

Cryptocurrencies complicate effort to stop opioid dealers

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The fight against the opioid crisis is facing a growing problem: Criminals are getting better at hiding the cryptocurrency transactions they use to buy drugs online.

The [opioid crisis](#), which claims more than 100 lives a day, has been fueled partly by cryptoassets, but [law enforcement](#) is ramping up efforts to trace and halt their use in the illegal trade.

The Drug Enforcement Agency is "very much concerned" about the issue, an official from the agency told CQ Roll Call in an email. Criminal use of digital currencies to purchase drugs on so-called darknet websites, and even some publicly accessible ones, is "widespread," the DEA official said last week.

The main purpose of using cryptocurrencies is to hide the transactions and the identities of those behind them. Of particular concern is fentanyl, which typically travels into the country from China or Mexico. The drug is a synthetic opioid, 50 times more potent than heroin, authorities say.

Two-thirds of the approximately 70,000 overdose deaths in the U.S. in 2017 involved an opioid, according to the U.S. Centers for Disease Control and Prevention. Overdose deaths involving the drugs have increased almost sixfold during the past two decades, the agency said.

The DEA official said estimates of illicit transactions, including for

drugs, conducted in bitcoin reach \$76 billion annually, citing a 2019 report from Australian researchers Sean Foley, Jonathan Karlsen and Talis Putnins.

It's something even rank-and-file police officers must confront.

Sgt. Joshua Lee of the Mesa, Ariz. Police Department spent several years as a detective in an organized crime unit investigating crimes involving cryptocurrencies, including opioid trafficking.

"Now, it's more prevalent than before," he told CQ Roll Call. "Bad guys are realizing they're less likely to get caught if they move stuff to the dark web."

Cryptocurrency use isn't always anonymous, which can be a boon to authorities trying to trace transactions back to dealers and suppliers. That's especially true with currencies that use a public blockchain, like bitcoin and ethereum. However, innovations have complicated that process, Lee and the DEA official said.

Digital assets that use a private blockchain, such as monero, a newer entrant whose trading volume has increased dramatically in the past three years, make it much harder to track ownership. Additionally, cryptocurrency "tumblers," which pool and reassign digital tokens to different owners like a "bingo spinner," have also emerged to preserve anonymity, Lee said.

When criminals use private blockchain coins, it puts up a "large roadblock" for investigators, the agency official said. That's true even if illicit funds started as bitcoin or other traceable currency and were later converted to monero.

The tumblers, meanwhile, allow users to pool digital currencies, which

are then jumbled and redistributed to the owners. Users end up with someone else's tokens, but with their original value.

"It makes the tracking process a lot harder, not impossible, but a lot harder," Lee said.

"Every time we figure something on law enforcement, the bad guys are figuring out something they can do to make our lives a little harder," he said. "It's a growing issue."

Most local jurisdictions lack the resources for expensive dark web investigations, he added.

Digital assets appeal to some drug traffickers because they enable a new set of criminal transactions, said Nicholas Weaver, a lecturer at the University of California, Berkeley.

"Cryptocurrencies offer transactions that are electronic and censorship-resistant," he told CQ Roll Call in an interview. "The only other censorship-resistant payment that we have is cash. Cash requires physical proximity. Cryptocurrencies allow you to get away from that. As a consequence, they're useful for things you couldn't normally buy online, like drugs and child exploitation material."

Weaver downplayed concerns, though, saying digital currencies and online purchases make up a small part of the overall drug trade. One reason may be the risks for the criminals that use them, Weaver said.

The main cryptocurrencies are "pseudonymous" not anonymous, he said. "When the police are able to see a bad guy's cryptocurrency wallet, they're able to track all the transactions that person was involved in."

The Financial Crimes Enforcement Network released an advisory on

fentanyl in August, highlighting how it involves cross-border and domestic cryptocurrency transactions. FinCEN, the Treasury Department's financial crime-fighting unit, can leave behind an "extremely useful" trail of breadcrumbs, it said.

That information includes digital currency wallet addresses; account information; transaction details and history; login information, including IP addresses; mobile phone information; and a customer's public online profile and communications, the advisory said.

Several high-profile opioid trafficking cases involved cryptocurrencies, FinCEN noted. Matthew and Holly Roberts of Texas were the most prolific dark web fentanyl vendors in the world at the time of their 2018 arrest, according to authorities. They had customers pay in virtual currencies, which they then cashed out for fiat currencies at digital currency exchanges, officials say. They are serving multiyear prison sentences.

AlphaBay, a criminal market on the dark internet that the U.S. government shut down in 2017, required transactions to be conducted in assets like bitcoin, monero and ethereum. During its two years of operation, the market was a major platform for transactions involving heroin and fentanyl, FinCEN said.

Jonathan Levin, founder and chief strategy officer at Chainalysis, a company dedicated to tracing those transactions through software, said law enforcement agencies in more than 20 countries use its software to track such transactions. The company declined to disclose the actual number or how many prosecutions used evidence discovered through the service.

The anonymity offered by most cryptocurrencies is at best superficial, "especially in something like bitcoin because every transaction is

public," Levin told CQ Roll Call. Law enforcement can trace [digital assets](#) as they travel from user to supplier, and eventually to the cryptocurrency exchanges where drug traffickers cash out in favor of fiat currencies.

Cryptocurrency exchanges in the U.S. must comply with anti-money-laundering and know-your-customer regulations, so it's possible for law enforcement to subpoena information that can connect accounts to their owners.

The method was used in the bust of a global child pornography ring made public last week by the Justice Department. South Korean law enforcement agencies and the Internal Revenue Service's Criminal Investigation unit analyzed bitcoin transactions to find the physical location of the server hosting the website and unmask more than 300 customers.

Perianne Boring, founder and president of the Chamber of Digital Commerce, argues that the traceable nature of digital currencies actually makes them a "boon" to law enforcement investigating opioid trafficking and other illicit activity. The organization advocates on behalf of the blockchain industry.

"Every single [transaction](#) is logged on a public ledger, the blockchain," she told CQ Roll Call, referring to the distributed ledger technology underlying digital currencies that tracks ownership and transactions. The digital system is more transparent than cash, which is used in "analog transactions" with no records at all, she said.

Boring added that the cryptocurrency industry is committed to uprooting crime through initiatives such as the Blockchain Alliance. The private-public forum connects cryptocurrency companies to more than 20 state, federal and international law enforcement agencies.

"All advanced technologies are abused by bad actors—cellphones, computers, the internet, cars," she said. "Criminals will use anything that they can get their hands on. Bitcoin and blockchain technology is no different than that."

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