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## Mexican Drug Cartels and Dark-Networks: An Emerging Threat to Australia's National Security

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# Mexican Drug Cartels and Dark-Networks: An Emerging Threat to Australia's National Security

Dr Anthea McCarthy-Jones

## Executive Summary

- ✦ Mexican drug cartels have begun wholesale distribution worldwide, with Australia a prime new target.
- ✦ The cartels have begun selling to a variety of local Australian criminal groups, along with providing them 'sweeteners' such as handguns and other arms.
- ✦ Maritime smuggling is the most lucrative and therefore an important focus point for domestic and regional cooperation in order to repel the drug cartels distribution to Australia.

## Policy Recommendation

- ✦ A focus on intelligence gathering, maritime interdiction and capacity building in transit hubs in the South Pacific would provide Australia with the greatest chance of significantly reducing the amount of illicit drugs arriving on Australian shores, as well as a the strongest possibility of disrupting crucial links in the chain of this dark-network that poses a direct threat to Australia's national interests.

Over the past decade Mexican drug cartels' power and the violent struggles between them have increased exponentially. Previously Mexico, and in particular the border regions with the US, were the key battle grounds for control of distribution routes. However, today Mexican drug cartels are now looking abroad in an attempt to extend their operations. This expansion has seen several cartels moving into lucrative international markets in Europe and the Asia Pacific.

It is in this context that Australia has now become a target of several Mexican cartels. They have already established linkages in the Asia Pacific and are further attempting to strengthen and expand these — with a particular focus on penetrating the Australian market. These developments show how Mexican drug cartels operate as 'dark-networks', successfully creating a global system that seeks to capture new markets, and further extend their control and dominance of the flow of illicit drugs around the world.

For Australia, the emergence of Mexican drug cartels in local markets presents not only criminal but strategic challenges. The size of these operations, their resources and 'dark-network' structure makes them a difficult opponent. Their presence threatens to not only increase the supply of illicit drugs in Australia, but encourage turf wars, increase the amount of guns in the country, tax border security resources and threaten the stability and good governance of South Pacific transit spots. This represents the end of Australia's 'tyranny of distance', which previously acted as a buffer and protected Australia from the interests of remote criminal groups such as the Mexican cartels.

The opening decade of the 'Asian century' has brought an economic shift to the Asia Pacific region, but this concentration of activity has not been limited to legitimate forms of economic trade and is now attracting a new wave of illicit economic activity that seeks to exploit the newfound wealth of the region. This illegal economic activity forms part of an emerging security threat that is posed by a network originating in Latin America. As such, that region's stability and challenges must now be treated as a significant issue of concern for Australia's national security.

## How and why did the threat emerge in Australia?

The appearance of Mexican cartels in Australia first came to light in 2010 when several Mexican nationals, with ties to cartels, were arrested by Australian Federal Police during counter-narcotics operations. This was the first time that direct links between the activities of Mexican drug cartels and the Australian market for illicit drugs had been identified.

The rise of the Mexican cartels and their increased power in the global illicit drug market can be directly traced back to the policy successes of the US and Colombian governments' joint initiatives to dismantle the organisational frameworks and power structures of the Colombian cartels. This included the closure of traditional drug corridors, such as the Florida route, during the 1990s and early 2000s.

While these policies succeeded in destroying the monopoly previously enjoyed by Colombian cartels, it simultaneously created a power vacuum and an opportunity for Mexican cartels to expand their interests in the global illicit drugs trade. During the late 1990s and early 2000s, several Mexican cartels began to quietly and systematically expand their operations and control of main drug routes into the US market as well as other foreign markets in Western and Eastern Europe.

In response to concern about the unbridled growth and power of the Mexican cartels, former president Felipe Calderon declared a 'war against the cartels' in 2006. Unfortunately, the Mexican government severely underestimated the extent to which the cartels had amassed large arsenals to defend their territories and lucrative drug routes, as well as the large-scale and widespread infiltration by the cartels into Mexican government institutions and law enforcement agencies.

Calderon's 'War on Cartels' has seen the deployment of over 50,000 military troops to various regions in Mexico with a particular concentration in the territories that border the United States. Over 250,000 people have been internally displaced in Mexico since 2006 and estimates of deaths from the violence range between 60,000 and 120,000 with a further 25,000 people considered to be *desaparecidos* (disappeared).

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Despite the protracted low-intensity conflict between the Mexican government and cartels, groups such as the Sinaloa cartel and Los Zetas cartel have continued to expand their operations and profit margins. In 2013 the Sinaloa cartel's annual revenue was estimated to be approximately US\$3.1 billion, making it the most powerful and profitable drug cartel in the world and comparable to the revenue of some of the bottom ranked Fortune 500 companies. Domestically, it is responsible for the cultivation and production of marijuana and Mexican opium, which is used to produce the very low-grade 'brown heroin' currently flooding the US market. The Sinaloa cartel is also responsible for approximately 25% of all cocaine that enters the United States. Recently the Sinaloa cartel and others such as Los Zetas and the Jalisco New Generation cartels have been moving into foreign markets in an attempt to increase their share of the global illicit drugs trade. This push is primarily in relation to the distribution of cocaine and methamphetamines.

Reports have identified growing links between Chinese organised crime groups and Mexican cartels. These linkages relate to the importation (by Mexican cartels from Chinese organised crime groups) of precursors for the production of methamphetamines. The finished product is then shipped from Mexico (primarily Jalisco state) back to the Chinese mainland. These linkages demonstrate the integrated relationships that Mexican cartels tend to establish with organised crime groups in the region and further sheds light on the complex and large-scale dark network that spans the Pacific.

## The Asia Pacific is a lucrative as well as logical region in which to extend their operations.

### Mexican cartels in Australia

The appearance of Mexican cartels in Australia - primarily Sinaloa - is the result of a combination of 'push' and 'pull' factors. The key factor pushing cartels to seek out new markets has been the decline in demand from the United States. This decline has meant that the US market alone can no longer sustain the rate of supply flowing from the 'south' into the 'north'.<sup>1</sup> The weakening price of illicit drugs in the US market in comparison to European and Asia Pacific regions has acted as a further 'push' factor for cartels seeking to franchise their operations further afield.

There are several 'pull' factors that have made Australia an attractive option in the cartels' global expansion. Firstly, according to the United Nations Office of Drugs and Crime (UNODC)<sup>2</sup> East Asia, Southeast Asia and Oceania have

the largest number of Amphetamine-Type Stimulants (ATS) users in the world totalling 9.5 million and a further 3.9 million ecstasy users. Mexican cartels have drastically expanded their production and distribution of ATS in recent years making the Asia Pacific a lucrative as well as logical region in which to extend their operations. Over the past two decades, the rapid economic growth and growing affluence of many nations in the region such as China, Korea, Japan, Indonesia and Australia have produced a larger demand for illicit drugs than ever before.



Furthermore, the appearance of cartels in Australia coincided with a period in which the Australian dollar reached parity with the US dollar and at some points exceeded parity. The strength of the Australia dollar and its ability to be easily converted into US currency proved to be strong pulling factors for the cartels.

Finally, Australia commands some of the highest prices (wholesale and retail) for illicit drugs in the world. While there are greater transportation costs and other miscellaneous expenses associated with distribution to Asia Pacific markets, the revenue gained from accessing these markets far outweighs the initial outlays and costs on the part of the cartels.

For example, the wholesale price per kilo of cocaine salts in the United States is approximately US\$54,000 and in the UK the average price is US\$87,000. However, in Australia the price ranges between US\$228,000 to US\$259,000.<sup>3</sup> Furthermore, in 2015, UNODC reported that the amount of Australians using cocaine had increased, although the frequency of usage had slightly decreased. In this context it is clear to see that in comparison to other major markets, the increased demand, coupled with the extremely high prices that can be obtained in Australia for wholesale products will continue to be a strong 'pulling' factor for cartels and other organised crime groups.

Mexican cartels generally deal in the wholesale distribution of illegal narcotics, especially in foreign markets. Their preference for primarily engaging in wholesale rather than retail aspects of the illicit drug trade places these groups in a semi-dependent position when breaking into new markets. While cartels have been able to easily takeover established smuggling routes into the Pacific (previously set-up by Colombian cartels several decades earlier), there is a great need on the part of the cartels to create and foster strong linkages with local criminal groups who resell the product through their own networks.

Cartels prefer to adopt this type of business practice because they produce and traffic such vast quantities of marijuana, heroin, cocaine and methamphetamines that there is enough profit to be made from distributing wholesale without needing to branch into local distribution — which is riskier and prone to violent friction with competing criminal groups. It is difficult to determine the total amount of illicit narcotics produced and trafficked by Mexican cartels each year. However, reports suggest that alliances between members of the Sinaloa cartel and groups such as Oficina de Evigado (criminal organisation in Medellin, Colombia) and FARC (Revolutionary Armed Forces of Colombia) are key to the Mexican cartels accessing up to 450 tons of cocaine from Colombia alone per year.<sup>4</sup>

## Australia commands some of the highest prices for illicit drugs in the world.



## There is potential for escalation of violence between local criminal groups vying for control of domestic distribution networks.

The reliance on local linkages poses a number of threats to Australia's national security. Firstly, in order for the cartels to ensure the continued receipt of wholesale shipments by local criminal groups, they often add incentives to each business transaction. For example, reports suggest Mexican cartels provide local criminal groups with illegal handguns and other arms in order to 'sweeten' their business dealings.<sup>5</sup> In 2015, the Mexican government estimated that everyday over 2,000 firearms enter Mexico illegally from the US and that up to 85% of the 15 million firearms in circulation were obtained illegally, demonstrating the ease to which the cartels can acquire substantial arsenals.

Secondly, these incentives create further domestic security problems for Australian law enforcement as local criminal groups are increasingly able to access new sources for the supply of illegal firearms. Thirdly, further complicating this issue is the fact that cartels such as the Sinaloa group do not favour a particular local criminal network in Australia. Instead, they appear to deal with any local criminal organisation

that is in the position to regularly receive their large consignments. These include but are not limited to 'Lebanese, Chinese and Albanian diaspora groups, and Australian biker gangs.'<sup>6</sup> This is of particular concern because of the potential escalation of violence between local criminal groups vying for control of domestic distribution networks, made all the more lethal due to the diffusion of illegal firearms from the cartels.

Currently, it is difficult to say with certainty whether the Mexican cartels have established permanent franchises in Australia, or whether Mexican nationals that have been arrested by the AFP are merely peripheral links removed from the nucleus of the dark network's organisational framework. Further intelligence gathering on the nature of the cartel presence in Australia is required.



## Mexican cartels and dark networks in Australia

For policy-makers and members of Australia's law enforcement agencies, attempting to stem what seems to be a never-ending tide of illicit drugs into Australia, can at times, appear to be an exercise in futility. However, there are a number of things that can be done to better address this emerging threat to Australia's national security.

First, it needs to be recognised that it is not one particular group or foreign organisation such as the Sinaloa cartel that poses a threat to Australia's national security in this space. Rather it is an overarching 'dark-network' that spans the Pacific and includes both foreign and domestic actors.

Dark networks operate as 'structures of interdependence involving multiple organisations... where one unit is not merely the formal subordinate in some larger hierarchical arrangement.'<sup>7</sup> They may use violence or the threat of it as an organisational resource to pursue their strategic aims and targets. In comparison to traditional criminal organisations such as the Italian mafia that have utilised business models and organisational frameworks similar to legal entities, dark-networks present a greater problem for law enforcement agencies because they generally lack the patterns of formal hierarchical relations that characterise legal organisations in government, business and civil society.

Dark-networks can operate through a structure that supports multiple centres or a structure that supports a single core, but is organised in such a way that the amount of nodes or links in the network are so far removed from the epicentre that any penetration does not threaten the operating capabilities of the network as a whole. It is for these reasons that dark-networks are far more difficult to detect and eliminate, and also why terrorist and transnational crime groups have often employed such structures.

In examining dark-networks, it is important to identify key nodes and critical junctures across the overarching network that could provide Australian law enforcement with opportunities to focus limited resources more effectively. For example, Australia is considered to be a mixed market whereby illicit drugs such as cocaine flow into Australia from Western and Central Europe, Canada, Colombia, Peru, Chile, Argentina and Brazil. However, the majority of cocaine entering Australia has transited through the Pacific, passing through hubs such as New Caledonia, Vanuatu and Fiji. This is demonstrated by several large seizures in recent years, including a seizure in 2013 that netted 750kg of cocaine bound for the Australian market.<sup>8</sup> Over the past decade, maritime trafficking of cocaine has increased and is now the key method of transportation for large consignments. In this context, it is crucial that Australian policy-makers focus on strategies that concentrate on maritime interdiction.

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While road and rail tend to be the most common form of seizures, according to the UNODC's 2015 *World Drug Report*, maritime seizures account for the largest quantities, averaging 365kg per seizure between 2009 and 2014. In 2013, parcel post was the most commonly detected method of drug importation in Australia. However, in the same year just three maritime seizure cases accounted for 74% of the total weight of heroin intercepted by Australian law enforcement agencies.<sup>9</sup> UNODC has argued that maritime interdiction has potentially the greatest impact on total quantities of drugs smuggled, trafficking flows and availability of illicit drugs on a global level.<sup>10</sup>

## Many of Australia's neighbours also face a threat from Mexican cartels.

neighbours also face a threat from Mexican cartels. For example, in 2012, Philippine law enforcement reported dismantling a sophisticated meth lab operated by a Chinese drug trafficking group which was found to have clear connections to Mexican criminal networks.<sup>12</sup> In 2013, Korean officials seized 15kgs of crystalline methamphetamine and identified Mexico as the most likely point of origin of the drugs. In the same year, Japanese officers uncovered the trafficking of crystalline methamphetamine from Mexico directly into Japan.<sup>13</sup> Finally, in 2015 the Australian Crime Commission concluded that Mexican cartels are involved in methamphetamine in Australia and have been actively seeking out partnerships with local criminal networks in the region.<sup>14</sup>

In addition to cocaine and heroin, the synthetic drugs market is becoming more complex and interconnected with other regions. The 2015 UNODC report, *The Challenge of Synthetic Drugs in East and South-East Asia and Oceania*, identified that the synthetic drugs market in East, Southeast Asia and Oceania 'is not a separate and self-contained entity, but part of a larger complex global network with interconnected channels for supply and demand.'<sup>11</sup> The growing demand from China for crystalline methamphetamine and tablets is shown by the fact that China accounts for 50% of annual seizures in the region.

The growing appetite for synthetic drugs has further encouraged Mexican cartels to increase their production and distribution across the Asia Pacific. Many of Australia's



## Deterring the cartels

Australian law enforcement agencies have been largely successful at intercepting large shipments of narcotics bound for Australia, exemplified by the 'super' seizure of liquid methamphetamine with a street value in excess of AU\$1 billion that resulted from an operation between December 2015 and February 2016. These types of seizures further confirm that Australia continues to be a prime market to traffic vast quantities of illicit drugs.

Current evidence suggests that Mexican cartels will continue to pose a direct threat to Australia's national interests due to their increasing focus on Australian markets and their general expansion into the Asia Pacific region. Therefore, Australian policy-makers need to adopt a pragmatic and efficient approach that combats this threat and maximises the use of Australia's limited resources.

Currently, there is a lack of detailed intelligence that can inform policy-makers about the Mexican cartels and their role in the overarching dark-network that spans the Pacific. Government resources need to be invested in further intelligence gathering activities in order to begin to map out the specific organisational structure of this dark network. This needs to include the identification of key nodes and critical junctures across the network. The recent series of large drug seizures in Pacific nations such as Fiji, Vanuatu and New Caledonia suggests that these areas are key nodes or critical junctures in the dark network that Mexican cartels use to penetrate the Australian market.

Australia needs a policy that increasingly focuses on intelligence gathering, maritime interdiction and capacity building in transit hubs in the South Pacific. This would provide authorities with the greatest chance of significantly reducing the amount of illicit drugs arriving on Australian shores, as well as a the strongest possibility of disrupting crucial links in the chain of this dark-network posing a direct threat to Australia's national interests.

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## Policy Recommendation

- ✦ A focus on intelligence gathering, maritime interdiction and capacity building in transit hubs in the South Pacific would provide Australia with the greatest chance of significantly reducing the amount of illicit drugs arriving on Australian shores, as well as the strongest possibility of disrupting crucial links in the chain of this dark-network that poses a direct threat to Australia's national interests.

## Endnotes

- 1 UNDOC 'World Drug Report' 2015.
- 2 UNDOC 'The Challenge of Synthetic Drugs in East and South-East Asia and Oceania' May 2015. P.2
- 3 UNDOC 'Statistics – Prices of Illicit Drugs'
- 4 El Universal 'Interview with Ex-President Pastrana of Colombia.' December 2015.
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- 9 UNODC 'World Drug Report' 2015, pp. 39-40.
- 10 UNODC 'World Drug Report' 2015, p. 39.
- 11 UNODC 'The Challenge of Synthetic Drugs in East and South-East Asia and Oceania', May 2015, p.4.
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- 14 Australia Crime Commission 'The Australian Methamphetamine Market: A National Picture' 2015.



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