the Drug Enforcement Administration. Operationally the Task Force is directed by DEA. The primary responsibility of this Task Force is to coordinate the anti-smuggling effort along the Cape Cod Coast.

Since its inception the Task Force has seized 2 illicit laboratories (one methamphetamine laboratory and one MDA laboratory), approximately 3 kilograms of cocaine, 5,040 pounds of marijuana, 1 sailing vessel and asset seizures amounted to approximately \$200,000. The Task Force has also arrested 110 individuals. Intelligence provided by the Task Force to the U.S. Coast Guard and DEA Special Agents resulted in the seizure of 7 vessels and approximately 100,000 pounds of marijuana.

"Operation Little Rhody" is the code name given to the anti-smuggling Task Force set up in Rhode Island. This Task Force has also established a Policy Board which consist of the

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United States Attorney for the District of Rhode Island, the State Attorney General, the Chiefs of Police of member departments, State Agencies and the Special Agent in Charge of the Drug Enforcement Administration. Operationally the Task Force participants include personnel from the U.S. Marshal's office, the Rhode Island State Food and Drug Control Unit and the police departments from Providence, Warwick, and Newport, Rhode Island.

A unique feature of the Task Force is that it provides a central repository for the collection of intelligence information pertaining to drug smuggling operations within the state of Rhode Island. The benefits of this central repository are many. No longer is drug intelligence fragmented among individual police departments. Because the central repository provides the availability of all the collected information a more efficient use of the information is achieved and the result is that entire organizations rather than individuals within a particular community can be targeted for immobilization.

In all the above-mentioned Task Forces, each investigation is conducted in concert with all assigned departments and all have agreed that no entity will work on a smuggling investigation on its own. This eliminates needless competitive conflict and enhances cooperation between the various agencies.

REPORT

Our experience indicates that the majority of the American people are unaware of how complex and highly organized marijuana smuggling groups have become. These organizations are, in many instances, similar to large corporations. There is a well defined hierarchical structure in which the head of the organization delegates specific responsibilities to other top echelon individuals within the organization. These individuals are similar to department heads in a legitimate corporation. They are responsible for specific tasks. For example the organizational segments of smuggling organizations might include logistical support, finances, purchasing agents in South America, recruitment of offload crews, and distribution of the product in the United States. It is common for these smuggling organizations to "employ" 100-150 individuals who are subordinate to the "department heads".

There are two excellent examples of successes achieved through the Task Forces against complex smuggling organizations. One effective Task Force investigation culminated in the recent indictments in the District of Maine of the two largest smugglers in New England. The indictment charged both defendants with violation of 21 U.S.C. 848 (Continuing Criminal Enterprise). These defendants were charged with operating, managing and financing a major drug smuggling ring. The indictment alleges that the individuals were involved in smuggling and trafficking activities spanning a period of more than 10 years. The facts disclosed that the smuggling

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activities occurred in the states of Florida, Rhode Island, North Carolina, Colorado, Oregon and Massachusetts, and also included foreign countries. These individuals are charged with conspiracy and the importation of approximately ½ million pounds of marijuana and hashish into the United States. The participating agencies involved in this investigation were the DEA, the Maine and Massachusetts State Police, the Sheriff's office in Coos County, Oregon and the Royal Canadian Mounted Police.

Another example of a successful Task Force investigation involved a case which was tried in the District of Massachusetts. Peter Krutschewski headed an organization which was involved in 6 smuggling ventures in the states of Massachusetts, Florida, New Mexico and Delaware. Krutschewski was convicted of conspiracy to import approximately 90,000 pounds of marijuana and approximately 6,000 pounds of hashish into the United States.

This case was a unique case because it is referred to as a "no dope conspiracy". That is, Krutschewski was convicted and charged with various smuggling ventures even though there were no actual drug seizures and/or exhibits by DEA.

At this point, I would like to show you a chart which graphically depicts the smuggling ventures in which Krutschewski was involved.

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It is important to note that although more than 1 million pounds of marijuana have been seized in the New England area, and 48 vessels have been seized and hundreds of individuals have been arrested, the DEA believes that the vast majority of smuggling into this area is controlled by a finite number of highly sophisticated, complex marijuana organizations. Some of these organizations are tied directly to traditional organized crime figures.

If we are to have a real effect on the marijuana traffic, we must build conspiracy cases against entire drug smuggling organizations. This is difficult to accomplish because major organizers are rarely, if ever, at the site of a smuggling venture. A conspiracy beginning with the seizure of a vessel can be developed however the seizure of a vessel may be little more than a disruption too often it is just the cost of a day's business. We are committed to going after the major organizer and we will work toward that goal even if seizures are not always certain. Law enforcement has a measurable impact on the marijuana traffic in New England. The statistics speak for themselves. Up until the formation of the Rhode Island Task Force there was only 1 maritime seizure in a 5 year period. Since its inception there have been 4 vessels seized, approximately 10,254 pounds of marijuana seized, 8 ounces of cocaine seized, \$338,000 in asset seizures and 20 arrests.

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Another clear indication that law enforcement is having an effect is the fact that the price of marijuana has significantly increased at the retail level. Approximately 2 years ago, Colombia marijuana was available for \$40 per ounce. The price has risen to approximately \$60 per ounce or higher and in some places is not available. We feel the increase in price is as a direct result of the law enforcement efforts to reduce the street availability in the New England area.

We in drug enforcement appreciate the support of this Committee.

Thank you.