

Testimony by
Steven Dudley, Co-director, InSight Crime
and
Fellow, Center for Latin American and Latino Studies, American University
Before the Senate Foreign Relations Western Hemisphere Subcommittee
“The Mexican Heroin Distribution Chain and Its Implications for Law Enforcement”
May 26, 2016

Chairman Rubio, Ranking Member Boxer, and Members of the Subcommittee: I am grateful for the opportunity to appear before you on behalf of InSight Crime and the Center for Latin American and Latino Studies at American University to discuss the criminal dynamics connected to the illegal opiate market, specifically the heroin market in the United States related to poppy production in Mexico.

Mexico's Increased Market Share

US consumption of heroin has increased significantly in the last few years. The reasons for this are complex but have to do with the increase of prescription drugs in the United States, a rise in prices of these prescription drugs and their black market counterparts, and the subsequent safeguards on this prescription medicine market, specifically OxyContin.

The US portion of the world heroin market is small by comparison in terms of users, but outsized in terms of potential earnings. The Rand Corporation estimated in 2014, that US consumers spend as much as \$27 billion on heroin each year, an increase from \$20 billion per year in 2000.¹ Only the marijuana market is worth more in the US.²

Mexican, Guatemalan and Colombian criminal organizations have reacted to these changes by producing more heroin. Only a small percentage of the world's opium poppy is cultivated in this hemisphere, but after it is processed into heroin, almost all of it is sold in the United States where the number of consumers for the drug has more than doubled since the early 2000s.

Mexico accounts for the bulk of poppy production in the region. According to estimates by the Drug Enforcement Administration (DEA), the production of poppy, the raw ingredient for the production of heroin, increased from 10,500 hectares in 2012 to 17,000 hectares in 2014, giving the groups the potential to produce 42 metric tons, up from 26 metric tons in 2012.³ By comparison, the DEA says Colombia produces only two metric tons per year.⁴

Seizure data of heroin along the southwest border also indicate that Mexican criminal groups are moving increasing amounts of heroin into the US market. Mexican criminal organizations are also the key transporters of Colombian heroin to the United States, and they manage and purchase the heroin produced in Guatemala or buy the opium gum wholesale to process it into heroin themselves in Mexico.

Inside the US, the trend appears to be the same. The DEA says that Mexican groups are seeking an increasing amount of the market share in the distribution business itself,

¹ Beau Kilmer, et al., "How Big is the US Market for Illegal Drugs," Rand Corporation (2014). Available at: http://www.rand.org/pubs/research_briefs/RB9770.html

² Ibid.

³ Drug Enforcement Administration (DEA), "National Drug Threat Assessment 2015," p. 34. Available at: <http://www.dea.gov/docs/2015%20NDTA%20Report.pdf>

⁴ The United Nations' most recent estimate for global heroin production is 526 tons. See: UNODC, "World Drug Report 2015," p. 41. Available at: https://www.unodc.org/documents/wdr2015/World_Drug_Report_2015.pdf

displacing other wholesalers. In sum, the picture is one of an increasingly lucrative, vertically integrated market, with large Mexican criminal organizations managing the product from the point of production to the point of sale and seeking a greater market share of these sales.

The Reality of the Heroin Supply Chain

The reality of the supply chain is much more complex. While it helps us to use well-worn monikers when talking about these organizations, the truth is that they are not nearly as strong or monolithic as they once were. Names such as the Tijuana Cartel, the Juárez Cartel, the Zetas, or La Familia Michoacana may still evoke fear and sometimes awe, but they are not organizations as much as brand names. In many cases, the individual parts of the organization have as much contact with the bosses as a local Coca-Cola bottling plant manager might have with corporate headquarters.

Even the vaunted Sinaloa Cartel is more horizontally than vertically integrated. Take the recent case of the Flores brothers in Chicago. Before they were arrested, Pedro and Margarito Flores were said to be Sinaloa Cartel distributors in Chicago, one of the areas of greatest interest to this subcommittee. And they were. But as federal intercepts of their conversations with cartel leaders show, the two brothers negotiated independently with each of the top two members of the Sinaloa criminal organization, obtaining different prices with different leaders and managing shipments separately.⁵ Even after a war started between the Sinaloa Cartel and the Beltrán Leyva Organization, the Flores brothers continued to purchase drugs from portions of the Beltrán Leyva Organization and the Sinaloa Cartel.

The Flores case cuts at two different myths about the Sinaloa Cartel: 1) that this is one single organization; 2) that it is tightly controlled by a single leader or a single group of leaders. The point is that as shipments get further and further from Mexico's wholesale points, the loyalties become more disperse, and in some cases completely disappear. This is especially true in the US market where violence is not a viable long-term option to ensure loyalty, win market share or become a monopoly.

The effectiveness of US law enforcement has made violence terrible for business and made the distribution chain a more democratic, capitalist affair. This is evident in other ways as well. While the amount of seizures indicates that there is more heroin available in the United States, it is still moved in very small quantities. The median seizure for the Los Angeles Field Division of the DEA in 2014, for example, was a kilogram.⁶ In Denver, a 10 to 12 pound shipment is considered large.⁷

⁵ Michelle Garcia, "Court Docs Raise Questions about Mexico Sinaloa Cartel Narrative," 12 November 2013. Available at: <http://www.insightcrime.org/news-analysis/zambada-trial>

⁶ DEA, op. cit., p. 37.

⁷ Ibid.

The amount of profits reaped by these Mexican criminal organizations also raises questions about how much control they exert in the United States. The Rand Corporation estimated in 2010 that Mexican criminal groups earn in the range of \$400 million per year from their heroin exports and possibly another \$700 million for transporting Colombian heroin to the US market.⁸ While this has undoubtedly increased, there is still the question of where the rest of the over \$20 billion spent on heroin in the US annually goes.

The case of the Laredo brothers, recently indicted in the Eastern District of Pennsylvania, is indicative of these trends. The Laredo brothers are charged with moving one ton of heroin over a six-year period. This is about 14 kilos per month. The organization was so subtle and, as one Mexican analyst put it, “mom-and-pop,” the Mexican authorities did not even know it existed.⁹

This brings us to Mexico. First, it is important to note that, unlike the cocaine market, Mexico is not dependent on other countries for its product. It is home grown. Second, the horizontal nature of the distribution chain makes it a difficult law enforcement problem in that country as well. As noted, the once monolithic criminal organizations are shells of what they once were. This is in part due to in-fighting of the type mentioned earlier but also Mexican law enforcement efforts. Many of the fragmented pieces have formed their own criminal operations and brand names.

The most well-known is arguably the Guerreros Unidos, the criminal group held responsible for the disappearance of the 43 students in Mexico in 2014. The Guerreros Unidos used to be under the umbrella of the Beltrán Leyva Organization. When the Beltrán Leyva Organization fell to pieces during their war with the Sinaloa Cartel, the Guerreros Unidos became independent, as did several other criminal groups in the embattled state of Guerrero, which is one of the centers of opium cultivation, heroin production, wholesale and transport. Indeed, the mystery of what happened to those students, may hinge on whether the Guerreros Unidos were using commercial buses to move heroin to Chicago.¹⁰

The upshot is that the chain of production in Mexico is broken into numerous pieces, including small and large producers of opium poppy plants, the opium gum producers, the processors, the wholesale purchasers, and the transporters. Production, transport and distribution may all be different organizations. The Laredo brothers, for example, were purchasing opium gum from an independent broker then processing it themselves and distributing it in those small quantities in the US for years without running into trouble with the large, supposedly all-controlling Sinaloa Cartel.

⁸ Kilmer, et. al., “Reducing Drug Trafficking Revenues and Violence in Mexico: Would Legalizing Marijuana in California Help?,” Rand Corporation (2010), p. 30. Available at:

http://www.rand.org/content/dam/rand/pubs/occasional_papers/2010/RAND_OP325.pdf

⁹ Alejandro Hope, “The Laredo DTO and what it says about the heroin trade,” 19 April 2016. Available at:

<http://www.eldailypost.com/opinion/2016/04/the-laredo-dto-and-what-it-says-about-the-heroin-trade/>

¹⁰ Elyssa Pachico, “Four Questions about the ‘5th Bus’ in Case of Mexico’s Missing 43,” 27 April 2016.

Available at: <http://www.insightcrime.org/news-analysis/four-questions-about-the-fifth-bus-in-case-of-missing-43-students>

To be sure, violence is still a viable option in Mexico, so the pendulum may swing back towards more monolithic criminal organizations. But for the moment, the reality is that there are literally dozens of small criminal organizations involved in this trade from the point of production to the point of sale.

Impact on Law Enforcement Efforts

In sum, while the level of control that the Mexican production and transport groups exert over the supply chain is clear, we are not talking about one or two criminal groups, but dozens of interlocking organizations whose alliances are constantly shifting. The heroin supply chain appears to be a largely horizontal, diversified operation with multiple actors, and one that is obedient to market forces rather than one or two single vertically integrated distributors.

The result is that law enforcement efforts are largely muted. Whether you debilitate the Sinaloa Cartel or the Laredo brothers, you are hindering a small part of the overall production and distribution chain. Even if you did slow the heroin from Mexico, you would face an insurmountable task: stopping the flow from other countries, which would undoubtedly fill the void and account for the bulk of world-wide production. Canada already gets up to 90 percent of its heroin from Afghanistan.¹¹ And the United States once got all of its heroin from the Asian markets that supply the rest of the world.

Thank you for your time and attention. I look forward to your questions.

¹¹ UNODC, *op. cit.*, p. 46.