

**CHAIRMAN MCCAUL OPENING REMARKS**  
**AS PREPARED FOR DELIVERY**  
Subcommittee on Oversight, Investigations & Management  
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American innovation is the envy of the world. It is a constant target for competitors, including rogue nations that prefer to steal and copy rather than create.

In addition to overcoming a depressed business climate, our nation's job creators must protect their intellectual property from sophisticated counterfeiters all over the world, make sure their exports do not end up in the wrong hands, and comply with immigration laws.

The consequences of failure are serious. When counterfeit prescription drugs enter the marketplace or cheap imitation parts breach a semiconductor manufacturing plant it costs American businesses revenue and jobs. When sensitive equipment manufactured for the Department of Defense falls into the hands of rogue nations, it poses a threat to our national security.

When businesses seek assistance from the government, it is the responsibility of the Department of Homeland Security to protect intellectual property, safeguard against counterfeit goods, maintain the integrity of export supply chains and to ensure that businesses are in compliance with immigration laws in order to maintain a level playing field.

Today we ask: Is the help they receive from DHS, in collaboration with other government agencies, adequate? What improvements can be made? And what more can be done? Indeed, several cases in recent years indicate that there is room to improve these measures that directly impact the bottom line of businesses and their ability to create jobs.

A 2008 investigation by Businessweek magazine uncovered a polluted supply chain in some of our nation's military equipment. According to Businessweek: "Counterfeit products have been linked to the crash of mission-critical networks, and may contain hidden 'back doors' enabling network security to be bypassed and sensitive data accessed [by hackers, thieves, and spies." The

same investigation found that as many as 15% of the spare parts and microchips the Pentagon buys are counterfeit.

Recently Wired Magazine reported that the military purchased 59,000 counterfeit microchips from China in 2010. These chips were to be installed into an array of equipment, including U.S. missile defense systems.

This problem has been highlighted in many federal prosecutions, including one in Houston where the defendant was sentenced to federal prison for selling counterfeit network cards to the U.S. Marine Corps for use in combat in Iraq and Afghanistan.

Pharmaceutical companies are seeing more of their products counterfeited. These counterfeits are often ineffective and, in some cases dangerous. A recent report by CBS News found that the counterfeit drug network is worth an estimated \$75 billion dollars per year. This market has produced pharmaceutical drugs that contain little, none or too much of the drug's active ingredients. In some cases, the drugs contained harmful substances.

One recent case involved Mr. Ken Wang, the owner of a Houston-based company, who was convicted of conspiring with individuals in China to traffic in counterfeit and misbranded prescription drugs. ICE began its investigation after CBP seized 6,500 loose Viagra tablets from a mail facility in San Francisco addressed to Mr. Wang. Pfizer Pharmaceuticals, the manufacturer of Viagra, confirmed that the tablets were counterfeit and contained a substance used to manufacture sheetrock. After being convicted, Mr. Wang fled to China, where he is still in hiding.

Such cases often involve a bizarre, multijurisdictional supply chain, making it difficult to prosecute and harder to track. In one instance, the supply chain began with the medication being manufactured in mainland China, shipped to Hong Kong, then the United Arab Emirates and lastly to the Bahamas. Once in the Bahamas, the individual prescriptions were filled, put into packets, addressed, and sent to the United Kingdom. From the United Kingdom the drugs were shipped to the consumer in the United States who, at the time of placing their online order, believed they were purchasing them from a Canadian pharmacy.

ICE is the only federal law enforcement entity with full statutory authority to pursue violations of U.S. export laws related to military items and controlled dual-use commodities. These are products that may have a seemingly innocuous civilian use, but also can have a potent military use as well. A glaring example is the triggered spark gap. This device is used legally by doctors to break up kidney stones in patients. However, it can also be used to detonate a nuclear device.

In one case, a Pakistani businessman with close ties to the Pakistani military, and linked to militant Islamic groups, attempted to use a third-party in South Africa to purchase 200 triggered spark gaps. Under U.S. law, as a dual-use item, it is legal to export the devices to South Africa, but illegal to export them to Pakistan. The third-party buyer was arrested, but the Pakistani businessman has not yet been apprehended.

Finally, the subcommittee will examine the issue of worksite enforcement.

In 2009, ICE, citing “finite resources”, instituted a shift in strategy from targeting undocumented employees to the employers that hire them.

The results have been striking. According to the Congressional Research Service, since 2008, Administrative Arrests have declined 77 percent, criminal arrests have declined 59 percent, and criminal convictions have declined 66 percent.

These figures strongly suggest that this shift in strategy has led to a scaling back of worksite enforcement efforts that allow bad actors to get away with breaking the law with little or no penalty.

As is evident from my opening statement, ICE and CBP have a broad array of laws and issues they are responsible for enforcing and we clearly have much to talk about today.

I will therefore conclude my remarks by thanking our witnesses for being here. I look forward to each of your testimonies.

With that I recognize the Ranking Member of the Subcommittee, the gentleman from Massachusetts, Mr. Keating, for five minutes for the purpose of making an opening statement.