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TECHNICAL REPORT

Assessing the Operation of the Global Drug Market

Report 1

Peter H. Reuter

Prepared for the European Commission

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Summary

Illicit drugs, predominantly cocaine and heroin, now generate a substantial international and domestic trade. For these two drugs, production is concentrated in poor nations and the bulk of revenues, though not of consumption, is generated by users in wealthy countries. Earnings have an odd shape; most of the money goes to a very large number of low level retailers in wealthy countries while the fortunes are made by a small number of entrepreneurs, many of whom come from the producing countries. Actual producers and refiners receive one or two percent of the total; almost all the rest is payment for distribution labour. The industry is in general competitive, though some sectors in some countries have small numbers of competing organisations.

It is not difficult to explain why cocaine heroin production occurs primarily in poor countries and only a little harder to understand why the accounting profits are downstream. Almost everything else about the trade presents a challenge, both descriptively and analytically. Why is the production of cocaine and heroin concentrated in such a small number of poor countries? How are the different sectors organized, in terms of enterprise size and internal structure? What is the relationship of drug trafficking and distribution to other transnational and organized criminal activities?

Cannabis and ATS provide a contrast in several dimensions. For cannabis a high percentage is produced in rich consuming countries and a larger share goes to the growers. ATS is produced in both rich and poor countries and traded in both directions.

These questions serve to organize the paper, which reviews what is known about the operation of these various markets. It offers a theoretical account for a number of the features.