Powering investigation of the illegal drug trade

The problems posed by the global trade in illegal drugs

The use of illicit drugs has reached crisis levels in North America, particularly in the United States, where substances like Fentanyl and Xylazine are responsible for a significant number of overdose fatalities. The illegal drug trade poses a serious threat to public health and safety, leading to an increase in investigations and enforcement actions by US authorities. However, the complexity of investigating supply chains, production facilities, and transnational crime networks (TCNs) involved in this illegal drug trade presents significant challenges.

Criminals have sophisticated business operations and employ tactics to evade detection, including the use of shell companies to obscure the flow of illicit funds and enable money laundering.

To effectively combat this issue, US investigators need clear and reliable risk indicators to uncover connections in criminal networks and the individuals involved in drug trafficking. By leveraging data and automation tools, investigators can proactively identify and work to dismantle the financial structures supporting the illegal drug trade, ultimately disrupting the flow of these dangerous substances.

A GROWING CRISIS - ILLICIT DRUG USE AND ITS IMPACT ON FATALITIES IN NORTH AMERICA

Use of Fentanyl and other synthetic opioids has surged in recent years, particularly in North America, where these substances have become one of the primary contributors to overdose fatalities. According to US Government data, in the 12-month period ending November 2023, there had been in excess of 105,000 deaths in the US caused by drug overdoses – and this represents a flattening of the curve.

Moody's intelligent screening database - Grid - saw a 42% increase in global Fentanyl and synthetic opioid-related risk events in 2023 versus 2022. And the number of risk events represents a 320% increase from 2018, five years earlier. However, there are signs of positive progress, as Q1 2024 shows a significant decline compared to the same period last year. The number of Fentanyl related risk events globally decreased, as did the number of events recorded against the risk profiles held in Grid.
The issue of illegal drug production and trafficking, however, remains sizeable and crucial, especially when the number of annual related fatalities are calculated. There are also associated risks related to national security, border control, and other offences, such as money laundering, forced labor, and more.

The precursor chemicals needed to manufacture Fentanyl are often sourced from illicit chemical production facilities, many of which are located in China. After being synthesized, Fentanyl is then smuggled into the US, frequently via drug cartels in Mexico, who have established networks for bringing illicit synthetic opioids across the US border.

Enforcement has led to broader awareness of Fentanyl supply chains as they move from China to Mexico to the US. This is borne out in data from Moody’s Grid database, which shows the trend in risk-related drug trafficking events over a 5-year period from 2018 to 2023.
CHALLENGES INVESTIGATING ILLICIT DRUG SUPPLY CHAINS AND TRANSNATIONAL CRIME NETWORKS

Aware of the severity and development of the problem with illegally made and distributed drugs, like Fentanyl, the United States has increased investigations and enforcement actions, while levying sanctions and indictments against entities found to be supplying synthetic opioids.

However, investigating supply chains, production and manufacturing companies, drug trafficking, and the widely spread money laundering and organized crime networks involved in this illegal industry is deeply complex.

According to a FATF report issued in 2022, the synthetic opioid industry is worth tens of billions of dollars globally. For those in this illegal industry, the stakes are high when it comes to protecting their trade. This means US investigators face significant barriers when it comes to unpicking the deliberately obscured networks of money laundering, forced labor, drug trafficking, and beneficial ownership and control that have been designed to support this high-value trade and ensure it proceeds unhindered.
UNCOVERING ILLICIT TACTICS IN THE FENTANYL TRADE THROUGH SHELL COMPANY INDICATOR

TCNs leverage different tactics to evade detection, which means US government investigators need clear and reliable risk indicators to point them in the right direction to understand each tactic and the people behind them.

Shell companies for instance are frequently established with the objective of obscuring the extensive illegal capital generated from this global drug supply chain. And “Shelf companies” are often used with the primary aim of concealing funds related to drug trafficking.

Investigators need access to tools such as Moody’s Shell Company Indicator, which can be used to:

1. Detect circular ownership patterns
2. Find instances of mass registration
3. Identify outlier directorships
4. Locate companies that are dormant
5. Track companies with significant financial anomalies
6. See organizations with outlier ages for key individuals
7. Find jurisdictional disparities

These indicators, especially in combination, help illuminate where a shell company is being used, which may in turn be leveraged for money laundering. Below is an example of circular ownership identified by Moody’s showing the true picture of beneficial ownership associated with a network of companies.

**Example of circular ownership**

*Anonymized but based on Moody’s data*

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*Figure 5 is modelled on information taken from Moody’s Shell Company Indicator, with real but anonymized data*
Investigators, if they are able to understand where a shell company or instance of circular ownership exists, can proactively dig into the corporate structure, its ownership and control linkages, and locate potential threats and persons of interest in relation to drug trafficking alerts.

IMPLEMENTING A HOLISTIC APPROACH TO COMBATTING THE ILLEGAL TRADE IN FENTANYL AND OTHER DRUGS

Investigators need a holistic and proactive approach to tackling the illegal trade in drugs like Fentanyl, one that leverages data and automation, which also combines curated risk profiles (built from adverse media, sanctions and PEPs screening) with leading company data (with beneficial ownership, identity verification, and financial information).

This means Government departments can follow leads using accurate data associated with the entities and individuals implicated in the wider network of a supply chain.

An individual associated with a drug trafficking related risk event could be screened to find associations or connections with, for example, other individuals or business entities. These individuals can then be screened for related risk. If there are associations to companies uncovered, then the beneficial ownership and control frameworks of those organizations can be understood.

This process is able to reveal whether there are associations with specific jurisdictions; sanctioned individuals; high-risk individuals or those implicated in financial crime; whether there are shell company indicators present; and many more risk markers combined.

Amassing this profile of risk-relevant data across a network and supply chain can provide a clearer picture for investigators to track and identify individuals and entities that are part of perpetuating the trade in illegal drugs.

USING DATA AND TECHNOLOGY TO DISRUPT THE ILLEGAL DRUG TRADE

Adopting a proactive, holistic approach to data gathering and screening, such as that offered by Moody’s intelligent screening database – Grid – combined with our global entity database – Orbis - presents multiple benefits to US investigators tackling the illegal Fentanyl trade.

First, by leveraging comprehensive data analytics and risk event tracking and tracing that through global entity data, investigators can gain insights into the complex networks behind Fentanyl production and distribution.

By using Moody’s capabilities to monitor trends and screen names, investigators can identify patterns and connections in drug trafficking activities, enabling them to understand who is within the supply chain and anticipate shifts to adapt their strategies.

Furthermore, a holistic approach facilitates the unravelling of sophisticated corporate structures used by TCNs to obscure the proceeds from the illegal drug trade.
TCNs have invested heavily in mechanisms like shell and shelf companies to launder their illicit gains from the drug trade. Moody's solutions equip investigators with critical tools to penetrate these layers of obfuscation.

By employing indicators of shell company risk—such as detecting circular ownership and identifying financial anomalies—investigators are better equipped to expose the infrastructure supporting the illegal drugs trade. This capability aids in dismantling the financial services underpinning operations and enhances the ability to prosecute key individuals within criminal networks, ultimately disrupting the flow of illegal Fentanyl and other synthetic opioids globally.

GET IN TOUCH

For more information about how Moody's can support an efficient and effective investigation process, please get in touch.

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