

“Narco Business” and Violence en México

December 12 2011

¿Why DTOs will engage in wars?

1. For the right to buy (e.g. when production is limited)

E: There is no evidence of severe problems of supply of drugs from Colombia or Peru. Production of marihuana and heroin have been growing in Mexico but demand has not.

¿Why DTOs will engage in wars?

2. For the right to transship and smuggle (the control of limited “safe” routes)

E: There is no compelling evidence that routes for transporting drugs have been seriously compromised. The border between US and Mexico is very long, which allows many DTOs with enough room to operate.

¿Why DTOs will engage in wars?

3. For the right to sale international (fighting for buyers: wholesalers and distributors)

E: Wholesalers and Distributors in the US and Europe will buy from any organization that can provide drugs at a good price and deliver it to their own distribution centers. DTOs might fight for the right to sale their product to US distributors within Mexico because the “cost” is much less expensive (not enough evidence but certainly a possibility)

¿Why DTOs will engage in wars?

4. For the right to profit from domestic markets

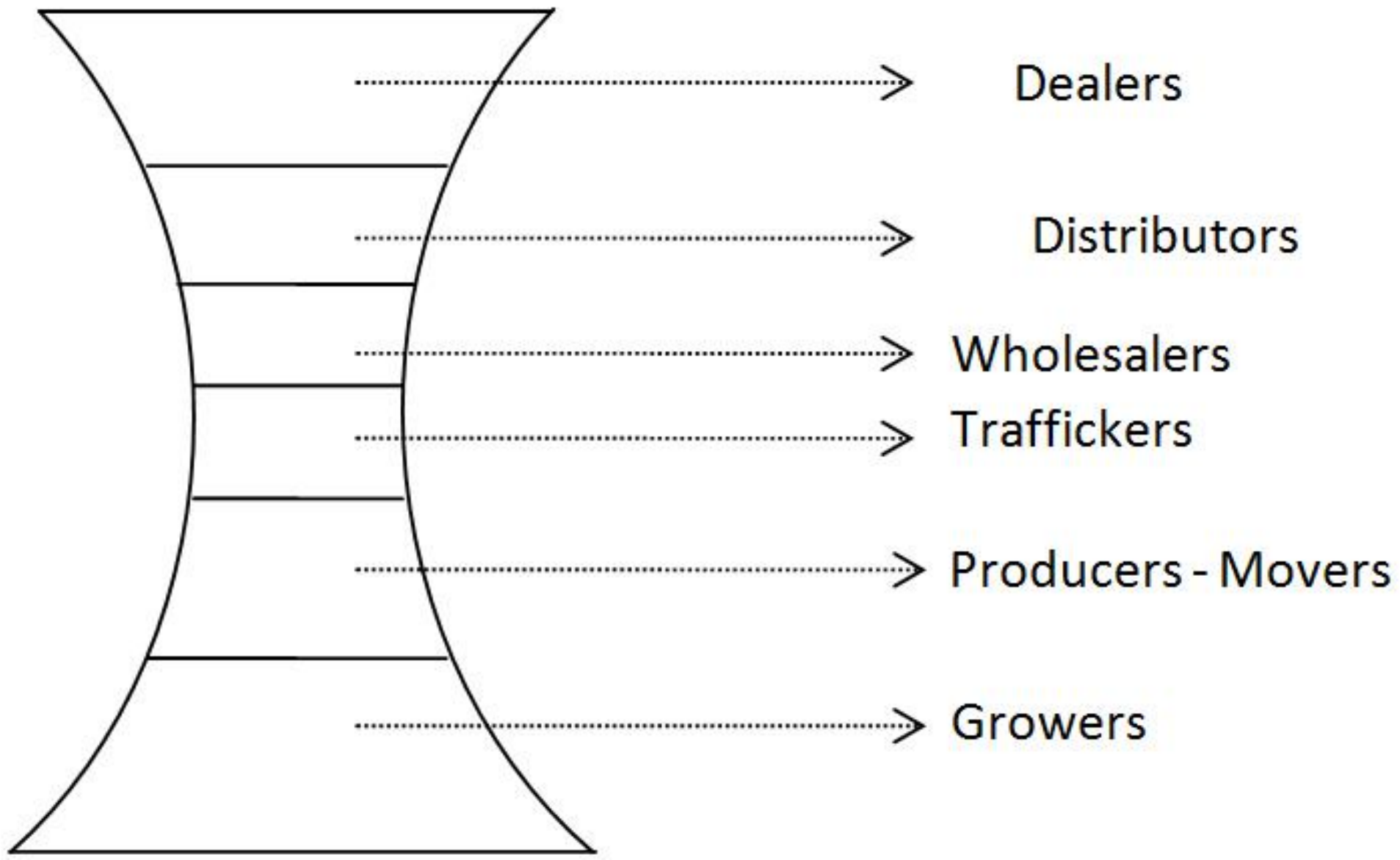
E: Domestic markets of cocaine and synthetic drugs have grown considerably over the last decade.

Rent Structure

Fase	Price for Kg of cocaine(in U\$ dollars)
Base Production	800 (pasta-base of cocaine in Colombia)
Final product in country of origin	1,300 (Pure Cocaine in Colombia)
Wholesale Price in Miami o Dallas	21,000 (85%-90% purity average)
Intermediate (distributor) price in Philadelphia or Chicago(sales of 1-3 ounces)	31,500 (75% purity average)
Retail Sale Price in Chicago or Philadelphia (per gram)	105,000 (65% purity average)

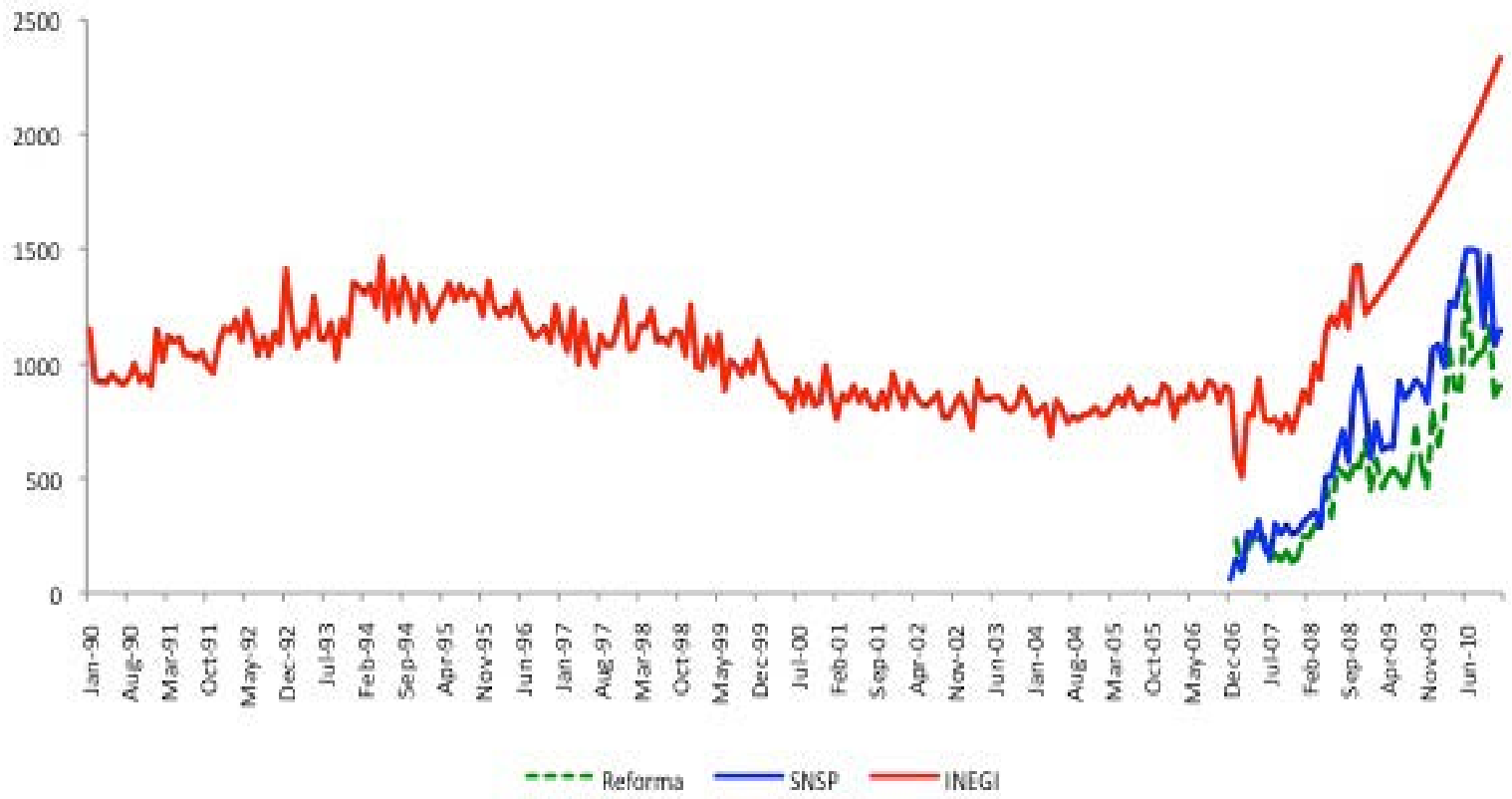
Source: Own elaboration base on Reuter 2008 and Narcotics News
(http://www.narcoticnews.com/Cocaine/Prices/USA/Cocaine_Prices_USA.htm)

Drug Production, Trafficking and Commercialization Structure



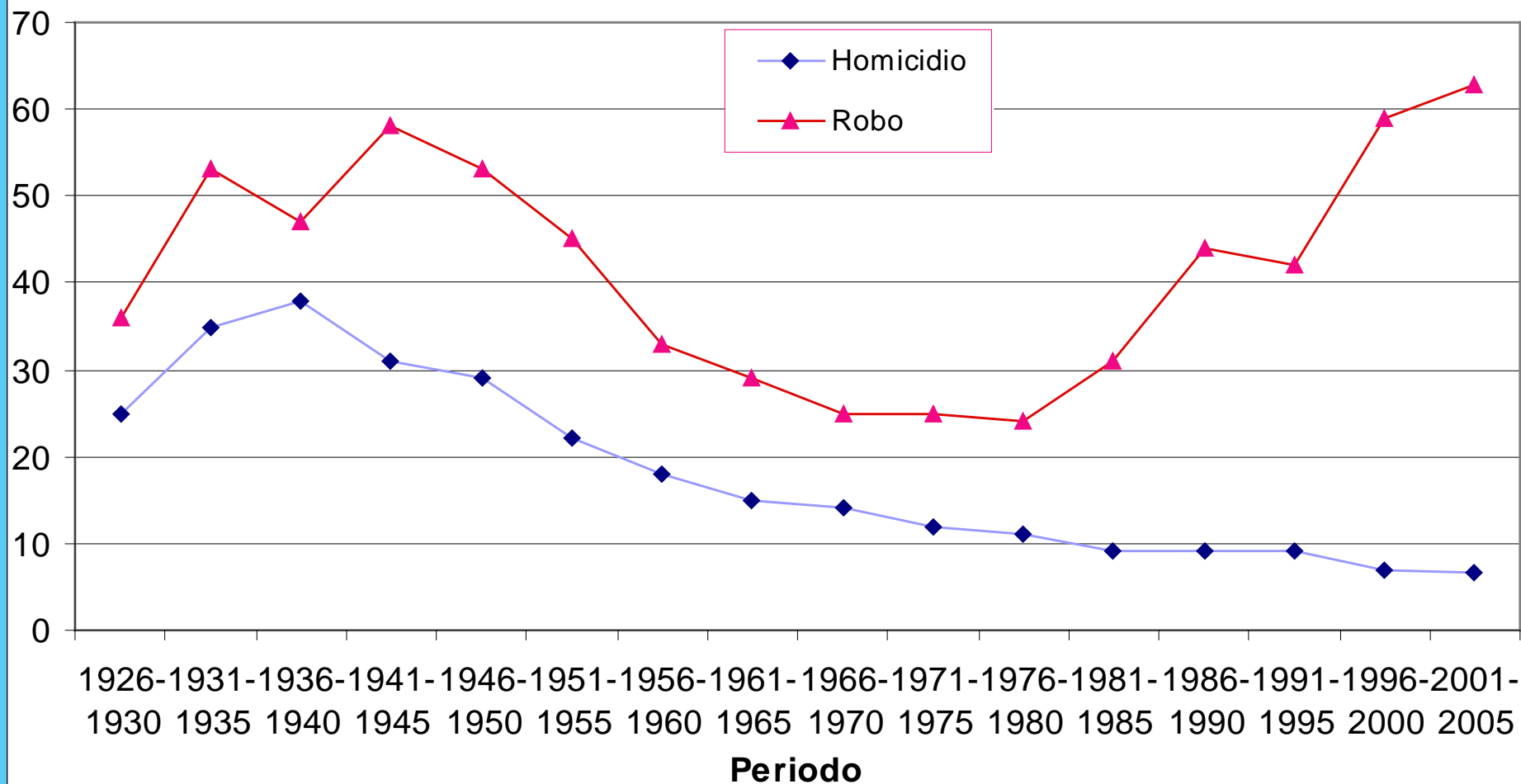
Drugs and Violence in Mexico

- In addition to homicides there is a large increase of other crimes
- Are homicides, extortion, kidnapping etc orchestrated and executed by large DTOs?

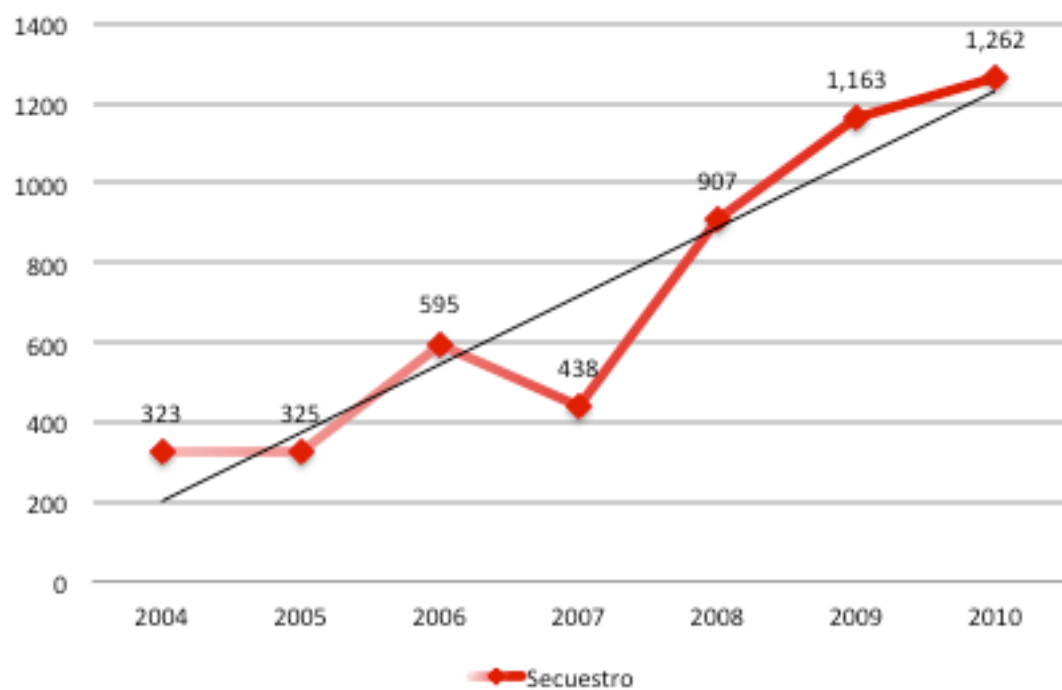


(cont.) Crime Rates in Mexico

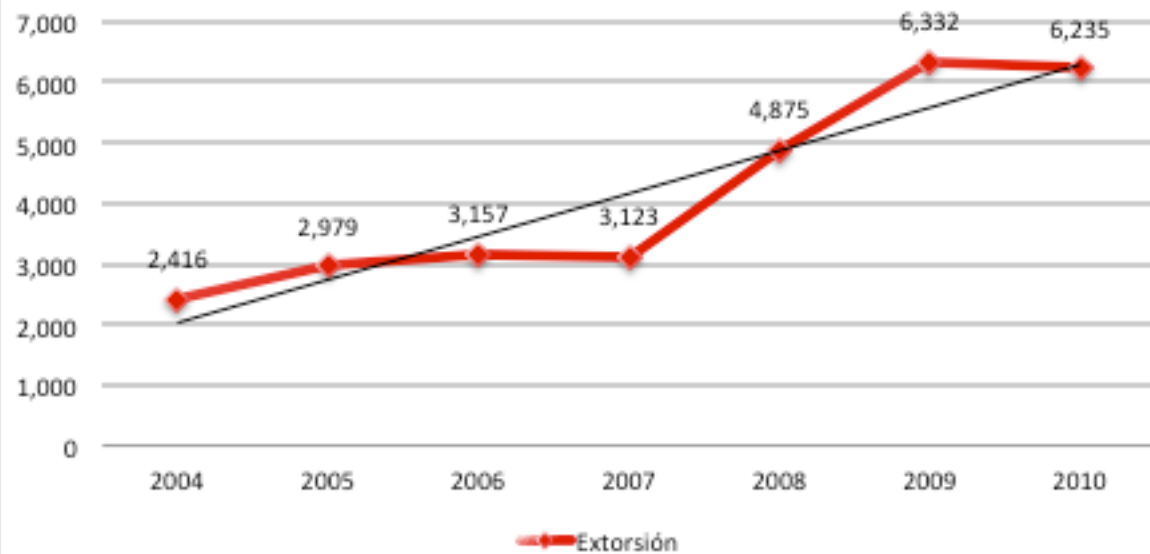
**Presuntos Delincuentes por 100,000 (Accused Criminals Per 100,000),
Fuero Común y Federal**



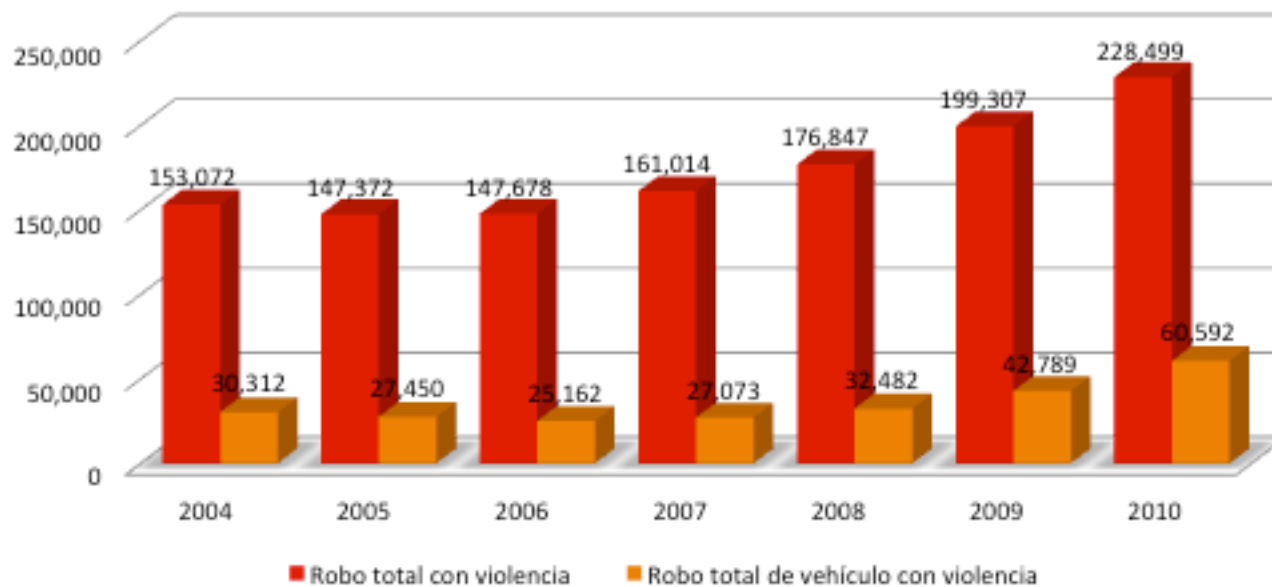
Secuestro



Extorsión



Robo total con violencia

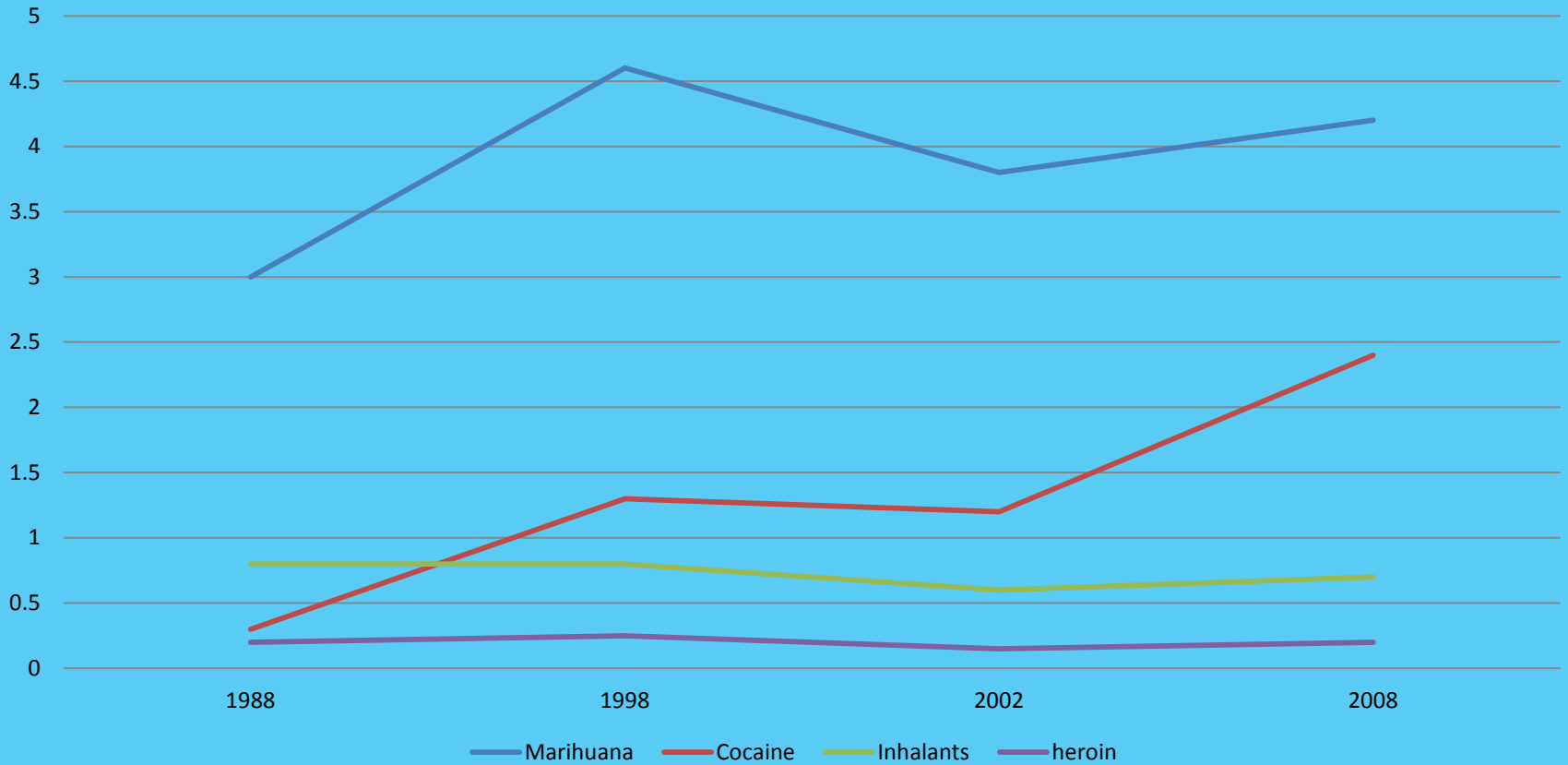


Extortion and Kidnapping

- The Market for extortion and kidnapping is relatively small for large DTOs
- Running numbers: It will take to kidnap or extort 50,000 families each year at an average 10,000U\$ to equal the proceeds from 10% of the cocaine trade into the USA.
- Two possible hypotheses: a) low level gangs (loosely linked but independent from DTO) are responsible , b) it is the starting financing mechanisms for emerging DTOs

Domestic Market

Accumulated Incidence of Drug Use in Urban Mexico



Domestic Market

- In 2008 1.5 million mexican reported ever used cocaine or crack.
- From 2002 to 2008 the number of cocaine or crack users increased by at least 700,000.
- Inmate surveys registered a 40% increase in use from 2002 to 2009.
- Initial estimation yields a per year cocaine market of about 20-25 metric ton in 2008-9. Estimations for 2002 approximate 11-13 metric ton.
- Synthetic drugs have also significant increases

Other “Business” Opportunities

- According to a Pemex report for 2010, 6 billion dollars were “lost” in refined gasoline due to stealing.
- In 2007, Pemex reported losses from stolen gasoline for close to 1 billion dollars.
- This appears to be a clear area where large DTOs are operating.

Propositions

1. Large DTOs are not directly involved in all or most of the violence and criminality in Mexico
2. Smaller organizations and gangs that are “linked” to “alpha” or major organizations but who operate at times independently have produced a large number of casualties, kidnapping, and crimes

Propositions

3. Smaller “beta and gama organizations” exploited a rising domestic market and diversified into other criminal activities. Their firepower rose due to a significant smuggling of high caliber guns.
4. The already weak CJS in Mexico has collapsed against the irruption of new cells and gangs. In short, deterrence diluted due to problems of scale and critical mass. (22 sentences out of 35,000 homicides)

Propositions

5. The infight between major DTOs might be for market share, both international and domestic.
6. Large DTOs will fight emerging DTOs to the extent smaller groups might take a share of their markets (Beltrán Leyva, Zeta)
7. Emerging DTOs will engage in other criminal activities to finance major operations
8. The war between DTOs and the expanding rents of illegal activities have created numerous cells and small organizations that have produced a large increase in criminality