



Home Office

The illicit drug trade in the United Kingdom

Matrix Knowledge Group

Home Office Online Report 20/07

The views expressed in this report are those of the authors, not necessarily those of the Home Office (nor do they reflect Government policy).

The illicit drug trade in the United Kingdom

Matrix Knowledge Group

Online Report 20/07

Acknowledgements

All large-scale research projects, by their very nature, require the involvement of multiple individuals and organisations. In this respect, this project is no different to many others. Where this project differs from others is the huge amount of good will, enthusiasm and sheer commitment on the part of those outside of the research team who came into contact with the project. From the very moment we decided to submit a proposal to undertake this research, the research team has been surrounded by people willing to offer time, insight and information on how to best undertake a study of this type. Business school professors, a director of a multinational commodity company, criminal defence lawyers, traders in capital markets as well as law enforcement officers, prison officers, academics from across the social sciences (and indeed natural sciences as well), have all been inspired at the prospect of developing genuine insight into the workings of an industry that is at the same time dangerous, glamorous and yet so harmful to society. Contributions and support were received from researchers in Holland, Bulgaria, Sweden, Australia, Turkey, Ireland, the US and beyond.

In addition to a general thanks, there are some specific thanks to be made. These include the Matrix field research team who undertook 222 interviews with some of the most prolific drug dealers and traffickers in UK prisons. These interviews were often undertaken in difficult circumstances with sometimes challenging individuals. We would like to especially thank the prison governors and prison officers who made such an ambitious interview programme run smoothly and safely and ensured the field research team were welcomed. Support from law enforcement, in particular the support of staff from across SOCA was vital to the project. This allowed us to test both our own ideas and what we were hearing from the interviewees. Home Office research managers supported our efforts throughout and provided valuable ongoing assistance of both a logistical and intellectual kind. Finally, we would like to thank the 222 convicted dealers, who against the wisdom of many who said they would not talk, voluntarily came to speak to our field researchers about their lives and business enterprises.

Andrew Richman
Project Director
June 2007

Contents

	Page
Acknowledgements	i
Executive summary	iv
1. Introduction	1
2. Context	2
The UK situation	2
Previous research undertaken with high-level drug dealers	3
3. Methodology	4
Data collection	4
Analysis	7
4. Structure of the findings	13
The structure	13
Terminology	13
Relating the findings to the Home Office research questions	13
5. Market dynamics	15
Market size	15
Drug dealt	15
Market level	16
Price	17
Summary	23
6. Enterprise structures	24
Market entry	24
Nature of relationships	25
Roles	26
Business structures	32
Business operations	32
Drivers of profitability	35
Links with legitimate business	38
Summary	39
7. Strategic responses of dealers	41
Growing a drug dealing enterprise	41
Competition, collusion and collaboration	43
Risk management	45
Law enforcement	48
Summary	49
8. Implications	51
Entry to the market	51
Growing a drug dealing enterprise	51
Salaried workers and professional services	52
The role of law enforcement	52
The roles of prison and asset recovery	53
Concluding remarks	53

Appendices

1. Bibliography	54
2. Profile of offenders interviewed	56
3. Lessons learned when completing interviews in prison settings	62
4. Interview schedule	64

Tables

4.1	Mapping of Home Office research questions to report structure	14
5.1	Share of expenditure in the illegal drug market in the UK 2003/04	15
5.2	Drugs dealt by interviewees	16
5.3	Variation for cocaine and heroin prices in the UK	20
5.4	Variation in individual dealers' prices in the UK	21
6.1	Market entry of the interviewees	24
6.2	Key to abbreviations	29
6.3	Dealer knowledge of profit margins	35
6.4	Dealer knowledge of operational costs	36
6.5	Criminal career of interviewees by market level	38
6.6	Profit expenditure patterns	39
7.1	Dealers reporting different types of information sharing	44
7.2	Interviewee reports of violence with competitors, by drug type	44
7.3	Interviewee reports of violence with competitors, by market level	45
7.4	Example risk management strategies used by dealers	47

Figures

3.1	Interview programme methodology	6
3.2	Validation methodology	7
3.3	Business analysis approach	9
3.4	Market levels defined and used in the economics analysis	10
3.5	Social networks analysis approach	12
5.1	Market levels defined by the research team	17
5.2	Prices and mark-ups associated with cocaine and heroin importation and kilogram to street transactions	18
5.3	Example supply chain of heroin from Turkey to the UK with example financial costs	19
5.4	Variation in drug prices with time (£/kg, 2006 prices)	22
6.1	Definition of roles and number of interviewees performing role	27
6.2	Network of bosses	30
6.3	Network of managers	31
6.4	Business structures defined by the research team	32
6.5	Example of a collaborative cocaine importation operation running over five years	33
6.6	Operations and pay structure of a cocaine importing enterprise	34

Executive summary

In late 2005, the UK Home Office commissioned Matrix Research and Consultancy (now Matrix Knowledge Group) and the London School of Economics to undertake a drug trafficker and dealer study. The aim of the research was to understand how high level drug dealers operate and how markets for illicit drugs work.

Methodology

At the core of this research study is a large-scale, face-to-face, interview programme with 222 individuals in prison convicted of serious drug-related offences. Information collected during these interviews was analysed using a number of tools drawn from the disciplines of business analysis, economics and social network analysis. To ensure the integrity of the findings a thorough process of validation with a wide range of knowledge holders was undertaken.

Interviews with offenders

The research team used a purposive sampling methodology designed to identify high-level drug dealers who were most likely to have detailed knowledge and to target individuals belonging to particular groups considered to be important (for example offenders from particular ethnic groups).

In developing the interview materials, each research discipline developed a series of questions to be answered during each interview. These questions were incorporated into a draft interview schedule that mapped to the Home Office's research questions. The interview schedule was revised after the pilot phase.

Validation of interviews

To validate the results of the interviews, a lengthy programme of stakeholder/knowledge holder interviews and a review of case materials was undertaken. This included discussions with law enforcement, customs, asset recovery staff and expert academics. Unfortunately, the research team was not able to access law enforcement debriefs or Crown Prosecution Service summary case files. This limited the team's ability to validate interviewees' accounts. However, where possible, the team used discussions with prison staff and internet searches as an alternative means of validation.

Analysis

The 222 interviews were analysed using business, economic and social networks analysis frameworks.

Key findings

The findings are discussed under the following headings.

- *Market dynamics.* This provides an overview of the market conditions within which the different enterprises have to operate.
- *Enterprise structures.* This explores how and why individuals enter the market, how enterprises are structured, individuals' roles, key business processes, and examines links with legitimate businesses.
- *Strategic responses by dealers.* This explores the adaptations and strategies that individuals involved in the market undertake. It examines: how enterprises grow; the extent of competition, collusion and collaboration; risk management responses; and the impact of law enforcement.

Market dynamics

Four key market levels within the supply chain were defined in completing the analysis: international, national, local and retail.

Across these different market levels it was identified that:

- there was high and stable demand for illegal drugs;
- there was a tendency for dealers of heroin and cocaine to specialise;
- there were very large mark-ups along the supply chain, from production to street level for cocaine (circa 15,800 per cent) and heroin (circa 16,800 per cent);
- there were higher mark-ups for heroin than cocaine at all stages of the supply chain, with the possible exception of importation into the UK;
- there was a decline in prices over time;
- there was a perception among dealers that law enforcement activity impacts on price; and
- there was price variation among different geographical areas in the UK.

The market can be characterised as fragmented, where those involved, even at high levels, have only a 'partial sight' of the overall market. In the main they were only knowledgeable about their own operations and had limited knowledge about the activities of others. Where some dealers had obtained a clearer picture of the market, this was established through making the most of networking opportunities and observing visible street level dealing in different towns.

Enterprise structures

Key findings on the way in which dealers chose to develop and grow their enterprises were as follows.

- Over three-quarters of dealers began dealing through contacts with friends and family.
- The level of market entry (e.g. retail or wholesale level) was largely determined by the level of the personal contact they entered through.
- Barriers to entry for people with contacts operating in the market were small. No special skills were required other than a willingness to break the law.
- Trust was of critical importance in dealers deciding who to work with. Often this meant dealers worked with close friends, family or people they had grown up with. Having served time in prison was an important means of demonstrating trustworthiness.
- Drug dealing enterprises exhibited huge diversity in their structures and operations.
- One fifth of dealers interviewed could be described as sole traders, while the remaining four-fifths of the enterprises could be described as small or medium sized.
- Some enterprises made use of salaried staff; others had more co-operative and collaborative approaches.
- Dealers' profits primarily came through revenue generation (sales) rather than cost control.
- It appeared that dealers of heroin and cocaine generally did not require detailed knowledge of profit margins and costs as the revenues were so large and the operational costs and unskilled staff wages were small.
- Where market fluctuations did lead to increased purchase prices, dealers maintained margins by passing these increases on to customers.
- Although very profitable on paper, cash flow was identified as a challenge for drug dealing enterprises.
- Limited information was gathered on what dealers spent their profits on. However, large proportions of income appeared to enter the legitimate economy, both in this country and abroad.

- Where money laundering was discussed it was generally not sophisticated.
- Transport was identified as a critical link in drug dealing enterprises.
- Substantial minorities of dealers described mainly legitimate careers prior to entering drug dealing.

Strategic responses of dealers

Growing a successful drug dealing enterprise presents a related but different set of challenges to growing a legitimate business. In particular the research identified the following:

- Approximately three-quarters of dealers attempted to grow their operations;
- Growth was dependent on finding alternative sources of supply. eighteen dealers reported having multiple suppliers compared with 31 who reported reliance on one supplier.
- The most successful dealers were able to adapt to new circumstances and exploit new opportunities. These opportunities often came about through chance meetings, although ethnic ties, selling to friends who were users, having contacts within legitimate businesses that could facilitate dealing operations, and meeting contacts in prison were also factors that enabled growth.
- There was some evidence of competition leading to reduced prices at all the defined market levels.
- Price fixing, indicative of restricted competition, was rarely reported. Collusion, in relation to dividing up geographical areas or customers was more common.
- Substantial proportions of dealers at all levels and for all drugs suggested they used actual or threats of violence to protect their customer base.
- The majority of dealers considered themselves “unlucky” to have been caught, however, it was also clear that dealers often went to considerable lengths to minimise their risk of arrest.
- Dealers took the risk of informants very seriously and mitigated this risk by working only with known contacts.
- There was evidence of poor risk trade-off and decision making, when dealers had been operating for some time, and considered themselves “untouchable”.
- There were risks associated with working with other criminals. Dealers mitigated the reputational risks of not enforcing business contracts through threats of or actual violence to customers or suppliers.
- Dealers viewed prison either as an occupational hazard or an unlikely risk. There were some instances of established enterprises being handed to employees or colleagues when the interviewees were caught.
- Asset recovery appeared more troubling for dealers. Dealers who were subject to confiscation orders described potentially losing significant sums of money that they had assumed would not be taken from them.

Implications

Market entry

Most individuals enter drug dealing through their family and/or friendship groups. This implies that drug dealing spreads contagiously from dealer to new dealer. This, combined with the barriers to entry being minimal for individuals who know someone in the trade, has disappointing implications for policy and law enforcement. It implies that, although law enforcement activity does impose limits to dealers operations, dealing networks have the potential to grow exponentially. Although not proven, this additional competition may help to explain why prices for illegal drugs have declined over time despite increased law enforcement activity.

Growing a drug dealing enterprise

The finding that dealers often expand their enterprises through chance encounters and haphazard contacts implies there is potential for a greater use of informants. This may make dealers think more carefully about responding to chance encounters. However, informants would need to be able to establish their trustworthiness. Despite this research shedding some further light on how dealers grow their enterprises, relatively little is still known about the ways in which some dealers are able to expand. This will be an important area for further research.

Salaried workers and professional services

The finding that runners and storers (individuals who transported or stored drugs on behalf of others) exposed themselves to a significant risk of arrest and lengthy prison sentences whilst receiving small proportions of the profits may indicate there is a case for communicating the sentence lengths they are risking more widely to this group.

The finding that transport was singled out as 'key' to the business implies that disrupting drug dealing networks is not solely an exercise in targeting criminal enterprises. For example, law enforcement could, if not already underway, consider gathering information on and speaking to haulage companies on a regular basis, and have a mechanism to identify those in financial difficulties who may be vulnerable to approaches by dealers.

The role of law enforcement

The implication from the evidence presented is that law enforcement can impact on local markets. However, some dealers appeared to be particularly adept at responding to rapidly changing market conditions by accessing new contacts and observation of the market conditions. As a result the impact of enforcement on local areas may be short lived and need to change and adapt.

The role of prison and asset recovery

For significant numbers of dealers the risk of prison was not considered a serious deterrent to their involvement in the illegal drugs trade. In contrast, asset recovery measures caused difficulties to all dealers discussing the issue. Conversations with financial investigators indicated that 'following the money' is viewed as an important strategy. Existing efforts have sought to establish whether asset recovery can break even (i.e. recover more money than it costs to run) in order to demonstrate the feasibility of scaling up efforts. This research demonstrated that there are also indirect impacts of asset recovery on the behaviour of dealers that are important to consider when developing policy in this area.

Concluding remarks

The research demonstrated that it is feasible to gather new and insightful information about the conditions of the illegal drugs market by interviewing convicted high-level dealers. In completing future research it will be important to develop improved methods of targeting the individuals performing key roles, who can best provide this information. Accessing more robust sources of information for validating the results of the interviews is also important.

1. Introduction

The Home Office commissioned Matrix Research and Consultancy (now Matrix Knowledge Group) and the London School of Economics to undertake a drug trafficker and dealer study.

The aim of the research was to understand how high-level dealers operate and how markets for illicit drugs work. The research team addressed these questions using three distinct but interrelated disciplines: business, economics and social networks.

While there have been previous studies of those involved in drug supply, this research is:

- the largest qualitative study with high-level drug dealers undertaken anywhere in the world. This involved 222 face-to-face interviews being completed in 22 prisons across England. Prior analysis of high-level drug trafficking has primarily been based on the insights of enforcement officials, enforcement evidence used in criminal convictions, and secondary datasets on price rather than extensive primary data collection from the traffickers themselves.
- contributes to filling a number of key gaps in existing knowledge, particularly in the UK context, for example how and why individuals enter the market.
- is primarily practitioner focused with a strong emphasis on establishing findings and implications of importance for policy makers and law enforcement officials.

The report is divided into three sections.

- *Context and methodology.* Chapter 2 describes the current approach to disrupting the illicit drugs trade in the UK and describes previous research undertaken with high-level drug dealers. Chapter 3 describes the methodology used.
- *Findings.* Chapter 4 presents the structure of the findings and how it relates to the Home Office's original research questions. Chapters 5, 6 and 7 present the key findings.
- *Implications.* Chapter 8 outlines the implications stemming from the research for policy makers and law enforcement practitioners.

The report is supported by a series of appendices.

2. Context

This section outlines the current UK approach to tackling the illicit drugs trade and describes previous research undertaken with high-level drug dealers.

The UK situation

The scale of the illicit drugs trade in the UK is large. It was recently suggested there were 300 major importers into the UK, 3,000 wholesalers, and 70,000 street dealers, producing a turnover of £7-8 billion a year.¹ The UK Drug Strategy is wide ranging in its response to this challenge. It seeks to reduce the harm that drugs cause to society, to communities, individuals and their families,² though it concentrates on the most dangerous drugs, the most damaged communities and problematic drug users.

Four pillars of work are identified.

- Preventing young people from becoming drug misusers.
- Increasing the number of individuals accessing effective drug treatment.
- Reducing drug-related crime.
- Reducing the supply of illegal drugs.

The policing of organised crime in the UK has altered significantly in recent years. The Serious and Organised Crime Agency (SOCA) was a consequence of the White Paper, *One Step Ahead*³ and the Serious Organised Crime and Police Act (2005). It amalgamated the National Crime Squad (NCS), the National Criminal Intelligence Service (NCIS), the section of HM Revenue and Customs (HMRC) dealing with drug trafficking and associated criminal finance, and the part of UK Immigration dealing with organised immigration crime (UKIS). SOCA has been given somewhat of a free rein in addressing the illicit drugs trade. *One Step Ahead* established the clear expectation for SOCA to function as a harm reduction agency with law enforcement powers; defining harms only in terms of the damage caused to people and communities by serious organised crime. The lack of supply specific Public Service Agreement (PSA) targets gives SOCA the flexibility to set its own priorities, but the broad remit means the choices it must make in the deployment of its resources are not straightforward.

The courts have long had the power to order the seizure of assets belonging to convicted drug traffickers. However, the scope of asset recovery was extended by the Proceeds of Crime Act (2002) The act enabled the retrieval of criminals' financial gains through civil as well as criminal courts and created the Assets Recovery Agency (ARA). The expectation was that the agency should raise sufficient cash to cover its budget. So far, delays in court proceedings have limited the amount of finances seized, though criminal assets to the value of £68 million have been frozen.⁴ The Serious Crime Bill of 2007 will lead to the merger of the operational elements of ARA with SOCA in the coming months.

In deciding how best to disrupt the illicit drugs trade, SOCA and other law enforcement bodies, require a sound understanding of how the market operates. This research builds on existing knowledge to provide further evidence for policy and law enforcement professionals on the nature of the UK illegal drug market, the structure of the enterprises generating profits, and the characteristics of the individuals involved. Current knowledge of the illegal drugs market is now considered.

¹ Unpublished internal Home Office calculations based on UK estimates of the size of the illegal drug market. These figures imply an annual turnover of approximately £100,000 per dealer.

² *Updated Drug Strategy (2002)* Home Office

³ *One Step Ahead A 21st Century Strategy to Defeat Organised Crime (2004)* The Home Office

⁴ Figures from the ARA Annual Report 2006

Previous research undertaken with high level drug dealers

A small number of previous research projects have attempted to interview convicted drug traffickers.

Within the UK, middle market drug distribution has been researched.⁵ The study of middle markets was the first effort to map out the middle levels of the UK's drug market. It was based upon interviews with convicted drug dealers and law enforcement representatives and attempted to describe how drugs are moved from importation to street level in the UK, by whom and for what profit.

A number of international studies have also been undertaken. Two studies of particular note are *Measuring the deterrent effect of enforcement operations on drug smuggling, 1991- 1999*⁶ and *The crime that pays: drug trafficking and organised crime in Canada*.⁷

The crime that pays was a study of higher-level drug dealing and organized criminals based on interviews with drug couriers, drug investigators, and 70 higher-level drug traffickers. The study is similar to this research in that it describes the characteristics of drug dealers, their operations and business mentalities. The significance of friendship, kinship, race, and ethnicity in the development of criminal networks was also considered.

In *Measuring the deterrent effect of enforcement operations* case files were reviewed to identify high-level drug traffickers in federal prisons. Individuals were then interviewed using a structured questionnaire. The study explored how traffickers assessed risk and how risk assessments varied by methods used and the role of the trafficker.

The following chapter outlines the methodology used in this research.

⁵ Pearson, G. and Hobbs, D. (2001) *Middle market drug distribution*. Home Office Research Study 227.

⁶ Abt Associates (2001) *Measuring the deterrent effects of enforcement operations on drug smuggling, 1991-1999*. Office of National Drug Control Policy US.

⁷ Desroches, F. (2005) *The crime that pays: drug trafficking and organised crime in Canada*. Canadian Scholars Press.

3. Methodology

As noted in the previous section, there have been very few attempts to conduct a large-scale interview programme with convicted high-level drug dealers. The research team successfully interviewed 222 offenders, the large majority of whom were serving sentences of seven years or more. It is important for future work in the field that the methods used to collect the data and lessons learned are thoroughly documented.

Equally, the analysis of 222 qualitative interviews (typically an hour and a half in length) from the perspectives of three different research disciplines presented methodological challenges.

This section gives a brief outline of the methodology considering:

- data collection;
- analysis; and
- limitations.

Data collection

The data collection comprised two elements:

- interviews with offenders; and
- validation of interviews.

Interviews with offenders

Following piloting, the research team adopted a purposive sampling methodology designed to identify high-level drug dealers who were prepared to discuss their enterprises with researchers and target individuals belonging to particular groups considered to be important (for example offenders from particular ethnic groups). This approach was chosen in order to gain the most insightful information from the sample.

A random sample of those sentenced to seven years or more for drug offences was considered. However, this was rejected due to the limitations of the sampling frame, which only provided information on sentence length and offence type. Developing the sampling frame was difficult for two reasons.

1. Large numbers of 'mules' (individuals paid to transport drugs across borders with limited knowledge of the market) were sentenced to over seven years (including one female identified as a 'mule' who was sentenced to 20 years).
2. Individuals with detailed knowledge were sentenced to less than seven years for lesser offences.

The research team attempted to combine data from the Home Office on the offenders currently in prison for drug-related offences, with information from the Police National Computer (PNC) to improve the sampling frame. The PNC provided more detail on the nature of individuals' current and past offences and whether they had pleaded guilty or innocent. However, it was not possible to match these data.

The purposive sampling approach means that it is not possible to infer beyond the sample to the wider population of drugs suppliers. However, even if a random sampling methodology were used it would not be possible to make statistical generalisations about active drug markets, as the population from which the sample was drawn only included dealers who had been caught. A comparison with the population of offenders sentenced to seven years or more for drug related offences is given in Appendix 2.

Figure 3.1 outlines the key stages undertaken in interviewing the offenders. These stages are explored below.

Engaging prisons

Engaging prisons was a crucial part of the research project. The Home Office ensured that the research acquired ethical approval prior to commencement of the contract. The research team then wrote to all prison service area managers informing them of the research and requesting their support. Following this, the prison governors of prisons holding the largest number of offenders serving long sentences for drug-related offences (this information was provided by the Home Office), or prisons holding high profile drug dealers were contacted to request permission to undertake the interviews. The interview process was explained to them and they were asked to nominate a link worker to support the research from inside the prison. Every effort was made to minimise the disruption to the prison regime.

Engaging offenders

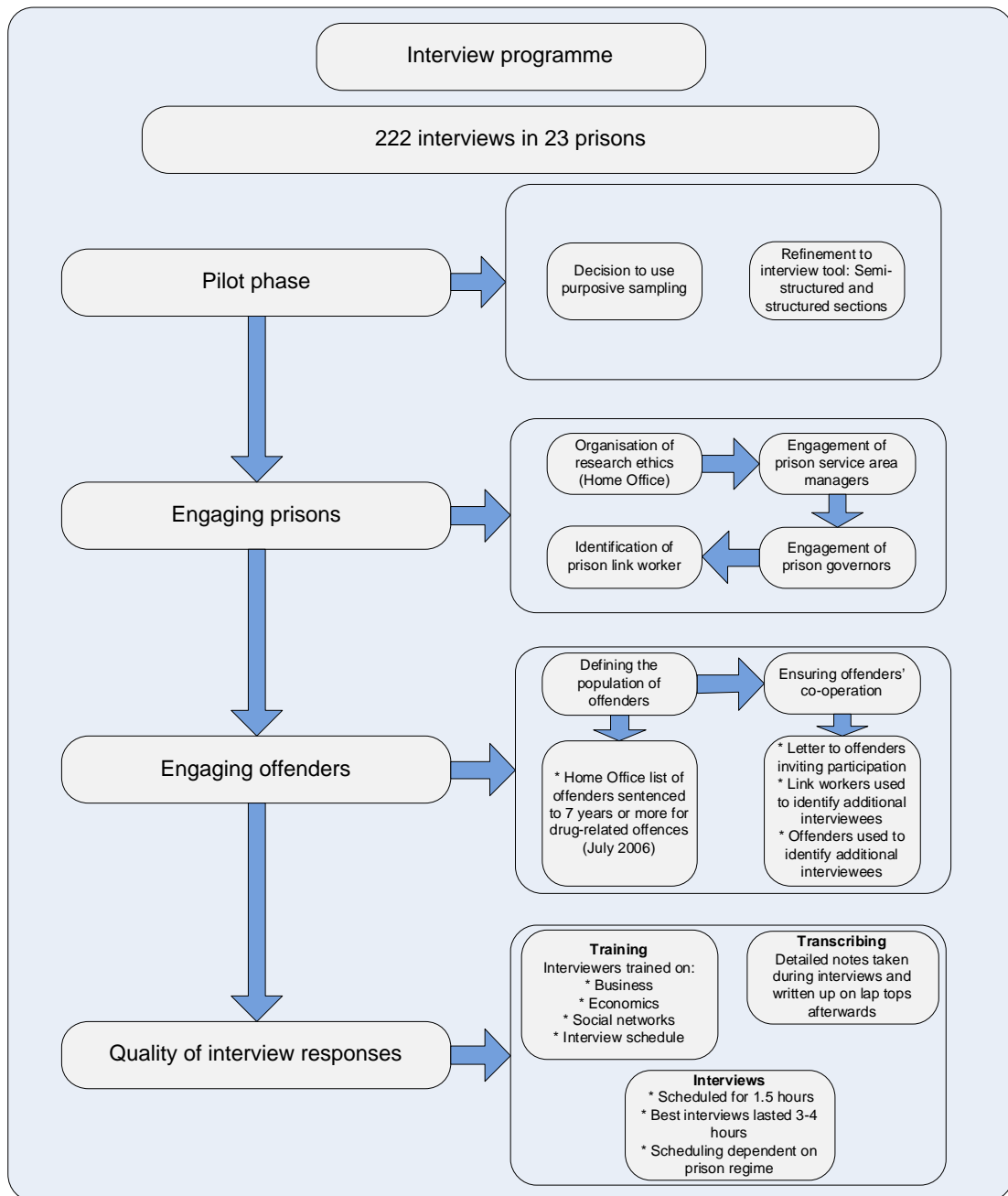
An informed consent approach was used to engage offenders in the project. All offenders sentenced to seven years or more for drug offences in 22 prisons of all categories were invited to take part in the project. They received a letter explaining the project and the confidentiality protocols. Prisoners volunteering to take part returned their signed consent forms to Matrix. A smaller number of offenders were approached directly by prison staff or by offenders who had previously been interviewed. No interviewees were compelled to take part. The research team did not use financial incentives to encourage participation; however, offenders taking part in the research had the option of receiving a letter stating that they had taken part in the research which could be included in their prison files. The overall response rate was 19 per cent. A total of 1,390 prisoners were invited to take part, 263 volunteered to be interviewed. A profile of the interviewees is given in Appendix 2.

Interview schedule and process

In developing the interview materials, each research discipline, economics, business and social networks, developed a series of high level questions to be answered during each interview. These questions were incorporated into a draft interview schedule based on a series of overarching themes that mapped to the Home Office's research questions, such as prices, quality, cost, trust and motivations for entering the market. The interview schedule was revised after the pilot phase. The final interview schedule contained a mix of semi-structured and structured questions. A copy of the interview schedule is available in Appendix 4.

Interviews took place within prisons and were structured around prison regimes. Interviews typically lasted an hour and a half, though the length varied depending on the interview quality; the best interviews lasted three or four hours. In closed prisons, the prison link worker arranged for each offender to be brought down to the interview room. In open prisons, each interviewee was given an appointment and was responsible for getting to the appointment on time. The interview venue varied by prison. It was always a private room but in some establishments it was a legal visit room, in others it was a staff member's office or an interview room on a wing. The interviewers had to be as flexible as possible to fit around the prison's existing regime. Appendix 3 documents the lessons learned by the research team in conducting large-scale interview programmes in prison settings.

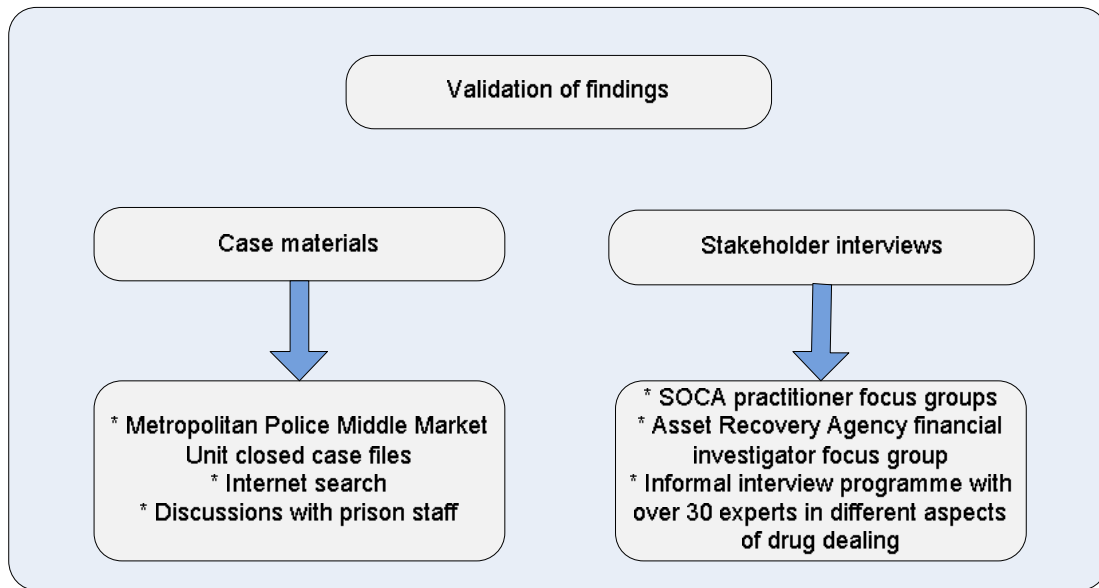
Figure 3.1: Interview programme methodology



Validation of interviews

To validate the results of the interviews, a lengthy programme of stakeholder/knowledge-holder interviews and a review of case materials was undertaken. These included discussions with law enforcement, customs, asset recovery staff and expert academic opinion. Unfortunately, the research team was not able to access law enforcement debriefs or CPS summary case files. This limited the team's ability to further validate interviewees' accounts. However, where possible, the team used discussions with prison staff and internet searches of media reporting and public domain court reports as an alternative means of validation. These materials were provided a high level 'reality check' of the interviewees' responses. Figure 3.2 below outlines the process.

Figure 3.2: Validation methodology



Limitations

The key limitations to the methodological approach were as follows:

- *Sampling.* The sample was self selected (interviewees all volunteered to take place in the study having been invited) and may be biased towards particular types of dealer. For example, individuals from large organisations, or of different ethnicities or different first languages, may have been less likely to volunteer.
- *Sample size.* Data were obtained from 222 interviewees. When these interviewees were grouped according to drug dealt, market level, and the specific years they were dealing, the sample sizes become small.
- *Gaps in the data set.* The interview schedule was extensive but interviews had to be completed around prisons' regimes and this did lead to some disruptions or termination of interviews. Moreover, different interviewees spoke about different themes to different extents. Therefore not all themes were covered in all interviews. This means that an absence of responses to questions cannot be interpreted as a negative response.
- As with all interview-based research, there was the potential for false reporting. The previous section described how the research team attempted to validate the findings from the interviews. However, the team was not able to access specific case data that could have assisted this process.

Reflecting these specific limitations, the researchers have been careful to restrict the generalisability of findings. In some instances (e.g. modes of entry) it is sufficient to show that within the sample there is considerable variety. For others, such as price formation, the inferences are more cautious.

Analysis

The fact that individuals are able to produce and sell illegal drugs and that people are willing to consume them implies that the trade in illegal drugs operates within a market. Markets for illegal drugs may have similarities with markets for legitimate commodities with some similar properties (e.g. stimulants) which are grown in the developing world, such as coffee and cocoa. Law enforcement professionals now regularly draw on terminology from business and

economics literature when describing drug dealing and trafficking, and are exploring how their resources can be better deployed to better regulate the market.

To understand how convicted high level dealers operate and how markets for illicit drugs work, it is first necessary to understand what is meant by markets. Markets can broadly be defined as the space where producers and consumers meet to negotiate the exchange of goods and services at given prices. No one discipline can be used to provide a complete understanding of markets, rather different disciplines make complementary contributions. This research used a combination of three different research disciplines that are commonly used when describing legitimate commodity markets and will substantially add to the knowledge base. These disciplines were:

- business;
- economics; and
- social networks.

According to how each discipline conceived of or understood the market, a series of key themes were developed. The themes explored issues such as competition, entry into the market and risk management. The responses of each interviewee were coded according to their responses to each of these themes.

This section outlines the aims of each discipline and how the analysis was undertaken.

Business

The overall aim of a business is to achieve sustained profitable growth. In order to do this, businesses attempt to:

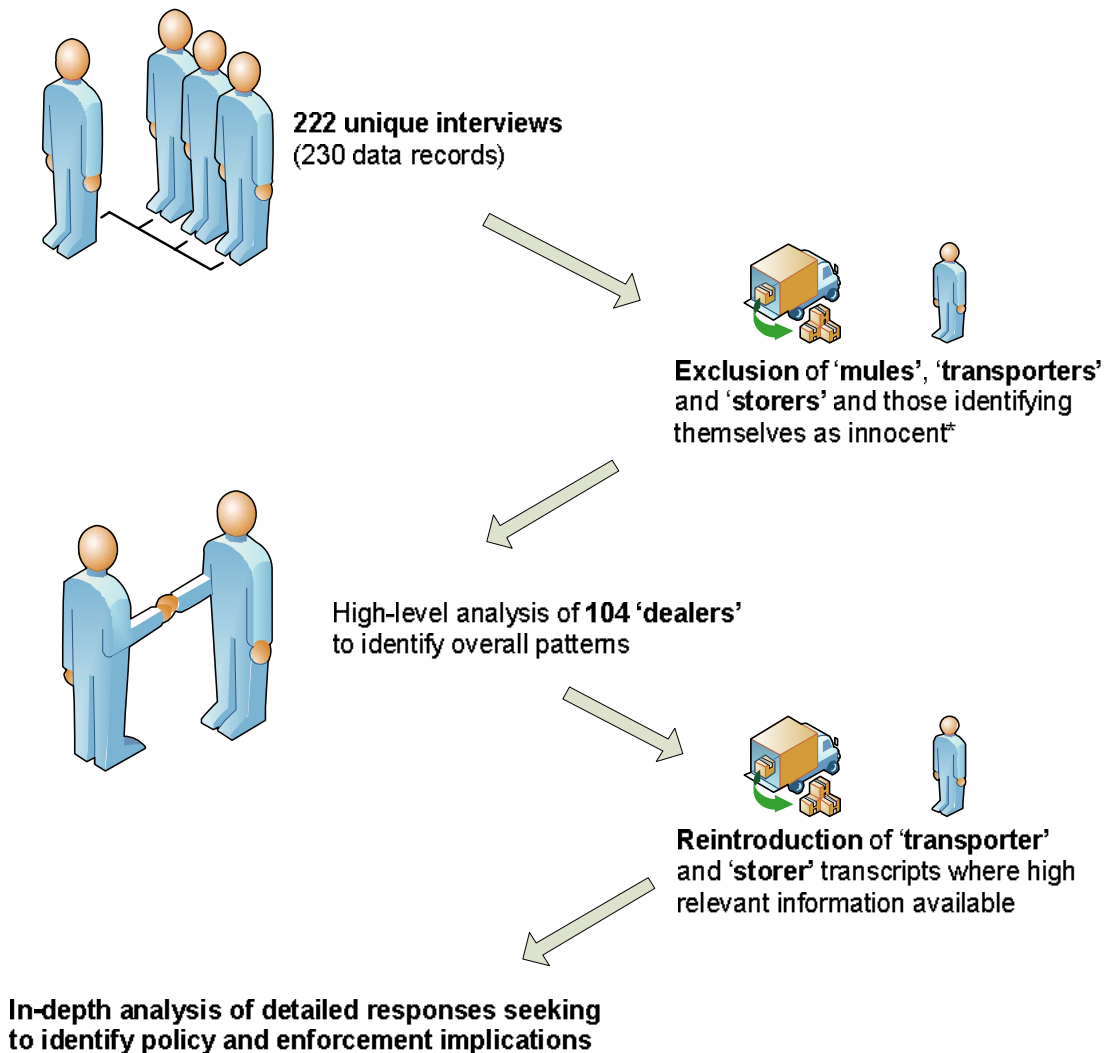
- identify and exploit competitive advantage;
- establish differentiation in the products or services they sell; and
- improve their market share.

In this discipline, conventional business frameworks were used to understand the fundamentals of drug dealing as a business. The five forces framework developed by Michael Porter was used.⁸ In this analysis it is assumed that drug dealers seek to achieve sustained growth as in normal business situations. Whilst ongoing discussions with law enforcement professionals suggest this is a reasonable assumption, the literature on the business strategies employed by high level drug dealers is limited.

The business analysis focused on the responses of those interviewees directly involved in the buying and selling of drugs. Figure 3.3 outlines the process undertaken for the business analysis. It shows that high-level analysis to identify key themes in the data was completed on 104 interviewees who were identified as buying and selling drugs. Interviewees who only transported or stored drugs or who identified themselves as innocent were excluded. This approach was taken to ensure the analysis focused on those with most knowledge of drug dealing enterprises. Further in-depth analysis was undertaken on these themes using the 104 dealer interview transcripts, as well as the small number of high-quality transporter interviews.

⁸ Porter, M, *Competitive Advantage: creating and sustaining superior performance*, Free Press (1985).

Figure 3.3: Business analysis approach



Economics

The aim of the economics analysis was to describe how, and explain why, prices in illicit drug markets vary over drug types, market levels, time, and space. Prices depend on three factors.

1. Level of demand, or what consumers are willing to pay for the product. The higher the level of demand, the higher the prices are likely to be.
2. Cost of supply, or what it costs producers to bring a product to the market. The higher the costs of supply, the higher prices are likely to be.
3. Level of competition in the market. The less competitive the market, the higher prices are likely to be.

The evasion of law enforcement activities implies extra costs for drug dealers in much the same way as legislation and regulation impacts on legitimate business. In most markets this translates into higher prices. In illicit drug markets the implied extra costs include the following.

1. Dealers may be arrested and the product seized at any time. These risks can be compensated through a higher selling price.
2. The risk of informants causes dealers to adopt a number of costly strategies, including restricting the information available to employees, paying loyalty bonuses, and threatening informants with violence.

3. Contracts cannot be legally enforced, increasing the risk that money or drugs are stolen. Dealers adopt a number of strategies to reduce the risk of assets being stolen, including working only with close friends and family, and intimidation.
4. Expansion in terms of business size, customers, or geographical area is limited due to the above costs of trading in an illicit market. This reduces the dealers' ability to exploit economies of scale of the benefits of market power. A number of strategies are employed to overcome gain in market power, including intimidation of competitors and corruption.

These hypotheses were explored throughout the economic analysis.

To gather the necessary economics data, the interviews were interrogated to identify:

- examples of transactions, extracting data on the drug being traded, the location, the date, and the weight, price and purity of the drug;
- examples of the costs associated with operating in the market for illicit drugs; and
- interviewee perceptions of the factors influencing price levels, the risks of operating in the illicit drug market, the strategies adopted to overcome such risks, and the level of competition in the market.

The interviews provided quantitative data on 443 specific drug transactions. Qualitative information was extracted from all the interviewees.

Data were analysed according to the following market levels, defined by the purchase location, sales location and sales weight. The levels are defined in Figure 3.4. Explanation of these market levels is included in Chapter 5.

Figure 3.4: Market levels defined and used in the economics analysis

Market level	Purchase location	Selling location
International 1	Europe	UK
International 2	South America	UK
International 3	Asia	UK
International 4	Other international areas	UK
National	UK area/town	Another UK area/town
Local	UK area/town	The same UK area/town in weight higher than 1 oz
Retail	UK area/town	The same UK area/town in weight lower than 1 oz

Social networks

Social network analysis is growing in prevalence as a method of exploring the dynamics of legitimate markets. The aim of social network analysis is to understand how people relate and work with each other. Network analysis and theory puts the individual and his relations at the centre of analysis, rather than groups, norms or institutions. The approach, as applied in this context, is based on the idea that drug dealers work in networks of related individuals and this facilitates how and why they enter the market and how and where they operate within it. Additionally, network theory looks at informal relations, rather than official organisational structure.

An exploratory approach was taken to the social network analysis, looking at relationship patterns in descriptive rather than mathematical terms. It was not feasible to conduct a formal mathematical social network analysis in this research because the interviewing methodology did not enable analysis of the full range of individual contacts in a rigorous way and it was impossible to know the boundaries of a relational network as there were no easily defined

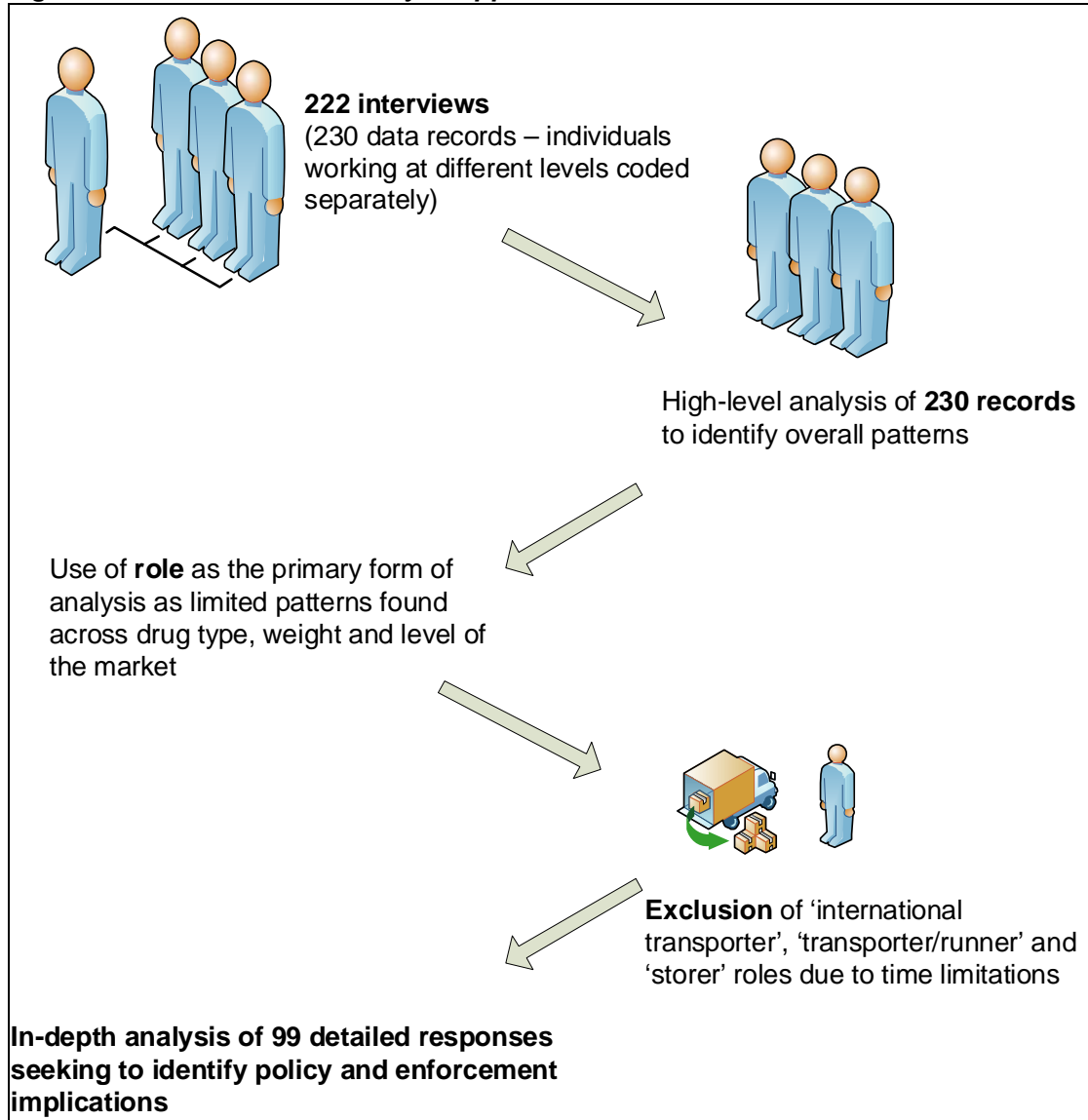
parameters. Instead, the social network analysis aims to discover how people became involved in drug dealing, how they relate to each other in the drug dealing environment and how this changes over time.

To understand and analyse individuals relationally within the drug trafficking environment, the analysis focused on the following five themes.

1. *Entry to market.* Understanding why, when, and how individuals enter the environment.
2. *Structure of market.* Understanding how individuals fit into the structure.
3. *Roles.* Description of roles that individuals adopt, and how these roles change and adapt over time.
4. *Contacts.* Description of who individuals work with.
5. *Trust.* Understanding who individuals in the drug trafficking environment trust and how this trust is established and maintained.

The social network analysis was undertaken primarily by role, as this was where most patterns were found. Figure 3.5 outlines the process undertaken for the social network analysis. It illustrates that each individual was assigned to a role in the drug dealing trade. These roles were defined based on a preliminary review of a sample of the interviews. Individuals who had undertaken different roles were coded more than once. This increased the number of records to 230 from 222. High-level analysis to identify overall patterns was undertaken on all 230 data records. From this analysis it was determined that the main unit of analysis should be role because there were limited patterns found across drug type, drug weight or market level. Further analysis then focused on what were felt to be the most important roles, drug dealers, managers and bosses.

Figure 3.5: Social networks analysis approach



4. Structure of the findings

The following chapters present the findings of the business, economics and social networks disciplines.

The findings from the three disciplines are integrated, rather than considered separately. This approach was taken to provide most value to the policy and law enforcement audience, for whom a single narrative is preferable. The structure identifies the key findings and provides a strong and clear evidence base for the implications.

The structure

The findings are grouped into three chapters. They are as follows.

- *Market dynamics*: provides an overview of the market conditions.
- *Enterprise structures*: explores how and why individuals enter the market, how enterprises are structured, individuals' roles, key business processes, and examines links with legitimate businesses.
- *Strategic responses by dealers*: explores adaptations and strategies that individuals involved in the market undertake. It looks at how individuals achieve growth, the extent of competition, collusion and collaboration, risk management responses and the impact of law enforcement.

The final chapter summarises key findings and presents implications for policy and law enforcement professionals.

Terminology

In presenting the findings the report distinguishes between *dealers* and *interviewees*.

- *Interviewee* is used when referring to the full sample of 222 interviewees.
- *Dealer* is used when referring to the sub-sample of interviewees who bought and sold drugs as opposed to other roles, e.g. transporters or storers, or individuals claiming to be innocent. One hundred and four interviewees were described in this way.

The research defined different market levels at which dealers operated. These market levels are defined in Chapter 5.

Different roles undertaken by the interviewees were also defined. Definitions of these roles are provided in Chapter 6.

Relating the findings to the research questions

In integrating the three disciplines, the report structure has built on the original research questions. For each research question, the table below outlines the depth of the answers obtained (detailed or overview) and the location of the answers within the report.

Table 4.1: Mapping of Home Office research questions to report structure

Research question	Report section where answers found (section)	Extent of answers obtained (Detailed 'D' or Overview 'O')
How do individuals enter the market? What are the barriers to market entry?	Enterprise structures	D
How do individuals grow the volume of drugs being dealt?	Strategic responses of market players	D
How do individuals and markets respond to the arrest/incapacitation of traffickers/dealers?	Strategic responses of market players	O
How do individuals recover <i>market share</i> when re-entering society/drug markets?	Strategic responses of market players	O
What sort of problems does arrest/disruption cause? How does an individual change/adapt to deal with this level of disruption?	Strategic responses of market players	D
Do these individuals see themselves in <i>competition</i> or do they act as important contacts for each other?	Strategic responses of market players	D
How do they view their <i>competition</i> ? Does this affect their pricing? How do they arrive at their prices? What sort of flexibility do these individuals have to adjust their prices?	Strategic responses of market players	D
How do they invest their profits? Where are criminal assets invested?	Enterprise structures	O
What are the economic costs to drug traffickers and how is this cost evaluated? What role does interdiction have in moderating this cost?	Enterprise structures and strategic responses of market players	D
How is contact between traffickers facilitated? What approaches might be effective at disrupting such contact?	Market dynamics and strategic responses of market players	D
What issues/information helps to form and shape their perception of <i>risk</i> and how is this managed?	Strategic responses of market players	D
What level of the market do they see themselves at? How do they know? Does this affect the way they carry out their business?	Market dynamics	D

5. Market dynamics

The dynamics of the illicit drugs market, as described by the interviewees, are grouped around four key themes. These are:

- the size of the market and the demand for illicit drugs;
- types of drugs dealt;
- market levels defined by the research; and
- factors influencing price and price variability.

Market size

Estimates of the size of the illegal drug market in the UK are very rough. Recent research, based on demand data, estimates the size of the UK market for six main categories of illicit drugs (cannabis, amphetamines, ecstasy, powder cocaine, crack cocaine and heroin) to have been between £4 billion and £6.6 billion in the UK for the year 2003/04.⁹ This constitutes approximately 33 and 41 per cent of the size of the UK tobacco and alcohol markets respectively. Table 5.1, illustrates the market size in terms of the share of expenditure for each drug category at street level.

Table 5.1: Share of expenditure in the illegal drug market in the UK 2003/04¹⁰

Illicit drug category	Share of expenditure
Crack	28%
Heroin	23%
Cannabis	20%
Powder cocaine	18%
Amphetamines	6%
Ecstasy	5%

The focus of this study was illegal drug supply rather than demand, although demand was discussed briefly with interviewees. In the sample two-thirds of those dealing drugs reported that demand had remained either constant or grown in recent years. In contrast, the same dealers reported that their ability to secure drugs was subject to regular fluctuations in availability.

Furthermore, dealers reported that there were periodical and seasonal (i.e. at Christmas) peaks in demand, but few, if any, peaks in supply. A national heroin distributor described how prices for kilogram transactions of heroin could increase by as much as £1,000 around Christmas, if the high demand around the Christmas period coincided with increased security at points of entry into the UK. He described how these changes in price would only be reflected in the price of transactions of smaller weights if the kilogram price of heroin remained high for a long period of time.

Drug dealt

Analysis of the type of drugs dealt by the dealers interviewed, revealed that two-thirds of dealers specialised in a single commodity while one-third dealt multiple commodities. Although national studies estimate that amphetamines comprise a five per cent share of the

⁹ Pudney, S. (2006), 'Estimating the size of the UK illicit drug market'. In Singleton, N. et al (eds.), *Measuring different aspects of problem drug use: methodological developments*. Home Office Online Report 16/06.

¹⁰ Pudney, S. (2006), 'Estimating the size of the UK illicit drug market'. In Singleton, N. et al (eds.), *Measuring different aspects of problem drug use: methodological developments*. Home Office Online Report 16/06.

market, by value, in expenditure terms no dealers were interviewed who consistently dealt in amphetamines. A breakdown of the drugs and drug combinations dealt by those classified as dealers in the study is outlined in Table 5.2 below.

Table 5.2: Drugs dealt by dealers (Cocaine includes a small number of interviewees who dealt crack)

Drug	Number of interviewees
Cocaine only	30
Heroin only	24
Cannabis only	14
Heroin and cocaine	14
Cocaine and cannabis	7
Heroin and cannabis	4
Ecstasy only	2
Heroin, cocaine and cannabis	1
Cocaine and ecstasy	2
Cannabis and ecstasy	2
Heroin, cannabis and ecstasy	2
Heroin, cocaine, cannabis and ecstasy	1
Cocaine, cannabis and ecstasy	1
Total	104

Analysis of each interviewee's specific product choice indicated that those selling cocaine or heroin were less likely to sell additional drug types. From Table 5.2 it can be determined that more than half of those dealing cocaine or heroin only dealt these drugs, as opposed to less than half of those selling cannabis or ecstasy. This implies that heroin and cocaine dealers tended to specialise.

Market level

Dealers were grouped according to the level in the supply chain where they operated, rather than the quantity of drugs dealt. Four levels were defined by the research team. The market levels are outlined in Figure 5.1.

Figure 5.1: Market levels defined by the research team



Another source of data on the distribution of dealers across market levels is interviewees' perceptions of the number of people operating in their market. The majority of interviewees had limited knowledge of the nature of the market at local and national levels. A small number of interviewees described the importation and national-distribution markets to comprise 15 to 30 participants organised into small 'firms'. There was also some evidence that the level of competition generated by this group depended on the destination of drugs in the UK. A heroin-dealer who operated at the national distribution level described how he gathered information on the level of competition in different local markets, though this level of insight was atypical.

"If you want to see what the market is like, go look at the street corners where heroin is sold. If each street corner has a dealer on it, then you know that there is enough heroin about. If there aren't any dealers about then you know that there is a shortage and you can push the price of the kilos up."

The level of competition in the local-level distribution of drugs also varied with location. The evidence suggested that the larger cities saw competition at this level, while smaller towns tended to be controlled by one dealer. Retail dealers gave varied accounts of the level of competition they faced.

One dealer described how it was easy to find out what a local market was like through word of mouth, although again this was unusual.

"It is a small network of all the same people that work across the higher levels of the heroin market in England and you can ask a couple of people how the market is, who will ask a couple more, and then they will ask a couple more and eventually you will receive a good picture of how the market is looking and what price you can charge."

This indicates a fragmented market where those involved have limited knowledge and understanding. Dealers are partially sighted in the sense that they are aware of what they buy and sell for, but have limited knowledge about the activities of others involved. Some dealers obtain a clearer picture of the market by networking and simple observation of the market, but still remain only moderately knowledgeable. This is in contrast to legitimate commodity markets where information on prices is readily available, for example, in the form of published market reports.

Price

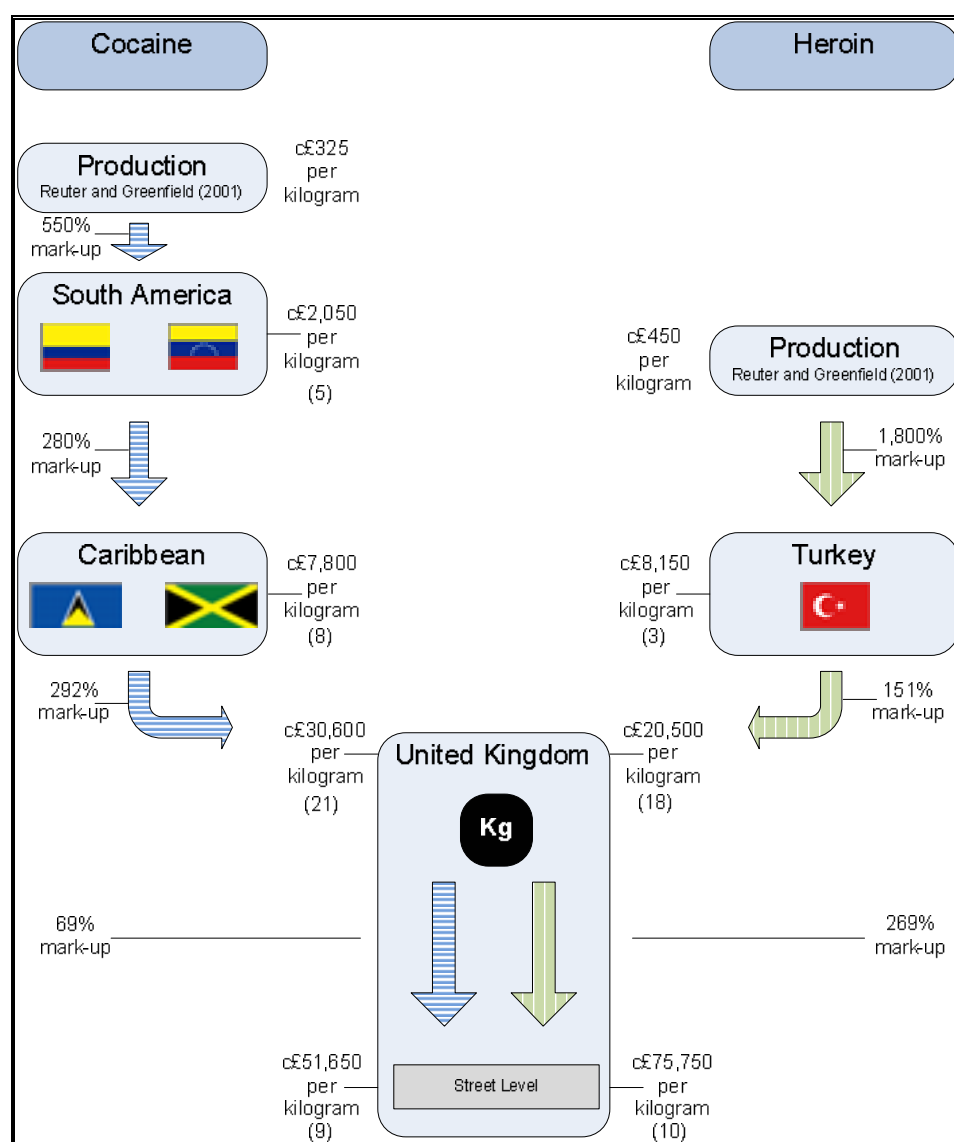
In the absence of prohibition and law enforcement activity it might be expected that the cost of producing and importing cocaine would be little more than a legal drug such as caffeine, which, like cocaine is extracted from a plant grown in similar locations. The difference between the price of illicit drugs and similar licit products, such as coffee, and the extent to which this inflation of prices varies between locations can be used as a proxy for the impact of

illegality and law enforcement activities and the level of risk that dealers perceive there to be at each stage. This section contains analysis of the price data gathered during the interviews.

Market level

Analysis of transaction price data suggests high mark-ups¹¹ associated with the importation of cocaine, heroin and cannabis. The price of the three drugs increases as they move down the supply chain, into the UK and towards the consumer at street level. Figure 5.2 illustrates prices and mark-ups at different stages of the supply chain for cocaine and heroin. Data used in this were reported by interviewees and have been combined with a secondary data source for farm gate prices.¹² The prices and mark-ups reported below are averages of the prices reported during the interviews, converted to 2006 values. Sample sizes are included in brackets.

Figure 5.2: Prices and mark-ups associated with cocaine and heroin importation and kilogram to street transactions



Note. Prices are converted to 2006 prices. Sample sizes are included in brackets.

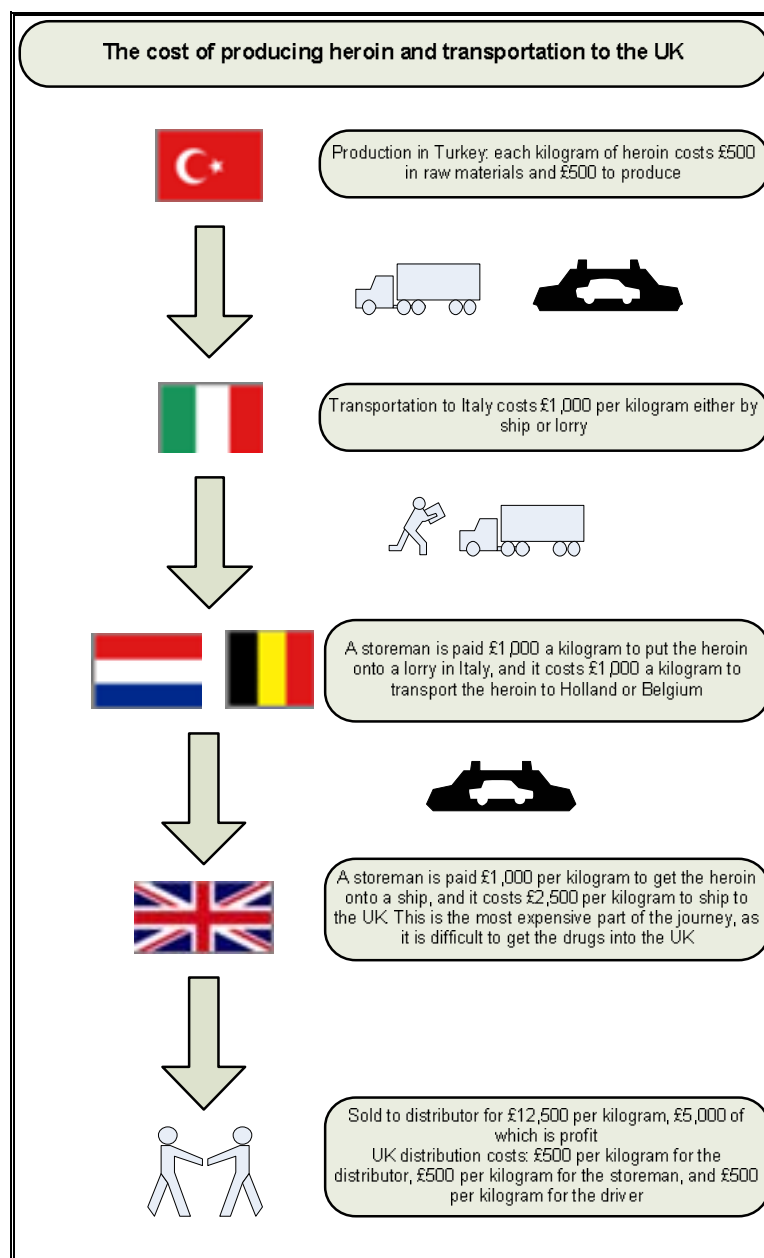
¹¹ Mark-up is defined here as [(selling price – purchase price)/purchase price] and is expressed as a percentage

¹² Reuter, P. and Greenfield, V. (2001), 'Measuring Global Drug Markets: How good are the numbers and why should we care about them?' *World Economics*, vol. 2, no 4, 159 - 173. Farm gate prices are defined as the price received by the farmer before any subsequent processing.

Figure 5.2 demonstrates that the mark-ups across the entire supply chain associated with dealing heroin (circa 16,800%) are greater than those associated with dealing cocaine (circa 15,800%). The diagram also shows a greater mark-up, both absolute and relative, associated with moving cocaine from the Caribbean to the UK, than there is from moving heroin from Turkey to the UK. Although these stages are not necessarily equivalent in the supply chain, it may be indicative of greater risks to dealers in moving cocaine from the Caribbean to the UK than heroin from Turkey to the UK.

Moving heroin and cocaine from source to the UK involves a number of complicated stages. An illustration of one supply chain described by one of the interviewees is described in Figure 5.3 below. The diagram includes some of the financial costs associated with the operation and illustrates that the payments made to 'employees' are a small fraction of the profit. Financial costs are considered in more detail in Chapter 6. It should be noted that the import price in this case study differs considerably from the average heroin import price reported in Figure 5.2. The case study dates from the 1990s, while the UK-based price per kilogram of heroin included in Figure 5.2 is an average of prices dating from 1986 onwards.

Figure 5.3: Example supply chain of heroin from Turkey to the UK with example financial costs



Comparison with licit products

Comparing these mark-ups against those earned on licit products gives a sense of the effect of law enforcement activity on drug prices. For instance, Fritter and Kaplinsky (2001) model the value chain for coffee, estimating the price per kilogram as \$3.00 (1994 prices) at the factory door in the producing country, \$4.72 at the wholesale level in the consuming country, and \$9.70 at the retail level in the consuming country.¹³ These prices suggest a mark-up between leaving the factory in the producing country and being sold in retail markets in the consuming country of 223 per cent in comparison with circa 16,000 per cent for heroin and cocaine in the UK. However, the difference in mark-ups between illicit and licit goods is primarily at the import and export stages. The mark-ups once in the importing country are more similar (105 per cent for coffee compared to 69 per cent for cocaine and 269 per cent for heroin).

Price variation within market levels

Variation in prices within market levels provide an indication of the impact of law enforcement on the levels of uncertainty associated with operating in the drug market. Caulkins and Reuter¹⁴ suggest that in the US drug prices vary between cities, and that this results in part from poor information flows. They suggest it is sensible to speak of local and regional markets, and, insofar as such markets exist, it is plausible that local interventions might be able to raise prices in a target area.

Data from the interviews suggested that prices vary within the UK market. Table 5.3 shows the coefficient of variation (defined as the standard deviation of prices divided by the average of prices) of heroin and cocaine at different levels of the UK market. The coefficients of variation in the US retail market have been estimated as 0.48 for cocaine and between 0.63 and 0.66 for heroin.¹⁵ This compares with the UK estimates of 0.55 for cocaine and 0.93 for heroin, suggesting that the variation in prices is greater in the UK, although purity was not able to be taken into account.

Table 5.3: Variation for cocaine and heroin prices in the UK (standard deviation/mean)

Transaction description	Cocaine	Heroin
UK: 1 kg transactions	0.67 (32)	0.47 (19)
UK: 1 oz transactions	0.63 (14)	0.39 (14)
UK: 1 – 4 gm transaction	0.55 (10)	0.93 (10)

Note. Sample sizes are given in brackets.

Not all the dealers interviewed were able to specify a price for the drugs they were trading. Instead they estimated the range of prices they paid. Table 5.4 illustrates the variation reported by these dealers. It provides an indication of the level of variability in price in the market for illicit drugs from the perspective of individual dealers. While the individual level data are not directly comparable with the market level figures, because they are calculated in a different manner, they tend to suggest that prices paid by individual dealers vary less than prices across the UK.

¹³ Fritter, R. and Kaplinsky, R. (2001), *Who gains from product rents as the coffee market becomes more differentiated? A value chain analysis*. IDS Bulletin Paper.

¹⁴ Caulkins, J.P. and Reuter, P. (1998), What price data tell us about drug markets. *Journal of Drug Issues* 28 (3), 593 – 612.

¹⁵ Caulkins, J.P. and Reuter, P. (1998), What price data tell us about drug markets. *Journal of Drug Issues* 28 (3), 593 – 612.

Table 5.4: Variation in individual dealers' prices in the UK by market level (range/midpoint)

Transaction description	Individual variation in prices
UK: 1 kg transactions	0.24 (12)
UK: 1 oz transactions	0.31 (8)
UK: 1 - 4 gm transaction	0.21 (4)

Note. Sample sizes are given in brackets.

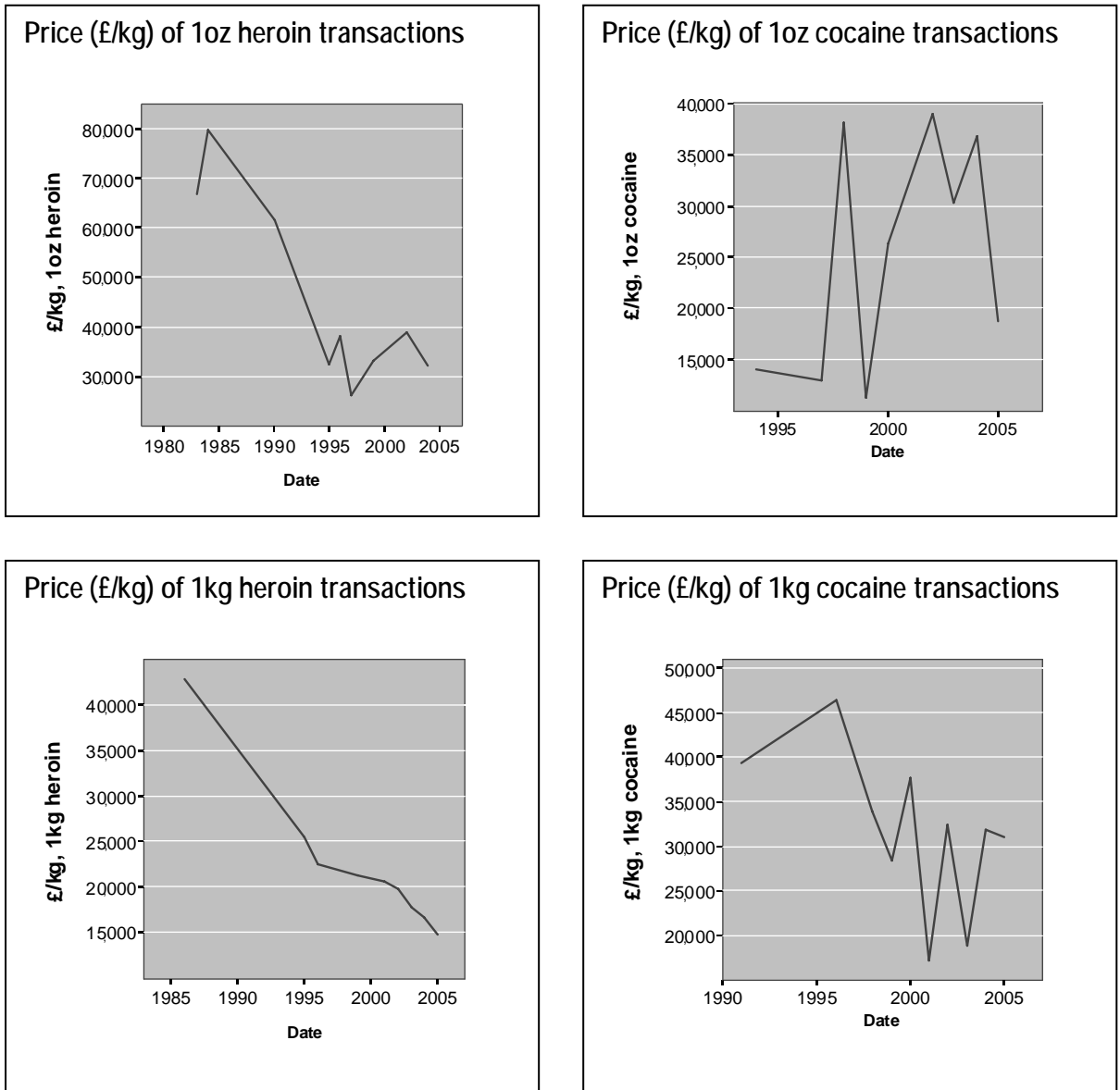
This suggests that the market is fragmented, being characterised by local markets with relatively stable prices, but variation in the price between these local markets.

Time

Drug price data reported by interviewees tended to confirm the common perception, and the current law enforcement view, that illicit drug prices have fallen over time. Interviewees reported drug prices between the years 1983 and 2005 allowing analysis of changes in price. Figure 5.4 shows how the average prices of cocaine and heroin (one ounce and one kilogram transactions) have changed over time. The data were collected from the interviewees and were converted to 2006 prices. It was not possible to account for variations in quality. The cumulative number of observations on which the graphs are based are included in Table 5.4.

It demonstrates that, over the past 20 to 25 years, there has been a clear downward trend in heroin prices, both for one kilogram and one ounce transaction sizes. No similarly clear trend was observed for cocaine; this may be the consequence of the small size of the market until the late 1990s, which made prices fluctuate widely. While one kilogram transactions of cocaine fell in price over the last ten years, this trend was less consistent than that for heroin prices. The trend was not replicated in one ounce cocaine transactions.

Figure 5.4: Variation in drug prices with time (£/kg, 2006 prices)



The impact of law enforcement on price

Despite the apparent reductions in price over time, the analysis of illicit drug price by market level in Figure 5.2 and the size of the mark-ups achieved (implying that substantial risks are involved) demonstrates that law enforcement does impact on price.

The majority of those dealers who discussed the impact of law enforcement on prices also suggested that law enforcement could influence prices. One dealer operating in the national-level distribution of multiple drugs, described that the main reason price would vary is because of availability. If there had been a large drug bust the price would go up by a “couple of grand a kilo”. Similarly, a dealer operating in the retail market for cocaine in the 1980s described watching the news to see what the prices would be like. “If security was up or there had been a big raid, prices would go up.”

The potential reasons for the price reduction trends over time include:

- ineffective law enforcement;
- dealers becoming more efficient in their operations; and
- competition causing price reductions.

It is not possible to disentangle these reasons using the data collected from the interviewees. However, the report does explore the efficiency of dealers' operations and competition in Chapters 6 and 7.

Summary

This chapter sets the scene for the later exploration of drug dealing enterprises. It explored the market framework with which drug dealers operate. Four market levels were defined in completing the analysis: international wholesale; national wholesale; local wholesale; and retail.

Across these different market levels it was identified that there was/were:

- high and stable demand for illegal drugs;
- a tendency for dealers of heroin and cocaine to specialise;
- very large mark-ups along the supply chain, from production to street level, for cocaine (c15,800 per cent) and heroin (c16,800 per cent) in comparison with legitimate drugs (223 per cent) - the mark-ups are much higher in the international transactions than in the domestic sector;
- higher mark-ups for heroin than cocaine at all stages of the supply chain, with the possible exception of importation into the UK;
- a decline in prices over time;
- a perception among dealers that law enforcement activity can impact on price and
- price variation across different geographical areas in the UK.

The market can be characterised as fragmented, where those involved, even at high levels, have only a partial sight of the overall market. In the main, dealers were knowledgeable of their own operations, i.e. what they buy and sell for, but had limited knowledge about the activities of others involved. Where dealers were able to obtain a clearer picture of the market this was generally established through making the most of networking opportunities and observing visible street-level dealing in different towns.

This chapter has explored the overall market framework within which drug dealers operate. The next chapter looks at how dealers organise their enterprises in the light of these market conditions.

6. Enterprise structures

The term 'enterprise structures' was selected to describe how those active in the illicit drug business structure their operations. It also describes how key business processes are created and developed. In particular this section focuses on:

- how and why individuals enter the market and how relationships are maintained;
- how enterprises are established;
- individual roles and key business processes;
- drivers of profitability; and
- links with legitimate businesses.

Market entry

Relatively little is known about how and why people enter the illicit drugs trade. Given the lack of robust empirical evidence, a significant amount of time was spent in the interviews exploring the motivations and mechanics of entry.

Table 6.1 below, outlines how interviewees entered the market. Where entry point was known, just over three-quarters (161 out of 203) of interviewees entered the market through a friend or family member involved in drug dealing. Making contacts in prison was not identified as a common initial entry point, although, as explored later, can help facilitate business development.

Table 6.1: Market entry of the interviewees

How	Number of interviewees
Contacts in prison	8
Family	16
Friend involved in business	103
Friend through ethnic ties	11
Met a new friend who got them involved	31
Other	15
User	19
Not known	19
Total	222

Where motivation for entry was known, two-thirds of the interviewees (140 out of 212) entered the drug market for financial reasons. Within the sample, relatively few (19) entered because they used drugs. Those that did typically used heroin.

The analysis shows that for many individuals a combination of their life situations, and relatively easy access to friends and contacts in the business, meant that barriers to entry were very low. Furthermore, access to start-up capital was not considered a barrier to entry because of the wide availability of credit. Access to capital was only cited by a very small number of interviewees (9) as a barrier to entry. Furthermore, interviewees reported that no special skills were needed.

The level of entry to the market was principally determined by who the interviewees met, who they knew, and whether they used drugs. Generally, those using drugs entered the market at retail level. In none of the interviews were there concrete examples given of interviewees

conscious decisions to enter the trade without already having close friends and associates in the trade. Nobody sought out a 'career in drug trafficking'.¹⁶

Entry at high level due to person they met (cocaine and heroin)

Billy¹⁷ was a successful business man before he had anything to do with illegal transactions; he owned a garage, a nightclub and property. He was introduced to Turkish men who did not know what to do with the money that they were making from drugs. He started putting this money through his business. As time passed he became more involved and eventually became involved with the drugs trade. His role changed over time and he ended up being a "middle man." His role was to help the importers find buyers for the drug.

Entry at retail level (heroin and crack)

Lionel was a user of heroin and crack when he was younger and started dealing to make the money to get "his own score". He was "scoring off a mate" and he said he could get him involved in selling too. He got the initial capital he used to sell drugs in the same way he used to get the money for his own drugs, from other crime: burglary, theft and shoplifting. He was a user so he knew where to go to buy and to sell drugs. It was an easy transition from user to dealer.

There were also examples of seemingly unlikely people getting involved simply based on chance occurrences.

Entry via a chance encounter (cocaine)

Ron was a former law enforcement officer who had been out of the force for ten years when he became involved in the drugs trade. He became involved and was tempted into the trade following a chance meeting with a man in a casino near where he lived.

Nature of relationships

Interviewees came to work with others involved in the trade through their existing networks, which typically included friends, family, work colleagues and occasionally chance meetings. When interviewees were asked how they selected people to work with, the most common answer was those they could trust. Often this meant those people worked with close friends and family, or those with whom they had grown up. Retailers who sold drugs to finance their drug habit were not trusted by higher level dealers.

In some circumstances there were elaborate, almost ritualistic, experiences that demonstrated trust. The most extreme example from the interviews is outlined below.

International (heroin)

Al, an international wholesaler, was put through an "initiation" by his boss. He was told that a client of his boss owed him money and that he had to kill him. This was a "test of trust and loyalty". Although Al (like everyone else in the business) carried a gun, his boss replaced his gun with another and told him to "go and do the deed". Al waited outside the home address of the man and when he came out, fired three or four bullets into his chest. The man did not fall down and Al believed he had been wearing a bullet-proof vest. Al went back to his boss who congratulated him, and introduced him to the "victim", another colleague who was a part of the business. The gun his boss had given him contained rubber bullets.

While prison did not appear to be an important point of entry into the drug market, it was an important mechanism by which individuals could establish their credibility and generate trust.

International (cannabis)

Mike emphasised the importance of previous criminal activity in demonstrating trustworthiness. He was included on the basis of being known as a "proper geezer", because he had a "good name" gained from previously having worked with three of the "firm" doing armed robbery. He also described how you always gained more credibility as being trustworthy once you had done a stint in prison and not grassed.

In other situations, trust was clearly misplaced.

¹⁶ This could be owing to the self-selected nature of the sample. For example, only four Turkish dealers were interviewed as part of the research. They may not have volunteered because of fear and/or language issues. Individuals from these groups may be recruited more systematically.

¹⁷ All real names have been changed.

Local (heroin)

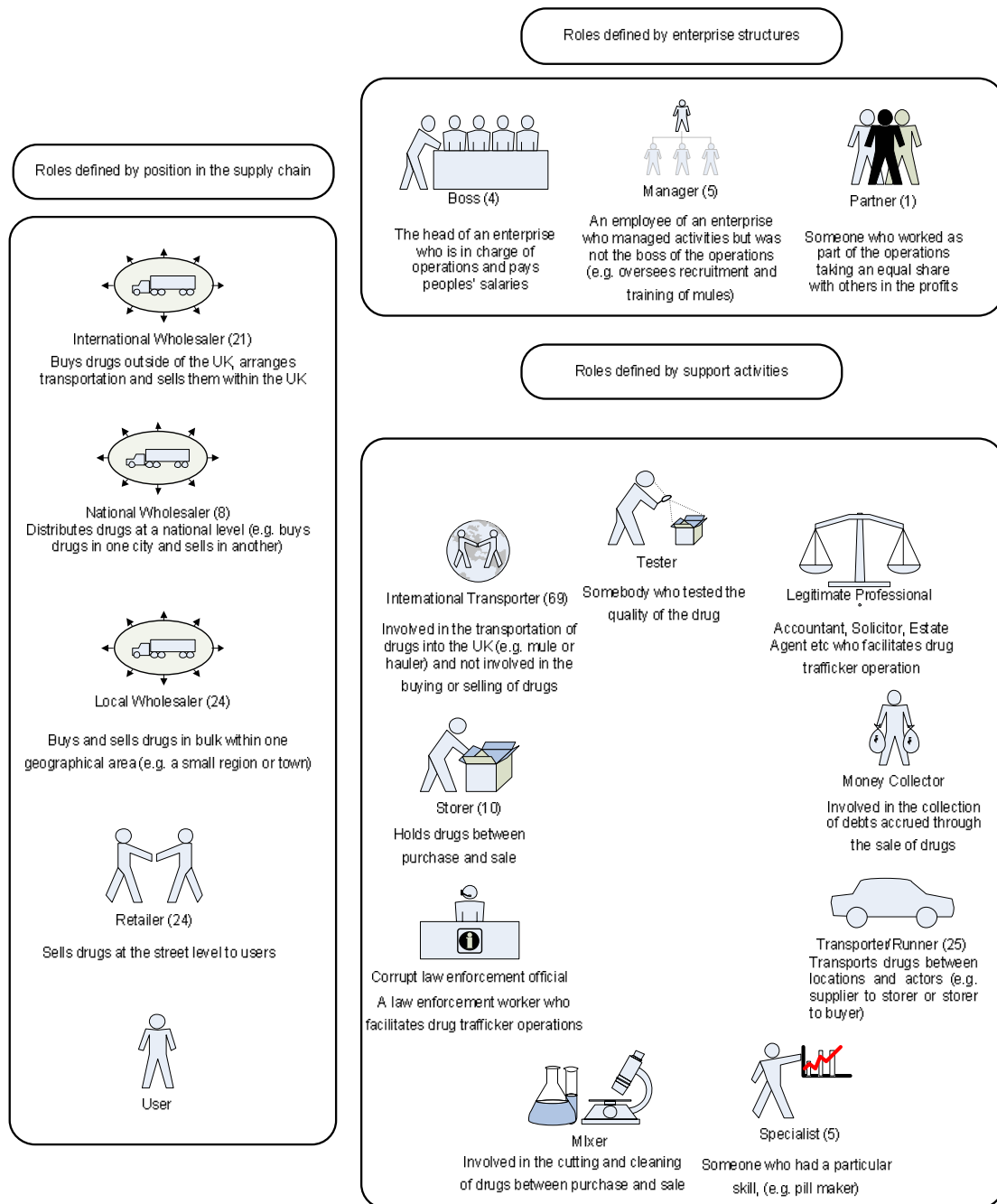
Gary was a local wholesaler who typically worked with partners he had grown up with and described becoming friends with someone who he “did not realise had a hidden agenda”. One day he asked him to go to Manchester airport to pick up something that had arrived from abroad. He went to the area where you pick consignments up from, asked for the package and was promptly arrested. The consignment was hundreds of items that had drugs stored inside.

Roles

The interviewees were a diverse group of individuals who had different roles in the trade. Figure 6.1 outlines the roles that were defined by the research team during the interviews. Whenever possible, interviewees’ own words and terms are used. It is important to note that not all the roles were undertaken by the interviewees, but the roles were all described in interviews. The numbers in brackets refer to the number of interviewees assigned to the role.

The remainder of this chapter focuses primarily on dealers’ experiences and behaviours (roles in the left hand column of Figure 6.1). Support activity roles (roles in the bottom right hand column of Figure 6.1) are considered briefly in this chapter. The roles undertaken by bosses and managers (individuals in the top right hand box of Figure 6.1), whilst relatively poorly represented amongst the interviewees, were considered important to understand. Examples of these roles and the roles of dealers working at each of the market levels defined by the research team are outlined in the section below.

Figure 6.1: Definition of roles and number of interviewees performing role



International

Twenty-one interviews were undertaken with dealers operating at the international level. They were defined as 'dealers who bought drugs outside of the UK, arranged transportation and sold them within the UK'. Large variety was observed within this role to the extent that there were no major characteristics common to all. Figures 5.3, 6.5 and 6.6 provide case study examples of three different international dealing operations.

Observations about the role of international dealers included:

- the majority progressed their careers and attempted to expand;
- the logistics were more sophisticated and there was more use of professional services;
- there was some use of legitimate trade to aid business;

- there were some large networks, but some streamlined operations;
- there were different weights and different drugs dealt;
- entry routes into this market level varied;
- some dealers had long and complex careers and saw prison as an everyday hazard; and
- dealers undertook a variety of roles, perhaps demonstrating the variety of operations.

National

Eight interviews were undertaken with dealers operating at a national level. They were defined as 'dealers who distributed drugs at a national level, e.g. buying drugs in one city and selling in another'.

Characteristics of the role of national dealers included:

- they often had long careers;
- they were very adaptable moving on to new drugs and new methods;
- they dealt in a variety of drugs;
- the majority had progressed their careers through unstructured means, meeting people in one place and moving on to new drugs through chance and luck;
- they did not work with large networks of people;
- salaried employees were most common at this level; and
- they worked with many different roles at this level with lots of variety - transporters/runners and buyers appeared to be particularly important.

Local

Twenty-four interviews were undertaken with dealers operating at a local level. They were defined as 'dealers who buy and sell drugs in bulk within one geographical area (e.g. a small region or town)'.

Characteristics of the role of local dealers included:

- a variety of drugs dealt and variable size of operations, most often they dealt in kilos and ounces and sold to retailers;
- there was a higher proportion of sole traders at this level;
- some dealers were drug users;
- often individuals progressed their careers from selling to users to selling to retailers, but the speed of progression varied;
- drug dealing was an integral part of their lives; and
- generally their networks were quite small, but they worked with retailers and transporters/runners.

Retail

Twenty-four interviews were undertaken with retailers. They were defined as 'dealers selling drugs at the street level to users'.

Characteristics of the retail role included the following.

- There was a much greater degree of consistency of operations. They dealt in much smaller amounts, mainly heroin but often cannabis with another commodity. The sample contained a smaller number of cocaine retailers.
- They worked with fewer people but lots of customers (10 to 100s). It was easy for them to find customers through networks of users. The main roles they worked with were users and local wholesalers.

- They were nearly all problematic drug users themselves and most dealt simply to feed their habit. They described an easy transition from user to dealer. There were no barriers to entry as they knew where to go for the drug. They did not progress further.
- Some retailers had long careers and had been frequently in prison. They were often involved in other petty crime; and
- Retailing drugs was a common activity within their social circles.

Bosses

Four interviews were undertaken with people the research team defined as the boss. A boss was defined as 'the head of an enterprise, in charge of operations who paid people's salaries'.

Observations about the role of the four bosses included that:

- they worked their way up except for one who entered in one role and diversified;
- the majority were multi-commodity, one just dealt heroin;
- they were not problematic drug users;
- they used legitimate business to aid operations;
- they generally dealt in kilogram amounts;
- chance meetings and networking helped them to progress their careers;
- some had law enforcement contacts that provided them with information;
- they did not have many customers; and
- they worked with a wide variety of other roles in the trade.

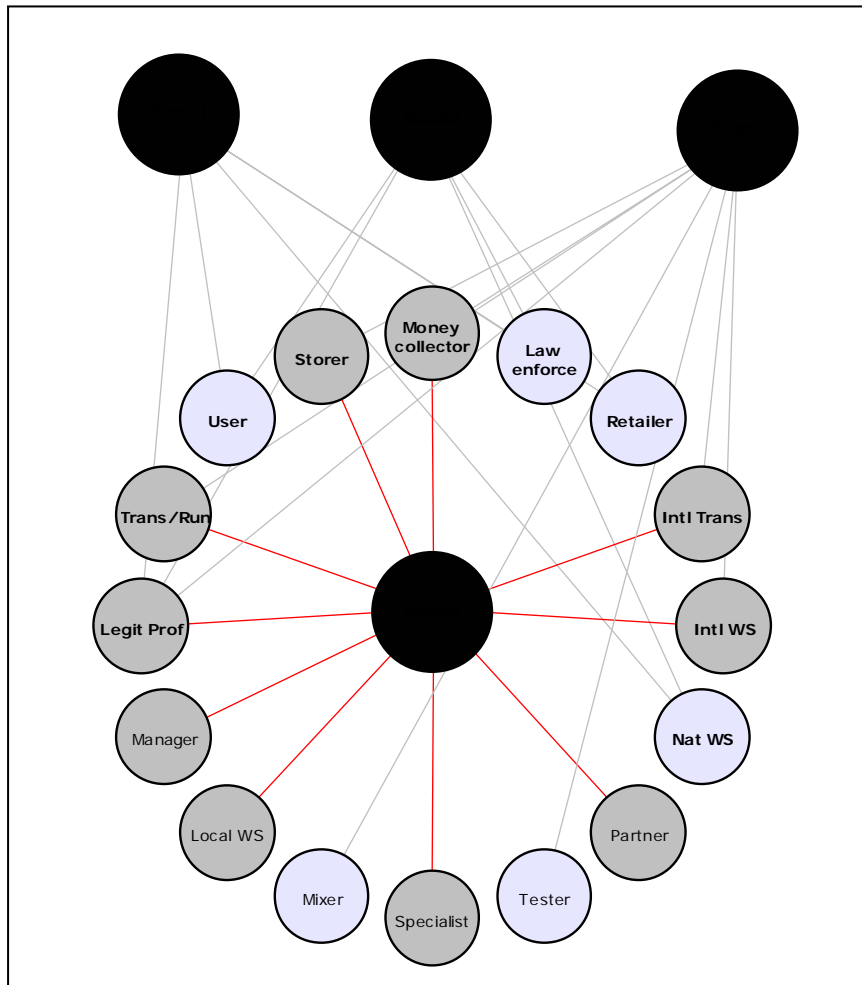
Figure 6.2, a network diagram, illustrates the other types of roles that the four separate bosses interviewed worked with. The role of the boss in the centre with red lines is described in the case study below. The diagram illustrates the large variety of roles that individuals who were defined as bosses worked with. Bosses did not simply work with suppliers and customers but rather worked with individuals undertaking a number of different supporting functions, such as storers, transporters and legitimate professionals.

The abbreviations are defined in Table 6.2.

Table 6.2: Key to abbreviations

Abbreviation	Role
Law enforce	Law enforcement official
Intl Trans	International transporter
Intl WS	International wholesaler
Nat WS	National wholesaler
Local WS	Local wholesaler
Trans/Run	Transporter/Runner
Legit prof	Legitimate professional

Figure 6.2: Network of bosses



Boss 4 (heroin)

Charlie is identified in the centre of Figure 6.2. Charlie worked with one supplier who he described as a partner, with four main customers, with three workers who were paid salaries and with one woman who worked as a storer.

He described his role as principally being to ensure “everything went smoothly”. He described his key tasks as:

- making sure noone was followed and that phones were not being tapped;
- keeping small the number of people who knew what was going on;
- making sure that everyone was careful about their appearance; and
- setting routes for people.

He would sometimes be there in the distance just to make sure that everything was going right. For example, he might be walking his dog when an exchange of drugs took place.

Managers

Five interviews were undertaken with individuals identified by the research team as managers. Managers were defined as ‘employees of an enterprise who managed activities but were not the boss of the operations (e.g. oversees recruitment and training of mules)’.

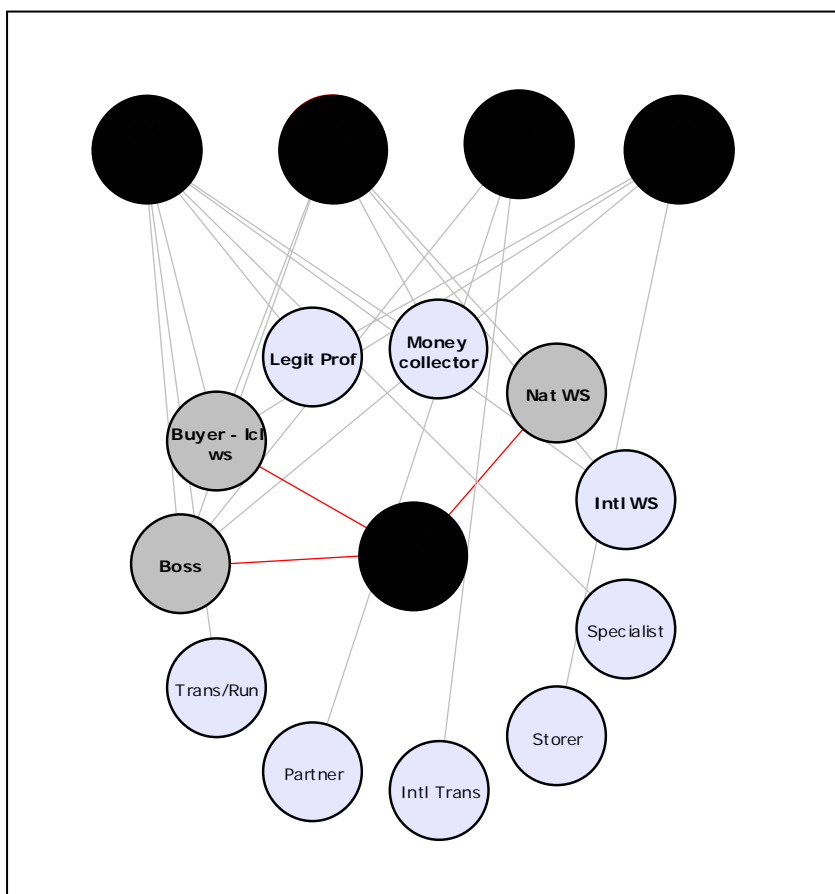
Observations about the role of the five managers included that:

- the role involves great risk as the interviewees arranged meetings, made calls and were close to the supplier and the drug;

- they were involved in the organisation of logistics;
- two interviewees managed the recruitment of mules;
- one interviewee ran the UK branch of an importing operation, organising people to collect drugs that had been imported through the postal system;
- one manager worked his way up from being a user, while one became a user and this led to his downfall as his drug use got out of hand; and
- they did not have large networks.

Figure 6.3 illustrates the roles that each of the five managers interviewed worked with. Again the role of the individual in the centre is described in the case study below. The abbreviations are explained in Table 6.2. In contrast to the bosses, managers worked with fewer types of roles, 11 compared with 16. They appeared to be more personally involved in ensuring tasks were completed than were bosses, which potentially put them at greater risk.

Figure 6.3: Network of managers



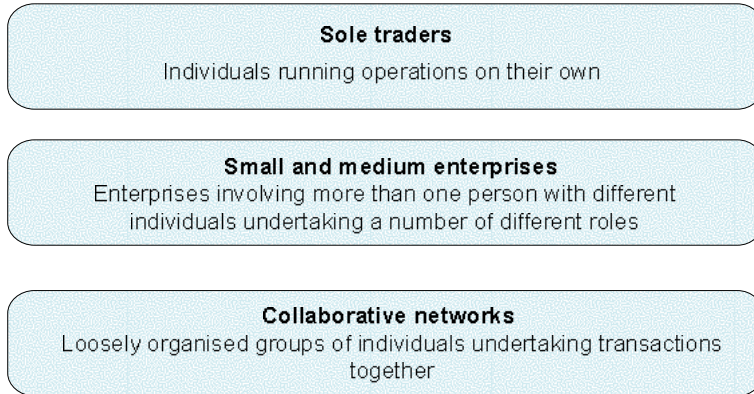
Manager (heroin)

Mo is identified in the centre of Figure 6.3. He was responsible for managing customers, organising logistics, delivering drugs and collecting payments. The drugs were delivered to Mo, who then stored them in his house or car. He received two to three deliveries per week. Receiving small amounts meant he had less on him or stored in his house. Customers collected the drugs from Mo; they called on his mobile to confirm a date, meeting place and quantity. He normally had a day to organise the delivery. He met his boss once or twice a week in a local Turkish café; he briefed his boss on the number of jobs he had completed and would hand over any payments.

Business structures

Within the legitimate world of business, there are a number of common business structures. These include sole traders, partnerships and companies, each having their own advantages and disadvantages for legal and tax purposes. A similar range of approaches, albeit not legal entities, exist within the drugs trade. The research team defined three types of business enterprise, illustrated in Figure 6.4.

Figure 6.4: Business structures defined by the research team



Of the 104 dealers, 22 could be described as sole traders, i.e. not working with anyone other than their buyers and suppliers. The remaining dealers can be described as working within small and medium sized enterprises or collaborative networks. Only one interviewee discussed being part of an organisation that could be described as large (over 100).¹⁸

Examples of each type of enterprise structure were found at international level and national level. No collaborative networks were found at retail level.

Amongst the interviewees there were limitations on the scale of sole traders' activities. The largest weight dealt by a sole trader at any market level was ten kilograms of heroin or cocaine. Frequently the weights dealt were in the 3.5-5 kilogram range for cocaine and heroin, particularly at international level. However, if sole traders undertook frequent transactions they could be operating large dealing enterprises.

The following section details information on the manner in which operations were undertaken by the different business structures. Detailed case studies are provided of importation operations run by a small enterprise and a collaborative network.

Business operations

Business operations are all those activities involved in the running of a business for the purpose of producing value for the owners and stakeholders. Generally, within the legitimate business environment, for operations to have a competitive advantage, they must be:

- adaptable, capable of changing rapidly to deliver what the customer values;
- effective, delivering a product or service of appropriate quality at the time demanded; and
- efficient in the use of resources.

The effective delivery of operations is highly influenced by key processes including the way work is organised, the people involved and their roles and responsibilities.

¹⁸ There is particular potential for bias within the sample; individuals working for large organisations may have been more reluctant to volunteer. This may be because the interviewee perceived greater risk of retaliation from co-operation.

Core activities

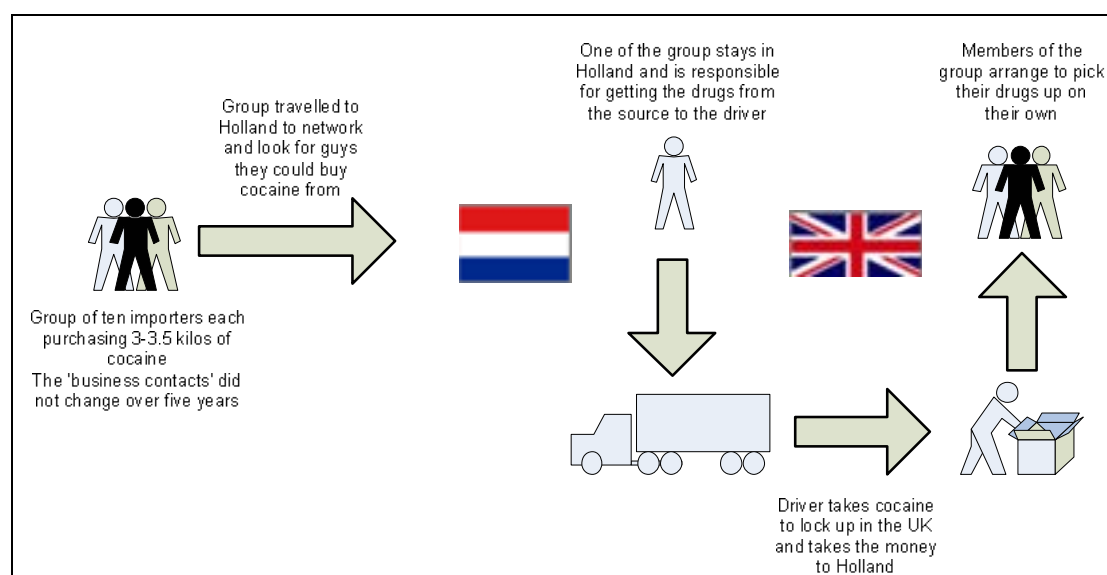
The most frequently highlighted operations or activities undertaken by dealers included drug purchase (66), storage (44), domestic and international logistics planning (46 and 12 respectively), domestic delivery (51), and sale (71).

Smaller numbers of dealers reported drug cutting activities (15), marketing (29) or post sale customer services (20) as important or core activities.

The study found strong evidence of dealers undertaking detailed planning, particularly at the international level. A number of dealers described their operations as “organised” and described themselves as “reliable suppliers”.

One example of an importation operation moving cocaine from Holland to the UK was reported by an interviewee and is illustrated in Figure 6.4, below. The dealers used a collaborative approach that continued for five years.

Figure 6.5: Example of a collaborative cocaine importation operation running over five years



Staffing

A number of enterprises made use of salaried workers rather than taking a partnership approach. Figure 6.5 illustrates the business operations of one interviewee who operated as an international importer and distributor of cocaine in the UK. This enterprise was particularly large, possibly importing annually over two tonnes. This equates to approximately seven per cent of the estimated market size for cocaine.¹⁹

Although some operations such as the one described were well structured, many employees did not necessarily consider that operations were well organised. Interviews with employees, for example, transporters or storers, provided a number of examples of poor organisation, for example when buyers or sellers arrived late for the handover of drugs.

¹⁹ The aggregate size of the UK street powder cocaine and crack market has recently been estimated as 33.28 tonnes. Pudney, S. (2006), 'Estimating the size of the UK illicit drug market.' In Singleton, N. et al (eds.), *Measuring different aspects of problem drug use: methodological developments*. Home Office Online Report 16/06.

Figure 6.6: Operations and pay structure of a cocaine importing enterprise

This diagram outlines the role and income of the 'salaried staff' of a cocaine importation and distribution business run by two partners. One partner lived in Spain from where interaction with Colombian dealers was facilitated. One partner was resident in London and organised the logistics.

In an average week they bought 50 – 60 kilograms of cocaine.

They bought from the Colombians at £18,000/kg and sold for £22,000/kg

On a typical 10 kg transaction of cocaine worth £220,000, the enterprise made a £40,000 profit minus expenses. Profits were split 50:50 between the two partners.



Main courier. Met the Colombian transporters in London and having taken receipt of the cocaine distributed it across the UK. It would usually be delivered in 10kg amounts.

Salary. £500 per transaction plus expenses (around £800 in total) "He could be doing a drop a day."



Money collector. The purchasers delivered cash to London the following day and would meet a 'money collector' who would deliver the cash to the 'money counter'.

Salary. £250 per day and "worked virtually every day."



Money counter. The 'money counter' could typically count £220,000 per day as the money could be in any denomination. Once counted, money was collected by the 'money deliverer'.

Salary. £250 per day to count however much money he was given (unclear how many days he worked)



Money deliverer. A woman was used to deliver money to two places:

- 1) a Venezuelan woman acting as a link for the Colombians to get their money back to Spain; and
- 2) a 'money holder' (interviewee's friend).

Salary. £250 per day (frequency unknown)



Money couriers: The interviewee's partner in Spain sent people across to the UK to pick up 'profit' from transactions. This cash was smuggled strapped to their bodies.

Salary: Unknown



Driver: Interviewee employed a driver in London.

Salary: £200 a day

The salaries of employees and the proportion of revenue and profits that are spent on salaries are key gaps in the knowledge of drug dealing enterprises. From the interview on which Figure 6.6 is based, the proportion of revenue and profits spent on the main courier's and money collector's wages can be described for one transaction. Estimates of their annual wages are also provided.

The proportion of revenue and profit per transaction used for staff wages based on the example in Figure 6.6 can be calculated:

The known wage bill, including expenses, for each transaction amounted to: £1,750 (main courier, money collector, money counter, money deliverer and driver)

The revenue for each transaction was: £220,000 (£22,000/kg x 10 kg)

The gross profit for each transaction was: £40,000 (£220,000-£180,000)

Wages accounted for 0.8 per cent of revenue and four per cent of profit (£1,750/£220,000 and £1,750/ £40,000)

The annual salaries of the main courier and money collector can also be estimated from Figure 6.5. The salaries are calculated based on an assumption that staff work five day weeks and took five weeks annual holiday.

Main courier annual salary: £188,000 (weekly salary of £4,000 over 47 weeks, including expenses)

Money collector annual salary: £58,750 (weekly salary of £1,250 over 47 weeks)

NB: the precise number of weeks a year that the main courier and money collector worked is not known. It is unlikely that they worked 47 weeks a year but more precise estimates are not available.

Drivers of profitability

The principal aim of all business operations is to generate value (profit) for the business owners and stakeholders. The extent to which this was achieved and how is explored in the sections below. It considers:

- whether dealers are commercially aware;
- what determines whether operations are profitable; and
- whether dealers take steps to increase profit margins.

This section focuses on the financial costs of drug dealing enterprises. Risks associated with drug dealing are covered in the strategic responses chapter.

Are dealers commercially aware?

Table 6.3 outlines dealers' levels of knowledge of their profit margins. Of those answering the question during the interviews, half (40) of dealers never knew or had only general knowledge of the profit margins of their enterprises.

Table 6.3: Dealer knowledge of profit margins

Level of knowledge of profit margins of individual transactions	Number of dealers
Never known	6
Broad knowledge	34
Some detailed knowledge	28
Precisely known	12
Non-response	24
Total	104

Compared to retailers, dealers operating at local and international levels had more detailed understanding of the profit margins associated with different transactions and drugs.

The small number of ecstasy dealers interviewed demonstrated very detailed knowledge of cost, price and margin per transaction. This suggests that where the profits are smaller (as they are with ecstasy) dealers become more aware of profit margins. Two interviewees highlighted that ecstasy was viewed unfavourably as a commodity as the margins are small and some dealers are aware of the penalties it carries as a Class A drug.

There was evidence of two reasons for limited understanding of profit margins.

1. The profits were so large. (Analysis of price by market level in Figure 5.2 indicated that mark-ups between kilogram and street level for cocaine and heroin were 110 and 132 per cent respectively).
2. A general lack of commercial acumen on the part of the dealers. (Table 6.3 shows only a small minority (12) of dealers had detailed profit knowledge).

Operational costs

Table 6.4 outlines dealers' levels of knowledge of their operational costs. Of those dealers answering the question, only a small number (5) had a precise understanding of the operational costs involved in their enterprises.

Table 6.4: Dealer knowledge of operational costs

Level of knowledge of costs incurred	Number of dealers
Never known	3
Broad knowledge	32
Some detailed knowledge	38
Precisely known	5
Non-response	26
Total	104

Dealers typically highlighted a limited number of variable costs with the key cost consistently being the purchase of the drug. Other important costs included transportation and professional costs.

Transportation costs

Dealers reported different mechanisms of paying people to transport drugs: per kilogram transported, per transaction, and per week. The mean cost per kilogram of transporting heroin within the UK was approximately £4,500²⁰. This equated to roughly 18 per cent of revenue at this level. This high percentage might be seen as indicative of high risk in this operational activity. This can be compared to the average cost per week for a transporter in the cannabis national distribution market which was approximately £490, not much higher than the national average wage rate of £447.²¹ This difference in price is likely to be related to the higher risks of operating in the heroin market.

Professional costs

The use of professional services was more prevalent at the international level. A wide variety of these services were used including:

- haulage companies (road, sea and air);
- mariners;
- serving army officers in South America;
- bank employees;
- solicitors;
- accountants; and
- law enforcement officers.

²⁰ The mean cost of transporting heroin within the UK was calculated from 11 observations whereas the cost of transporting cocaine outlined on pages 33 and 34 is a case study based on one interview. This reflects reported variation in transportation costs.

²¹ The median weekly pay for full-time employees in the UK in April 2006 was £447. www.statistics.gov.uk/cci/nugget.asp?id=285

Revenue

Revenue is a business term for the amount of money that an individual or company receives from its activities during a given period. Net revenue can be increased by reducing costs (as discussed in the previous section) expanding the customer base or by increasing prices, as long as customers are prepared to pay more for the product or service. Revenue is similar to, though not necessarily equal to, income. This is because some deals may be undertaken on credit which runs the risk of becoming bad debt.

The previous chapter explored how price varies by market level, volume and time across the market and briefly described the nature of demand. This section explores what, if anything, dealers do in order to increase revenue, including whether they pass on any price fluctuations to their customers.

Do dealers pass on price increases?

Economists studying drug markets often assume that price increases at one market level lead to price increases at lower market levels. Of the dealers who commented on the matter, the overwhelming majority affirmed this common sense idea. One dealer commented “when Colombia sneezes, the rest of the world catches a cold”.

However, analysis suggested that dealers managed price increases in different ways depending on their market level. Dealers at higher market levels tended to change the prices they charged to their customers; dealers at the retail level tended to keep prices the same, but adjusted the purity or weight of the drug they sold.

A minority of dealers reported that they would not pass on price increases, either in a change in selling price or purity or quality. These dealers all operated at the lower levels of the market, but their motivations for not passing on changes in price varied. One retail-level heroin dealer stated that he felt a “moral bond” with his customers, being a heroin user himself. A second dealer, trading in cannabis, wanted to ensure that he kept his customers. The final dealer was selling multiple drugs, a means of funding his own drug habit. He was not interested in making money other than to cover the costs of his drug use.

Additional factors impacting on revenue

A number of additional factors that impacted on the revenue generated per transaction were identified in the interviews. They include the following.

- Nineteen dealers highlighted basing their prices on *competitor prices*. This indicates that, for these dealers, the market was not entirely fragmented, as they had some awareness of local competitors and their prices. Twelve dealers mentioned the location of the buyer as impacting on price. These factors indicate the importance of going rate pricing.
- Fifteen dealers identified *knowing the customer* as an important factor affecting prices. Dealers added premiums when they did not know the buyer. One local cocaine retailer described charging more if he thought the customer had little knowledge of the drug market, or if he thought he or she had few contacts with other suppliers. Others explained charging less to regular users as “loyalty bonuses”.
- Two international dealers highlighted that the *exchange rate* played an important part in the profitability of their operations. The strong British pound makes the UK an attractive target.
- Twenty dealers highlighted the importance of *quality* in affecting revenue generation.
- *Cutting the drug* had a large influence on the profit margin. Those dealers who discussed this issue described the need to balance customer satisfaction and profit.

Cash flow

The risks associated with cash flow were found to be important. Approximately one-third of dealers discussed the risk of drugs or money being stolen. Of this third, the overwhelming majority thought that there was a risk of drugs or money being stolen. Theft was a risk across all drug types and all market levels.

Dealers reported that they were at risk of having their drugs or money stolen by a number of groups, including customers and competitors. The following risks were raised in the interviews.

- The risk of drugs being stolen by customers was higher in the retail market.
- One national-level dealer commented that the risk of drugs being stolen by competitors tended to increase when there was a shortfall.
- There was less risk of theft by employees.
- Violence could result from drugs or money being stolen.
- The theft of money may have concerned dealers more than the theft of drugs. One dealer observed that after all the planning and getting it right and succeeding in getting the drugs through and sold, “it would be catastrophic to lose the money”.

Drivers of profitability summary

Overall the evidence presented suggests that dealers do not closely monitor their profitability and that dealer profitability is predominantly driven by revenue generation rather than the cost control. There are a number of potential reasons for this including:

- constantly high demand means little volatility in the market;
- mark-ups for heroin and cocaine being particularly high, with price increases able to be passed on; and
- the operations were low cost, with the exception of some large-scale international dealers, who employed more complex business models in order to reduce risk.

There was evidence that cash flow could become an issue for dealers if drugs or money was stolen, leading to a breakdown in the money available to fund the operation.

Links with legitimate business

The links between the interviewees’ drug dealing operations and legitimate business were complex. Interviewee responses were analysed in terms of the extent of their involvement in criminal activities prior to entering drug dealing. Table 6.5 illustrates for each market level, where individuals answered the question, the largest number of dealers had mainly criminal careers. However, substantial minorities of dealers at international, local and retail level described principally legitimate activities with smaller levels of criminal activity.

Table 6.5: Criminal career of interviewees by market level

Criminal Career	Number of dealers with each role			
	International	National	Local	Retail
Fifty-fifty	3	2	4	2
Mainly criminal	10	6	11	16
Mainly legitimate	5	0	6	4
Non-response	3	0	3	2
Total	21	8	24	24

Analysis identified that dealers spent substantial amounts of their profits in the legitimate economy. Of the 75 dealers addressing related questions, the vast majority (68) described

often spending profits in the legitimate economy. A further breakdown on expenditure patterns can be seen in Table 6.6.

Table 6.6: Profit expenditure patterns

Use of profit	Often	Sometimes	Never	Non-response	Total
Profits spent on lifestyle	68	2	5	29	104
Profits reinvested in drug trafficking	48	1	7	48	104
Profits invested in property or other assets	25	12	29	38	104
Profits laundered through legitimate business	19	2	39	44	104
Profits spent on drug habit	17	11	10	66	104
Profits sent overseas	8	8	48	40	104

Some dealers highlighted that they “did not do anything flashy with their earnings”. One dealer described “just spending the money on the kids...and paying the mortgage”.

Unsurprisingly, relatively little data were collected on sensitive financial aspects of their business. However, the information collected pointed to unsophisticated money laundering techniques with a tendency to use friends and family, for example by investing in their businesses or bank accounts. One interviewee reported establishing a fraudulent painting and decorating business and buying winning betting slips that he cashed at betting shops across the country.

As outlined in the professional costs section where drug dealing enterprises interacted with legitimate businesses in their operations, this happened in a wide variety of ways. Three examples of how legitimate business operations were used by three different drug dealers are outlined below. Use of legitimate businesses was most common at the international level.

Corruption of legitimate business to facilitate importation (heroin)
 Jack arranged to buy the drugs in Europe, import them and sell them on to dealers. He had a range of methods for importing the drugs but talked openly about one he had used most often. His girlfriend worked in a law firm and her boss would be away on business regularly. When he knew the boss was away he would mail what appeared to be a legitimate journal to his girlfriend's law firm address. He sent it by next-day courier and his girlfriend intercepted the package containing drugs on arrival.

Corruption of professions (heroin)
 One local wholesaler regularly employed a solicitor to defend his runners. The lawyer would share with him details of other police cases as well as specific data on the quality of his clients' drugs available from forensic test results.

Identification of vulnerable business (multiple drugs)
 One freelance haulier involved in the drugs trade, reported that his boss would specifically identify a firm in financial trouble but who still had regular consignments coming into the country. He then went round and offered them a part of a deal so he could use their legitimate consignment as a front to enable a drugs importation.

Summary

This chapter considered how key players enter and organise themselves in order to make money from the illicit drugs market.

- Rather than entering the market through existing drug use or making contacts in prison, over three-quarters of dealers began dealing through contacts with friends and family. The level of market entry (e.g. retail or wholesale level) was largely determined by the level of the personal contact they entered through. Two-thirds of the interviewees started dealing in order to make money, although no one interviewed explicitly stated that they had actively sought a drug dealing career.

- Barriers to entry for people with contacts operating in the market were small. No special skills were required other than a willingness to break the law. The availability of credit meant that individuals did not require any capital to establish their enterprise. Only a very small number of interviewees discussed the lack of capital as a barrier to entry.
- Trust was of critical importance in dealers deciding who to work with. Often this meant dealers worked with close friends, family or people they had grown up with. Having served time in prison was an important means of demonstrating trustworthiness.
- Drug dealing enterprises exhibited huge diversity in their structures and operations. In particular, international and national wholesalers had the greatest diversity. Some operations made use of salaried staff; others had more co-operative and collaborative approaches. Retailers had much more uniform operations. About one fifth of dealers could be described as sole traders, while the remaining four-fifths of dealers could be described as working in small or medium-sized enterprises. Sole traders appeared to be limited to a maximum transaction size of ten kilograms. This limit still allows for very profitable operations.
- Dealers' profits primarily came through revenue generation (sales) rather than cost control. A small minority of dealers possessed detailed knowledge of their transaction margins and even fewer had precise knowledge of costs. It appeared that dealers generally did not require this knowledge as the revenues were so large and the operational costs and unskilled staff wages were small.
- Where market fluctuations did lead to increased purchase prices, dealers maintained margins by passing these increases on to customers. At international wholesale or national wholesale level, this was done by increasing prices. At retail level, price increases were passed on by either reducing weights or quality.
- Although very profitable on paper, cash flow was identified as a challenge for drug dealing enterprises. The risk of theft of drugs and money was raised by the vast majority of those discussing the issue. Theft often led to actual violence between buyers and competitors. Theft from buyers was most common at retail level.
- Limited information was gathered on what dealers spent their profits on owing to unwillingness on the part of the interviewees to divulge this aspect of their lifestyles. However, large proportions of income appeared to enter the legitimate economy, both in this country and abroad. The overwhelming majority described spending profits on themselves, either funding lavish lifestyles or simply "paying the mortgage". Where money laundering was discussed it was generally not sophisticated, typically being reliant on making use of family's and friends' businesses and bank accounts.²²
- Enterprises exhibited great variety in how they interacted with legitimate businesses. Transport was identified as a critical link in dealing enterprises and contacts within the transport industry were highly prized. Substantial minorities of dealers at international wholesale, local wholesale and retail level described mainly legitimate careers prior to entering drug dealing.

²² This may be a reflection on the self-selecting nature of the sample. Dealers with more sophisticated money laundering approaches may have been reluctant to volunteer.

7. Strategic responses of dealers

Growing a successful drug dealing enterprise presents a related but different set of challenges to growing a legitimate business. This section focuses in detail on a number of these challenges including the following.

- Growing a drug dealing enterprise: how are dealers able to expand?
- Competition, collusion and collaboration: what is the nature of competition at different market levels? Are collusion and collaboration tactics observed and what can be said about violence at different market levels and for different drug types?
- Risk management: how do dealers manage risks?
- Impact of law enforcement: what is the impact of law enforcement on prices and on dealers' behaviours? What is the impact of prison and asset recovery?

Growing a drug dealing enterprise

It is important to note that not everyone interviewed wanted to grow the size of their operations, for fear of attracting the attention of law enforcement. A number of dealers also viewed their enterprises as a "hobby". However, approximately three-quarters of dealers did seek expansion.

A critical challenge in expanding a drug dealing enterprise is accessing a suitable and reliable supplier or network of suppliers and buyers. It has been suggested, albeit for retail rather than wholesale dealers and in the early days of the US heroin market, that connections to new suppliers are rare and that law enforcement is a key reason why dealers are scarce.^{23,24}

Within the sample, 31 interviewees highlighted that they had only one supplier. Of these, the majority operated at lower levels in the supply chain, two-fifths were retailers and one quarter were local-level dealers.

Eighteen interviewees reported having more than one supplier with eleven interviewees reporting that they normally used multiple suppliers. These 11 interviewees traded at each of the defined market levels, and the majority changed the routes they used regularly or all the time.

The flexibility in approach that individuals with multiple suppliers have, potentially gives them greater ability to maintain and expand their supply than others. An example of a single dealer having the necessary contacts to use two different importation routes, one through contacts in Spain and one through contacts in the Caribbean, is outlined below. This importer invested money when he found out through his contacts about a deal that he considered had a good chance of success and would make sufficient money. Having contacts involved in different routes meant he found out about more viable opportunities.

²³ Moore, Mark H. (1973). 'Policies to Achieve Discrimination on the Effective Price of Heroin'. *The American Economic Review*. Vol. 63, No. 2, pp.270-277.

²⁴ Moore, Mark H. (1977). *Buy and Bust: The Effective Regulation of an Illicit Market in Heroin*. Lexington, MA: Lexington Books.

Scenario 1: importation from Spain in 2000-01 (cocaine)

The key person in this deal was described as: "The guy with the transport, be it a car, van, boat or large lorry. He charged £1,500-£2,000 per kilo. Sometimes an agreement has been made prior that he will sell to you and you deliver the money. Depending on the supply in Spain you would pay £20,000/kg but it could be £15,000." The dealer reported that he tried to sell for £22,000/kg to make his cheaper than his competitors, but there were times when he sold for £26,000 - £29,000.

Scenario 2: two kilos of cocaine from West Indies (cocaine)

In this circumstance, a husband and wife falling behind with their mortgage would be used. The dealer described that "They would always be British to have a higher chance of getting through. They would body pack two kilos and would be given £5,000-£10,000 between them plus the cost of a holiday. The chance of getting caught in this scenario is higher. You need to know someone in the West Indies but this is not difficult to do. London is multicultural, you can meet a contact."

The methods by which individuals were able to expand their enterprises and identify suppliers could not be systematically coded within the analysis frameworks but some of the different methods employed are described below.

Dealers who progressed their careers had in common the ability to be *adaptable*. They were able to respond when they found themselves in new situations and changed their operations when the opportunity to gain more money for less risk presented itself. This change often occurred because of seemingly chance meetings or events in their personal lives. A case study of an international wholesaler who had been involved in crime most of his life is outlined below. This example is unusual in that the interviewee was a young drug user and typically users were less likely to progress their careers.

Sole trader (ecstasy and heroin)

Sol was on a fishing holiday in Holland and met a guy there who was involved with drugs and gave him his first ecstasy tablet. He liked it and they offered him the 2000 pills so he took them back to England in his fishing bag on the ferry. When he got back he found someone to buy them – through a friend of a friend who was a dealer. He started doing a trip like this every two to three months. Eighteen months later he started buying cocaine in Holland too. He would bring it back on the ferry in the same way as he dealt with ecstasy.

Simply by operating in the drug dealing environment dealers, like legitimate business people, come across other dealers with similar interests and new enterprises. Knowing the right people and moving in circles of people dealing drugs presents opportunities to access contacts that facilitate career progression. As one international dealer observed, "people just know each other. If you sell toilet rolls you know everyone else who sells toilet rolls".

This networking does not happen in a systematic way (in the way that someone in a legitimate business may attend industry networking events) and there is no robust explanation of how this happens because the interactions are primarily driven by chance. It appeared from the outside to be haphazard, however, because these people tended to socialise within a criminal milieu the possibility of making and exploiting these apparently haphazard connections was increased. Being able to present as trustworthy was an important factor that enabled individuals to exploit these contacts.

Ethnic ties proved helpful for some dealers in making contact with suppliers in other cities or countries. One African-Caribbean interviewee described becoming an international cocaine importer after going on holiday to the island of St Martin and "sampling the local cuisine" (meaning cocaine). Turkish interviewees, in particular, described working with other members of their community.

Dealers with friends who were users sometimes experienced their network growing rapidly with limited conscious planning, while others consciously expanded their enterprises through employing people to work under them. One dealer only dealt to his friends and never to strangers, although his circle grew exponentially bigger as his friends bought on behalf of their friends. Another dealer regarded himself as being quite ambitious and after a while moved from being a sole trader to recruiting one user that he trusted, to become a dealer working under him.

Individuals with access to contacts employed in legitimate businesses who were willing to break the law were observed to progress their careers quickly. This was observed particularly

in relation to those with contacts in transportation. Alternatively, individuals employed in legitimate jobs reported being approached directly to get involved.

Prison presented the opportunity to identify new suppliers. One interviewee described making new contacts whilst in prison abroad. Serving time in prison was important in establishing credibility and trustworthiness. One interviewee described the importance of a “criminal CV”.

Competition, collusion and collaboration

All things being equal, a competitive market will produce a greater quantity of a good at a lower price. There have been differing observations about the level of competition in the literature. Caulkins and Reuter²⁵ tentatively suggest that the market is characterised by monopoly power. Fiorentini²⁶ argues that criminal organisations have an oligopolistic²⁷ market structure. Dealers turn to corruption and intimidation to increase their control over the market.²⁸ This section describes a number of the elements of the interviews that provide an indication of the level of competition in drug markets.

Competition at different market levels

A small number of dealers provided insights into the number of other dealers operating at the different market levels.

- *Importation.* Dealers described a number of competitors in the importation market each with their own areas and customers. One cocaine importer described how from 1996 onwards at least twenty dealers were dealing the same quantities of cocaine.
- *National.* National-level distributors described a number of organisations operating at their level, but the level of competition varied with the destination of the drugs in the UK. One dealer distributing cocaine in 2003-05 knew approximately 20 to 30 people organised into “little firms” dealing in his market. One dealer described how the level of competition varied depending on the location, perhaps reflecting variation in market size. He targeted one small northern town because there was no competition.
- *Local.* There was evidence of competition at this level in larger cities, and the suggestion that competition has increased over time. One heroin dealer in Liverpool in 1995 described how he had “competitors everywhere”. However, heroin dealers in smaller communities describe limited competition; one reported there was no one else dealing in a town in the south-west of England.
- *Retail.* The level of competition at the retail level varied. While one dealer “couldn’t even make an approximate guess at how many other dealers there were”, others reported never facing any real competition.

Collusion and collaboration

The small number of dealers who discussed collusion in the drug market suggested that there was very little collusion on prices, though there were a small number of importers and national distributors who reported price-fixing behaviour. The lack of collusion on prices was supported by the majority of dealers who indicated that levels of competition influenced price levels. This indicates that the market is not completely fragmented.

A large majority of those dealers who discussed collusion observed this behaviour particularly in relation to dividing up customers or geographical areas. A distributor of cocaine operating between 2003 and 2005, described how distributors in certain geographic locations agreed which dealers they could supply. Distributors would know which dealers were theirs and

²⁵ Caulkins, J.P. and Reuter, P. (1998), ‘What price data tell us about drug markets’. *Journal of Drug Issues* 28 (3), 593 – 612.

²⁶ Fiorentini, G. and Peltzman, S. (eds.) (1995), *The economics of organised crime*. Cambridge: CUP.

²⁷ Oligopoly is defined as follows: when a few firms dominate a market. Often they can together behave as if they were a single monopoly, perhaps by forming a cartel. Or they may collude informally, by preferring gentle non-price competition to a bloody price war. <http://www.economist.com/research/Economics/alphabetical.cfm?letter=O#oligopoly>

²⁸ Reuter, P. and Truman, E. M. (2004) *Chasing Dirty Money: The Fight Against Money Laundering US*: Institute for International Economics,

would not try to sell to other dealers. If someone else's customers approached them, they would turn them away. He described the importance of not "standing on each others toes" in order to avoid disruption to the market.

A number of dealers also discussed agreements to sell in certain areas. A cocaine dealer described how one local area was his territory, while someone else ran the neighbouring area and there was an unspoken rule that neither went in to the other's. He described how attempts to move into someone else's areas resulted in gang violence.

Sixty dealers discussed collaborating with other dealers. Table 7.1 outlines the types of collaboration reported. Sharing information on law enforcement was the most common form of collaboration.

Table 7.1: Dealers reporting different types of information sharing

Type of information sharing	Number of dealers reporting behaviour	Total number of dealers
Never shared any information or resources	12	104
Shared information on law enforcement	16	104
Shared information on suppliers and buyers	9	104
Shared information on operations	2	104
Shared information on prices	6	104
Shared resources (e.g. employees, locations, cars etc)	1	104
Shared/loaned drug supply	14	104

Violence among competitors

The majority of interviewees suggested that there was violence and intimidation between them and their competitors. This is in contrast with the findings presented later in the chapter that suggested more limited use of violence towards customers or suppliers. Tables 7.2 and 7.3 summarise the distribution of dealers reporting violence with competitors by drug type and market level. Violence and intimidation tended to be reported most by crack, heroin and cocaine dealers, and at the lower levels of the market.

Table 7.2: Interviewee reports of violence with competitors, by drug type

Drug type	Number of dealers reporting violence with competitors	
	Actual violence	Intimidation
Cannabis	27 (61)	31 (41)
Cocaine	30 (55)	34 (51)
Crack	19 (20)	14 (18)
Ecstasy	13 (34)	11 (20)
Heroin	46 (75)	37 (54)

Note. Sample sizes are included in brackets

Table 7.3: Interviewee reports of violence with competitors, by market level

Market level	Number of dealers reporting violence with competitors	
	Actual violence	Intimidation
Import	16 (52)	20 (50)
National	9 (12)	6 (18)
Local	68 (184)	36 (50)
Retail	10 (11)	12 (14)

Note. Sample sizes are included in brackets

Interviewees suggested they used violence to protect their customer base and their patches from competitors. A distributor of heroin described how the Sheffield drug market was divided by area and “you stayed in your area”. He also described how people would be paid to beat up or shoot competitors if territory became blurred. The qualitative evidence also supported the idea that violence was more prevalent in the lower market levels, and that the motivation was to control customers and areas.

There was recognition among interviewees that violence was bad for business. A national-level heroin distributor described violence between rivals peaking when he arranged for a nail bomb to be thrown into a pub where his rivals were drinking. This meant it was not possible to operate his business as there was “too much heat”.

Risk management

This section explores in detail interviewees’ approaches and attitudes to risk. Some researchers, such as Dorn, Levi and King,²⁹ have suggested that many dealers think the risks of operating in the drug market are low. Greater law enforcement risk per transaction is understood to exist at street level.³⁰ However, it has been proposed that the risks associated with dealing tend to cause dealing enterprises to remain small, prohibiting them from exploiting economies of scale or market power.³¹

Risk management was evidently in the mind of all interviewees as they described their operations and key decision making processes. However, substantial numbers of interviewees did not consciously consider themselves to be risk managers. It was common for interviewees to identify complex risk management strategies throughout interviews, but when asked directly about risk, they often reported that the risk of being caught was low.³²

Do dealers identify risks?

Interviewees linked their perception of the risk from law enforcement to the adoption of a number of costly business practices, including: limiting the time they are willing to hold onto drugs; changing routes; spending time assessing routes; limiting their business to a certain size; postponing deals; working with a limited group of people; and employing people to undertake particularly risky elements of transactions. Examples of how these activities are undertaken are discussed in Chapter 6.

²⁹ Dorn, N., Levi, M. and King, L. (2005) *Literature review on upper level drug trafficking*. London: HMSO

³⁰ Reuter, MacCoun and Murphy (1990) *Money from Crime: A Study of the Economics of Drug Dealing in Washington, D.C.* RAND.

³¹ Bouchard, Martin. 2006. *Segmentation et structure des risques d'arrestations dans les marchés de drogues illicites* Ph.D. dissertation, School of Criminology, University of Montreal.

³² There is the particular potential for sample bias here as the sample contained only those traffickers who had been caught.

A small number of interviewees provided quantitative estimates of the chances of getting caught, though their estimates may have been based on guesswork. One dealer using mules to import cocaine from the Caribbean estimated that one flight in four would not get through. An international transporter importing via road estimated that four out of ten did not get through. These success rates could be biased as interviewees who had high success rates may not have discussed them.

How do dealers manage risks?

The research team defined five types of risk that may affect enterprises.³³ They are defined below.

- Market risks: factors affecting the stability of the market, e.g. lack of demand for or supply of drugs.
- Business risks: factors affecting the ability to run a profitable business e.g. managing costs.
- Credit risks: factors affecting cash flow of the business e.g. drugs/money being stolen.
- Operational risks: factors affecting the logistics of undertaking transactions, e.g. being arrested.
- Risks to reputation: factors affecting whether individuals can maintain their reputation in the market.

A large number of risk management strategies were identified during the interviews. Dealers put substantial efforts into managing risks. Table 7.4 illustrates some of the risk management strategies for each risk type. The risk of informants and risk of crossing international borders (operational risks) and the cost of violence from buyers/suppliers (reputation risks) are discussed in more detail below. Credit risk is akin to legitimate enterprises experiencing bad debt or cash flow difficulties. This was discussed in the drivers of profitability section of Chapter 6.

³³ Risks developed through personal communication with a senior banker. Senior bankers are experts on managing risks in order to make profits.

Table 7.6: Example risk management strategies used by dealers

Type of risk	Risk identified	Interviewee identified risk management strategies
Market risk	Low demand	* No need for strategy because demand was found to be high and stable
Market risk	Low supply	* Find reliable supplier * Identify more than one supplier
Business risk	Financial loss through confiscation	* Separation of cash and drugs * Set up legitimate business
Credit risk	Other dealers stealing drugs/money	* Threaten violence * Actual violence
Operational risk	Getting caught with drugs/money	* Only buying drugs when a customer is lined up * Limited stockpiling of drugs * Payment of customs official * Sacrifice of mules * Many mules on one flight carrying small amounts * Employment of staff, e.g. managers, transporters, storers
Operational risk	Attracting attention of police	* Limiting the number of customers * Spend money on rental goods, e.g. rented houses, cars
Operational risk	Police monitoring of operations including use of informants	* Only work with and sell to known individuals * Using face-to-face communication or calling from a pay phone * Regularly changing phones
Risks to reputation	Inability to enforce contracts	* Threaten violence * Actual violence

Operational risks

Of the interviewees who discussed informants, the majority thought they were a risk at all market levels and for all drug types. Interviewees were at risk of informants from a number of sources. These included competitors using informing as a strategy to open gaps in markets, and customers informing if they were arrested, especially if the customers were users. The main response of interviewees to the risk of informants was to avoid working with people they did not know, could not “reference” or trust. A number of dealers consciously organised the structure of the dealing enterprise to reduce the knowledge their employees had.

Crossing international borders was identified as a key risk by interviewees, and is supported by the large mark-ups afforded to heroin and cocaine at the UK borders, presented in Chapter 5. Hauliers working as regular transporters of drugs from the continent to the UK often employed sophisticated risk management strategies, as illustrated below. The services they provided were more akin to professional services rather than simpler transportation roles. The example below presents an extreme example of a risk management strategy employed by a heroin transporter.

Keith agreed to become involved but only on the condition that he spent a year preparing, doing “straight” runs with no drugs. He did this so the customs people got used to his face, saying hello, having a little conversation, complaining about the number of boats all coming in at once when in reality this was ideal when transporting drugs. He volunteered for any European work as this would get him going back and forth through customs as much as possible. He was searched about 14 times during this year. He established a routine of trying to get through customs between 1.30am and 3/3.30am as this was when customs were most tired. This was established with only legitimate loads. Perishable goods were “ideal” as he was generally aiming for the 6am markets in London. He was under pressure from the rest of the firm to get going.

Risks to reputation

Maintaining a reputation as someone who is seen to “belong” in the illegal drug dealing business is important in a market where there are no formal contracts. *Violence or intimidation of customers and suppliers* is one mechanism by which dealers ensure they are taken seriously and their deals are enforced. A large minority of interviewees (about one third of those discussing the issue) involved in dealing all drugs at all market levels reported violence or intimidation by their suppliers.

There was variation in the distribution of violence with suppliers; however, the sample sizes available make it difficult to draw any meaningful conclusions from the data. In particular, the data suggested that there were low levels of violence from suppliers in the cannabis market. Nine per cent of interviewees involved in dealing this drug reported violent incidents with suppliers. About one quarter of interviewees provided evidence of violence and intimidation from suppliers in the ecstasy and heroin markets. Half of interviewees in the cocaine market indicated the existence of violence and intimidation from suppliers.

Analysis of the data by market level suggests the level of actual violence from suppliers is less in the lower level drug markets, although the sample sizes are small at retail and local level. For those involved in importation, over one third of those responding to the question reported actual violence with their suppliers. Of those answering the question at a national level, one fifth of those involved reported actual violence. Intimidation was considered separately to actual violence. Levels of intimidation from suppliers were higher in the importation and retail markets. One third of those responding to the question and involved in importation reported being subject to intimidation. The figure was a quarter at retail level.

How do dealers trade off risks?

There was evidence of poor risk trade-off in dealers’ decision making. Dealers within the sample often did what they described as “stupid things” and got themselves caught.³⁴ Three high level dealers interviewed stated that they were arrested as a result of stepping down a level when their staff were not able to undertake the role. One local dealer reported getting “sloppy” when his drug use was creeping up. He was initially arrested in a car he had stolen rather than for his drug dealing.

Law enforcement

Law enforcement was seen throughout the interview programme to be the risk foremost in the mind of the majority of interviewees. This section outlines interviewee responses to the impact of law enforcement on dealers’ behaviour and the specific impact of prison and asset recovery. The impact of law enforcement on price was considered in Chapter 5.

The impact of law enforcement on behaviour

A small number of dealers suggested that the risk of arrest was increasing. One cocaine retailer active in 2003, described how, of over 50 contacts that he had been involved with, only about 20 were still operating. He attributed this to an increase in sentence lengths causing people to decide to leave the trade, and the police doing a better job and cracking down, therefore more people have been caught.

Few dealers described trade-offs between the risks of law enforcement and income generated, but one importer stated, “You weigh up the risks. If there is a two per cent chance of getting captured you would be willing to work for less. If the chance was 50:50 or 70:30, the risk needs to be worth it”.

Of those drug dealers providing information on their arrest about half (45) were caught during their usual operations, but one third of dealers (29) were caught trying a new route or method. A number of dealers believed they had been caught because of informants.

³⁴ There is the particular potential for sample bias with this finding. All the interviewees had been caught.

One dealer believed he had married a woman who was a police informant and it was her who had him caught and arrested with 100,000 ecstasy tablets and several hundred kilograms of cannabis. The interviewee reported finding out that his wife had previously married two other drug dealers who had also been caught.

Dealer incompetency contributed to arrest in a large number of cases. Complacency and the soap opera lifestyles of dealers and those they associated with were also factors.³⁵ The business and personal lives of drug dealers often appeared more entwined than in legitimate professions.

An importer of cannabis and cocaine from Europe described how on a Friday night he gave his driver £300,000 to take abroad, but “the divvy decides it would be nice to lay the money on his bed, make mad passionate love to his 17-year-old girlfriend and photograph it”. When the driver took out his wife on the Saturday night, his “girlfriend turned up pissed and showed the photos to the wife”. The driver’s wife (who herself had a £2,500 per week cocaine habit) informed customs about her husband’s business trip to Belgium, and when he was stopped at Dover “the numpty goes into meltdown”. After a few months of her husband being out of work, the wife approached the cannabis importer to ask for her husband’s job back.

Impact of prison and asset recovery

Of the 75 interviewees answering questions about their sentence length, one third knew approximately the sentence length they would receive. About one quarter underestimated their sentence by more than a half and another quarter underestimated their sentences by between one quarter and a half.³⁶ Dealers viewed prison in different ways. Some talked of it as an occupational hazard while others viewed it as an unlikely risk given their perception of a low probability of being caught.

Confiscation orders, an order that enables the stripping of an offender’s proceeds from crime, appeared to present bigger challenges for dealers. A national-level distributor of heroin, cocaine and cannabis in 2004 and 2005, believed that the drugs market was not as appealing because of confiscation orders:

“People who are arrested are losing everything that they have – even the things they acquired through honest means.”

A national level heroin distributor confirmed this view stating:

“If you buy a home or a car or any possessions you will lose it when you get caught, and nearly everyone gets caught”.

It was rare for operations to totally cease following arrest. Enterprises where there were regular employees who knew how the operations were run or with multiple levels of seniority were more resilient. Most respondents who answered questions about the continuation of their operations, described that their enterprises carried on after they were arrested in some form (for example a family member or other member of the enterprise). One dealer interviewed reported continuing to run his enterprise from prison.

Summary

This chapter explored how and whether dealers exploit, manipulate or ignore market conditions in the course of their activities. This chapter specifically considered the growth of enterprises, competition, collusion and collaboration, risk management and the impact of law enforcement.

The conclusions are as follows.

- Approximately three-quarters of dealers had attempted to grow their operations. Growth was dependent on finding alternative sources of supply, especially given that two-thirds of dealers reported that their supplies did fluctuate. Eighteen dealers reported having multiple suppliers compared with 31 who reported being reliant on one supplier.

³⁵ There is the potential for sample bias because less competent dealers are more likely to be arrested.

³⁶ There is the potential for sample bias here because only those dealers who were caught were interviewed.

- The most successful dealers were able to quickly adapt to new circumstances and exploit new opportunities. These opportunities often came about through chance meetings with others involved in the drug market although ethnic ties, selling to friends who were users, having contacts within legitimate businesses that could facilitate dealing operations, and meeting contacts in prison were also identified as key factors that enabled business growth.
- There was some evidence of competition leading to reduced prices at all the defined market levels, although there was relatively little difference reported between different types of drugs. Price fixing, indicative of restricted competition, was rarely reported, with the few examples being only identified by importers and national distributors. Collusion, in relation to dividing up geographical areas or customers, was more common than price fixing. Observation of violence was found to be indicative of competition, with substantial proportions of dealers at all levels and for all drugs suggesting they used actual or threat of violence to protect their customer base. Actual violence was reported to be most common at the retail and local wholesale levels.
- When asked directly about risk, the majority of dealers considered themselves “unlucky” to have been caught; however, it was clear from the interviews that dealers often went to considerable lengths to minimise their risk of arrest. Dealers took the risk of informants very seriously and mitigated this risk by working only with known contacts. Despite this, there was no shortage of evidence of poor risk trade-off and decision making when dealers had been operating for some time and considered themselves “untouchable”.
- Risks were not limited to being caught by the police. There were also risks associated with working with other criminals. A large minority of dealers, of all drugs at all market levels, mitigated the reputational risks of not enforcing business contracts through threats of or actual violence to customers. Market risks for dealers were limited, as demand was almost universally described as high, but the 31 dealers with multiple suppliers were best placed to respond to short-term shortages in supply.
- Dealers viewed prison either as an occupational hazard or an unlikely risk. There were some instances of more established enterprises being passed over to employees or business colleagues when the interviewees were caught. This implies a limited impact of prison. Asset recovery appeared to be more troubling for dealers. Dealers who were subject to confiscation orders described potentially losing significant sums of money that they had assumed would not be taken from them.

8. Implications

This chapter expands on the key findings presented earlier by outlining potential implications of relevance both to policy and law enforcement professionals.

Entry to the market

Drug policy analysts are familiar with the notion that initiation into drug use spreads contagiously between friends, peer groups and family members.³⁷ This research provides strong evidence that initiation into drug dealing spreads in a similar manner; more than three-quarters of the interviewees entered the market through a friend or family member already involved. For individuals having the contacts, barriers to entry were negligible. The ready availability of credit meant that access to capital was not a barrier and no particular skills, other than “having balls”, were necessary for most interviewees.

Disappointingly, this implies that policy and law enforcement can do little to prevent an expansion of the network of dealers. Reducing the number of problematic drug users could be expected to have only limited impact on the number of suppliers, as most of these drug users entered the market at retail level and remained there. Policy may be restricted simply to communicating more widely the long-term harms attributable to substance misuse and/or raising the risk of enforcement, although the majority of the interviewees did not consider this risk to be particularly high. It also implies that the number of dealers can grow exponentially, as the more people there are dealing, the more people will know dealers, so the more potential dealers there are, although law enforcement activity does impose limits to dealers' operations. This positive feedback mechanism for initiation into the market, which could generate increased competition, could also explain why prices have declined despite ever-increasing law enforcement efforts and apparently rising perceived risks, though the latter may reflect the fact that the sample was recruited from those serving long prison sentences.

Growing a drug dealing enterprise

Generating growth is a key aim of legitimate businesses and was an aim of the significant majority of drug dealers interviewed. Whilst not necessarily easy in legitimate businesses, the limited information flows in illegal markets present different challenges for growing drug dealing enterprises. With the range of information and networking opportunities now available, legitimate enterprises can identify more easily than ever potential buyers, sellers, partners and competitors. In contrast, making these connections in illegitimate economies presents far greater challenges.

In attempting to regulate the illegal drugs market it is of fundamental importance to policy makers and law enforcement professionals to understand how those dealers who have successfully and rapidly grown their operations achieved this. This research suggests that although all dealers in the sample were either sole traders or worked in small-scale enterprises in terms of the numbers of people involved, some higher level dealers who were trusted did have access to wider networks. Dealers appeared to move in drug dealing circles and perhaps socialised with each other to a greater extent than those in many legitimate industries. The role of chance and the ability of drug dealers to respond to opportunities as they presented themselves were key facilitators of expansion. A number of interviewees were observed to have made step changes in their enterprises by exploiting seemingly haphazard connections, within this social arena, and in this sense were entrepreneurial.

Dealers placed a great deal of importance on ensuring they could trust people before they worked with them. Trust was often based on being friends or family, but could also be earned

³⁷ Hunt, L.G. (1974) Recent spread of heroin use in the United States. *American Journal of Public Health*, 64 (Supplement) 16-23.

through having “previous form”. This raises the possibility that careful and targeted use of informants could make dealers think more carefully about exploiting haphazard connections.

Salaried workers and professional services

Drug dealing enterprises exhibited a wide variety of structures except at retail level. Some made use of salaried staff, some were collaborative and many engaged with legitimate professions in diverse ways.

There was evidence that employees performing unskilled roles, for example runners and storers, who subsequently received long prison sentences for handling drugs, were typically paid very small proportions of both transaction revenue (less than one per cent) and profit (less than five per cent). There may be a case for communicating the sentence lengths they are risking more widely to this group.

Where more specific professional services were incorporated into enterprises they commanded higher proportions of profits. Transportation could not always be described as an unskilled role. It was described by a number of interviewees as “key” to the business and professional importers commanded high wages, particularly when paid by the kilo. This implies that disrupting drug dealing networks is not solely an exercise in targeting criminal enterprises. For example, law enforcement could consider gathering information on and speaking to haulage companies in financial difficulties who may be approached by dealers. It may also be that there is a case for tighter regulation of transport industries.

The role of law enforcement

The evidence presented suggested that the illegal drugs market is fragmented, with variation in prices between different geographical regions. A number of dealers suggested that law enforcement did act to increase prices, although there was strong evidence that drug prices overall had reduced over time. This could imply that law enforcement has the potential to impact on local areas rather than the overall drug market. The fragmented nature of the market and more difficult information flows mean that removing dealers could have a short-term impact on price. The interviews suggest that these price increases will be passed on through the supply chain, either through increased price, at higher levels, or reduced volume or purity at lower levels.

However, evidence from the interviews also suggested that while enterprises were typically small, dealers with the potential to expand quickly generally had access to wide networks. Dealers reported being able to sense the market conditions by observation, although within a fragmented market only relatively few dealers have this ability, and it was also rare for dealers working with employees or colleagues to report their enterprises completely ceasing on their arrest. The likelihood of anything other than a short-lived impact on price may be low.

Dealers exhibited a number of sophisticated risk management strategies, but were not shown to be consistently adept at judging the relative importance of risks. There were examples of poor risk trade-off decisions that could potentially be exploited by law enforcement. It is important that a proportion of police effort be distributed across all market levels and operational activities so that there are risks involved in dealing at each stage. Although, speculating somewhat beyond the data obtained during the interviews, it may be that additional resources could be used against activities that dealers find problematic, whether that is recruiting employees or accessing transportation, or against activities that dealers may not anticipate. If circumstances are unexpected, it may be more difficult for dealers to factor the potential consequences of these circumstances into their decision making. It may therefore be harder for dealers to judge whether or not to go ahead with a deal. The use of informants to gather information about what dealers are finding problematic, or what they would not anticipate could be an option worth further exploration. Informants also have the potential to identify ways of making these difficult tasks harder. A key question for policy makers and law enforcement professionals in the future is how much and how quickly these difficulties change over time.

The roles of prison and asset recovery

The findings suggested that the majority of dealers considered the risk of arrest was low, but that they devoted significant efforts to avoiding being caught. Despite the efforts to avoid being caught, attitudes to prison varied; some dealers viewed it as an occupational hazard and a small number had exploited it as an opportunity to grow their enterprises. In a number of instances, dealers described how their operations had been taken over by associates while they were inside.

In contrast, confiscation orders caused frustration and difficulties to all dealers discussing the issue. Furthermore, money laundering techniques that were used could not generally be described as sophisticated, and conversations with the financial investigators, both criminal and civil, indicated that following the money is viewed as a potentially important strategy. Existing efforts in asset recovery have sought to establish an ability to break even (i.e. to recover more money than it costs to run). This is in order to demonstrate the feasibility of scaling up asset recovery efforts. This research has demonstrated that there are also indirect impacts of asset recovery on the behaviour of dealers that are important to consider when developing policy in this area.

Concluding remarks

This research has delivered strong findings with clear and feasible implications for policy makers and law enforcement. Through completing in-depth interviews with 222 high level dealers a strong evidence base was compiled that, when added to the existing knowledge, suggests a number of practical strategies that will potentially make high level drug dealing a less attractive business.

The research has demonstrated that it is feasible to gather new and insightful information about the market conditions of the illegal drugs trade from interviewing convicted high level dealers. There is scope for further exploration of all of the themes that were covered in any future research. In completing this research it will be important to develop improved methods of targeting the individuals performing key roles, who can best provide this information. Accessing more robust sources of information for validating the results of the interviews is also important. The research team hopes that this research and the lessons that have been learned will be capitalised on in the future.

Appendix 1: Bibliography

Abt Associates (2001) *Measuring the Deterrent Effects of Enforcement Operations on Drug Smuggling, 1991-1999*. Office of National Drug Control Policy, US.

Abt Associates (2001) *The Price of Illicit Drugs: 1981 through the Second Quarter of 2000*. Prepared for Office of National Drug Control Policy, US.

Bouchard, Martin. (2006) *Segmentation et structure des risques d'arrestations dans les marches de drogues illegales*. Ph.D. dissertation, School of Criminology, University of Montreal.

Caulkins, J.P. and Reuter, P. (1998) What price data tell us about drug markets. *Journal of Drug Issues* 28 (3), 593 – 612.

Desroches, F. (2005) *The Crime That Pays: Drug Trafficking and Organised Crime in Canada*. Canadian Scholars Press.

Dorn, N. and King, L. (2005) *Literature review on upper level drug trafficking*. Online report OLR 22/05. London: Home Office.

Fiorentini, G. and Peltzman, S. (1995) *The economics of organised crime*. Cambridge: CUP.

Fritter, R. and Kaplinsky, R. (2001) *Who gains from product rents as the coffee market becomes more differentiated? A value chain analysis*. IDS Bulletin Paper.

Gruppo, A. (2003) *Synthetic Drugs Trafficking in Three European Cities: Major Trends and the Involvement of Organised Crime*. Turin, Italy.

Matrix Research and Consultancy (2006) *Drug Trafficking Debrief: Process Report to the Home Office*. Unpublished.

Matrix Research and Consultancy (2006) *Drug Trafficking Debrief: Pilot Phase Report to the Home Office*. Unpublished.

Moore, Mark H. (1973) 'Policies to Achieve Discrimination on the Effective Price of Heroin'. *The American Economic Review*. Vol. 63, No. 2, pp.270-277.

Moore, Mark H. (1977) *Buy and Bust: The Effective Regulation of an Illicit Market in Heroin*. Lexington, MA: Lexington Books.

Pearson, G. and Hobbs, D. (2001) *Middle market drug distribution*. Home Office Research Study 227. London: Home Office.

Perpetuity Research (2005) *Research into the Views and Perceptions of Drug Dealers*. Government Office of the East Midlands.

Porter, M. (1985) *Competitive Advantage: creating and sustaining superior performance*, Free Press.

Pudney, S. (2006) 'Estimating the size of the UK illicit drug market'. In Singleton, N. *et al.* (eds.) *Measuring different aspects of problem drug use: methodological developments*. Home Office Online Report 16/06. London: Home Office.

Reuter, P. and Greenfield, V. (2001) 'Measuring Global Drug Markets: How good are the numbers and why should be care about them?' *World Economics*, Vol. 2, no 4, 159 – 173.

Reuter, P. and Caulkins, J.P. (2004) 'Illegal "lemons": price dispersion in cocaine and heroin markets'. *Bulletin on Narcotics*, Vol. LVI.

Reuter, P. (2004) *The organization of illegal markets: An economic analysis*. Honolulu, Hawaii: University Press of the Pacific.

Reuter, P. and Truman, E.M. (2004) *Chasing Dirty Money: The Fight Against Money Laundering*. US: Institute for International Economics,

Reuter, MacCoun and Murphy (1990) *Money from Crime: A Study of the Economics of Drug Dealing in Washington, D.C.* RAND.

Shelley, L. (2003) 'Trafficking in Women: The Business Model Approach'. *The Brown Journal of World Affairs*, Vol. X No I pp. 119-131.

Zaitch, D (2002) *Trafficking Cocaine: Colombian Drug Entrepreneurs in the Netherlands*. The Hague: Kluwer Law International.

Appendix 2: Profile of offenders interviewed

Interviewee characteristics

Demographics

Appendix Table 2.1: Age

Age	Total	Percentage
20-29	43	19%
30-39	63	28%
40-49	59	27%
50-59	35	16%
60 and over	11	5%
Not known	11	5%
Number of interviewees	222	100%

Appendix Table 2.2: Gender

Gender	Total	Percentage
Male	210	95%
Female	12	5%
Number of interviewees	222	100%

Appendix Table 2.3: Country of birth

Country of birth	Total	Percentage
Africa	1	0%
Austria	1	0%
Bangladesh	1	0%
Barbados	1	0%
Brazil	1	0%
Colombia	3	1%
Cyprus	2	1%
Former Yugoslavia	1	0%
France	6	3%
Germany	1	0%
Ghana	2	1%
Grenada	2	1%
Guernsey	1	0%
Iran	3	1%
Ireland	6	3%
Jamaica	15	7%
Jersey	1	0%
Kenya	1	0%
Liberia	1	0%
Lithuania	1	0%
Mexico	1	0%
Netherlands	2	1%
Nigeria	14	6%
North Cyprus	1	0%
Pakistan	2	1%
South Africa	3	1%
St Vincent	1	0%
Surinam	1	0%
Swaziland	1	0%
Tanzania	3	1%
Togo	1	0%
Trinidad	1	0%
Turkey	4	2%
UK	132	59%
US	1	0%
Venezuela	1	0%
Not known	2	1%
Number of interviewees	222	100%

Appendix Table 2.4: Ethnicity

Ethnicity (UK Census ethnicities)	Total	Percentage
All Republics which made up the former Yugoslavia	1	0%
Bangladeshi or British Bangladeshi	1	0%
Black African	25	11%
Black and Chinese	1	0%
Black British	2	1%
Black Caribbean	30	14%
Black Other	4	2%
British Asian	1	0%
Cypriot	2	1%
Indian or British Indian	2	1%
Latin American	2	1%
Middle East	3	1%
Muslim mixed (White and Asian)	1	0%
Other Asian	1	0%
Other Mixed	1	0%
Other White European	10	5%
Pakistani or British Pakistani	4	2%
South American	3	1%
Turkish	4	2%
White African	1	0%
White and Asian (mixed)	1	0%
White and Black African	1	0%
White British	79	36%
White English	24	11%
White Irish	3	1%
White Other	5	2%
White Scottish	2	1%
White Welsh	2	1%
Not known	6	3%
Number of interviewees	222	100%

Offence profile

Appendix Table 2.5: Offence type

Offence	Total	Percentage
Drugs unlawful import/export	120	54%
Drugs supply	66	30%
Drugs possession with intent	25	11%
Drugs possession	2	1%
Other drugs offences	1	0%
Not known	8	4%
Number of interviewees	222	100%

Appendix Table 2.6: Sentence length

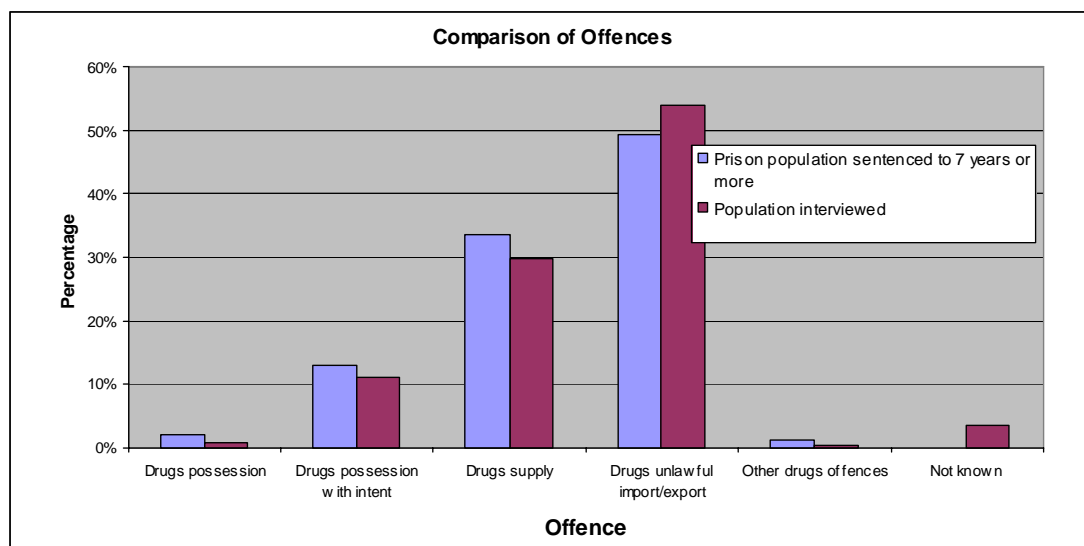
Sentence length (yrs)	Total	Percentage
under 7	13	6%
7-9	97	44%
10-14	70	32%
15-19	27	12%
20 +	13	6%
Not known	2	1%
Number of interviewees	222	100%

Appendix Table 2.7: Time since sentence

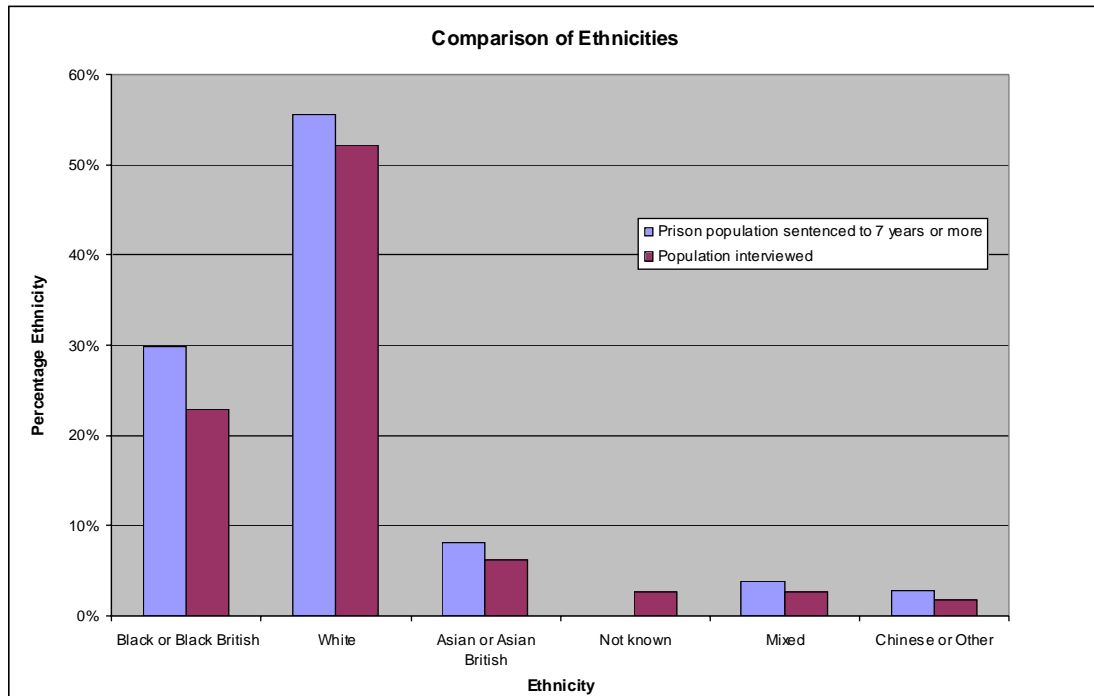
Time since sentence (years)	Total	Percentage
Less than 1	9	4%
between 1 and 2	70	32%
2-3	76	34%
4-6	44	20%
7 +	23	10%
Not known	7	3%
Number of interviewees	222	100%

Characteristics of offenders interviewed compared to the total population of offenders sentenced to seven years or more for drug-related offences (as of July 2006)

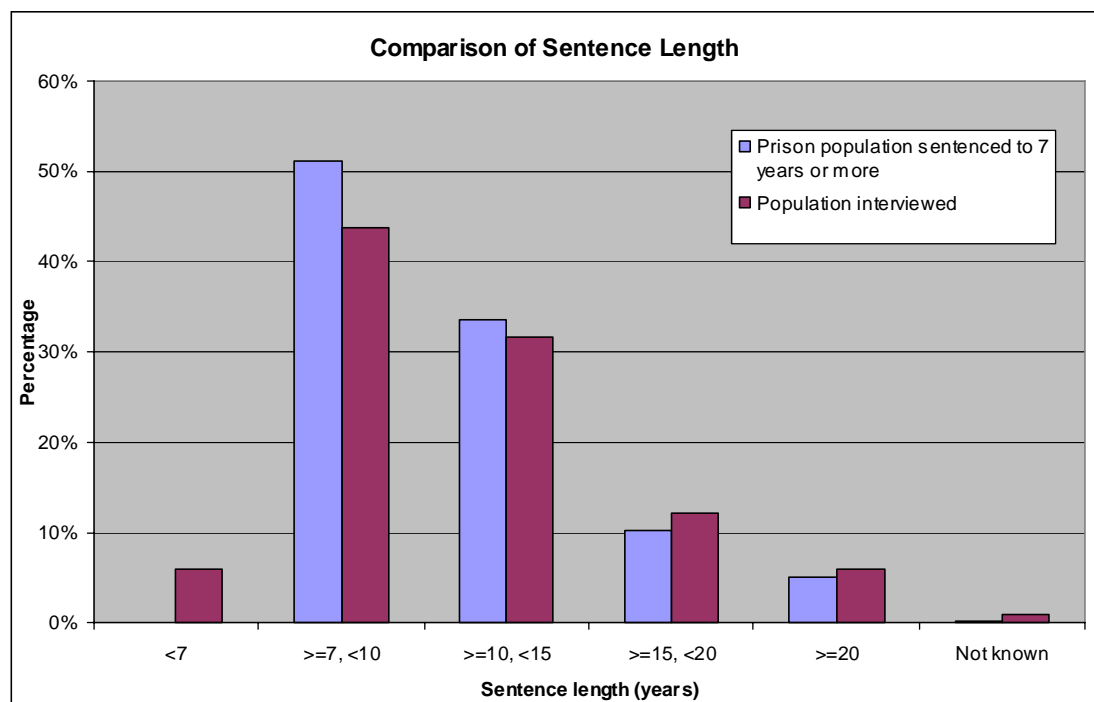
Appendix Figure 2.1: Comparison of the index offence breakdown amongst the interviewees and the prison population sentenced to seven years or more for drug-related offences (as of July 2006)



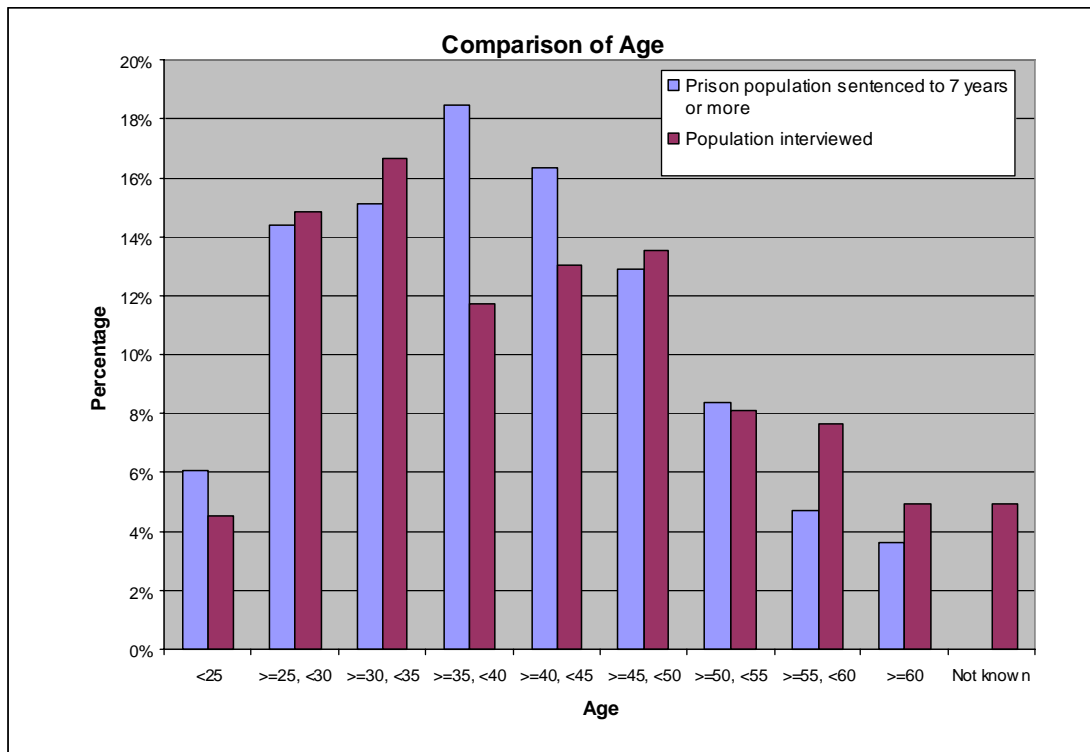
Appendix Figure 2.2: Comparison of the ethnicity breakdown amongst the interviewees and the prison population sentenced to seven years or more for drug related offences (as of July 2006)



Appendix Figure 2.3: Comparison of the sentence length breakdown amongst the pilot phase interviewees and the prison population sentenced to seven years or more for drug-related offences (as of July 2006)



Appendix Figure 2.4: Comparison of the age when sentenced breakdown amongst the pilot phase interviewees and the prison population sentenced to seven years or more for drug-related offences (as of July 2006)



Appendix 3: Lessons learned when completing interviews in prison settings

During the course of the project a number of important lessons were learned about how to successfully conduct large-scale research in prison establishments. These lessons have been documented below. The research team hopes they will be of benefit for future projects.

Home Office support

The research was greatly facilitated by the Home Office ensuring that the ethical processes necessary for undertaking work in prisons were completed in advance of the research commencing. This reassured Prison Service area managers and governors about the authenticity and importance of the research study. The Home Office were also able to facilitate the prompt organising of security clearance for the research team.

Building relationships with area managers and governors

The research team took time at the start of the project to visit prison service area managers and governors to outline the research and address any concerns they may have. Members of the research team who were to undertake the interviews conducted these visits. Visits were used to show the prison staff the interview schedule and reassure them that questions were not being asked about drug dealing activities within prisons. The visits also identified a gatekeeper or link worker within the prison who would help in the organising of the research with the research team. The visits allowed the research team to learn more about the prison, its population and the environment in which the interviews would be held.

The importance of trusted gatekeepers

Trusted gatekeepers within the prison were able to promote the research and encourage prisoners who they knew could have interesting information to share with the research team to participate. For example, within a number of prisons offenders who had not previously volunteered to take part were persuaded to by a gatekeeper on the day of the interview. The gatekeeper also ensured that the logistics of completing the interviews went smoothly and that as many interviews as possible were completed around the prison service regime. It was important that the gatekeeper had an interest in research and was in a position of some authority within the prison so that he/she could ensure prisoners were brought from their cells when the time came for them to be interviewed.

'Snowball' sampling

In one prison, one interviewee enjoyed the interview process and recommended being interviewed to his friend who had not previously volunteered to take part. Both interviews were high quality and this is potentially a good means of getting offenders to take part in research in the future.

Flexibility of approach

The extent to which the research was advertised varied within different prisons. Within one prison, a women's prison, the research was advertised more openly following initial low response rates. The advice of the gatekeeper was that a more open approach would mean the women were less suspicious as to why they were being approached. Response rates at this prison increased when this approach was taken.

Persistence and flexibility

Undertaking the research in one high security prison required over ten telephone calls and was cancelled at short notice on two occasions but interviews were eventually completed with two offenders sentenced to over 25 years. Researchers needed to be resilient and flexible when undertaking the interviews in prison. If the gatekeeper was not able to give much time to help with the organising, the research team needed to identify and negotiate politely with other staff members to ensure that they had a suitable room for undertaking the interviews and that the prisoners would be brought to the interviews. Interviews did not always fit neatly around the prisons' regimes so interviewers needed to be as flexible as possible and use their judgement about which questions would be answered most fruitfully in order to get the best quality information.

Momentum

The research project gained momentum over time. The first interviews to be undertaken took longer to organise, perhaps because the prisons were more nervous about being involved at the start of a research project that other prisons may not need to be involved with. Over time it became easier to engage prisons and by the end of the research, one prison proactively approached the research team asking if they would be asked to take part.

Appendix 4: Interview schedule

Drug Trafficker Debrief: Interview Questions (Post-Pilot)

General Introduction

1) Begin with a general conversation to warm the interviewee up. Topics might include: where they have been brought from, their job/education in prison. Always thank them for coming even if they have been brought from their cell.

2) The interviewee will have already signed a consent form but it is still important to ask them if they would like to know anything else and if so explain to each interviewee why they have been asked to take part in the research:

The London School of Economics (LSE) in partnership with Matrix is conducting research that will build a greater understanding of drug markets and may lead to a reduction in harms caused by drugs. We are hoping to describe drug markets in a similar way to the operation of any business environment. We have chosen you because we think that you have first-hand knowledge that will help us to do this. It is important that your experiences and knowledge are considered.

The LSE is one of the leading independent centres for research in the social sciences. Matrix is an independent organisation that carries out research for local and national government. We specialise in research within the healthcare, criminal justice and civil justice sectors. We are not connected to the Prison Service, the Probation Service or the Police.

3) Remind them of and if possible show them the consent form that they signed. Remind them that the research is voluntary and all data collected will be anonymous, no names will be used.

Your involvement in this study is strictly voluntary. You will not be asked to identify other persons, and information about any other people you might mention will not be recorded. We do not require information that will directly link you to specific offences. All the information you provide will be treated in the strictest confidence and will only be used for the purposes of this research. The information will not be fed back to the Prison, Probation or Police services and will be destroyed after it has been analysed.

4) Thank them for their participation and if possible offer them some refreshments.

5) Explain to the interviewee that the schedule is split into two sections: a semi-structured section and a structured section. The semi-structured section will be a conversation but with set topics covered. The structured section has response categories to choose from and show cards that they can choose their answers from.

Semi-structured Section
(1 to 1.5 hours)

Note for interviewer: Please continue through the topics/questions as detailed. Although it is a semi-structured tool and therefore there can be variation from the schedule the topics do need to be followed through as near to the order detailed as possible. Core topics are in:

this text.

Prompts that should be covered wherever possible are in:

this text.

In this section it is always important to ask WHY? If an interviewee says “I could not get out even if I wanted to” we must ask why or the data is less useful.

Whenever the interviewee is discussing an example it is important to ask and detail what DRUG they are talking about, what GEOGRAPHICAL LOCATION and what DATE.

Career Pathways

We would like to start with a conversation about how you entered the drug trafficking environment, including when, type and quantities of drugs, how and why.

ALWAYS REMEMBER TO ASK WHY, WHAT DRUG, WHAT GEOGRAPHICAL LOCATION AND WHAT DATE

1. Entry:

How did you become involved in drug trafficking/dealing?

Involved since then

Why

What drugs

What quantity

How

Who got you involved (relationship to them and role in market)

Personal circumstances at that time

Where gain knowledge from in order to start

User

Capital needed, Where from, Borrowed capital - how much did you have to pay back

Struggle to enter

Involved in other crime

What legal jobs/business involved in - involved throughout

Answer:

I would now like to discuss your career within the drug trafficking environment. I would like you to think about it across time from the beginning to the end and the changes that there were. I am going to ask you questions under the categories of types and quantities of drugs, roles conducted and people worked with.

ALWAYS REMEMBER TO ASK WHY, WHAT DRUG, WHAT GEOGRAPHICAL LOCATION AND WHAT DATE

2. Types and quantities of drugs

Drugs dealt in remain same from entry?

Always deal with one drug

Proportions of different drugs dealt with?

Most often, Least Often

Typical quantities? What?

Quantities change over time?

Increase the amount of drugs you dealt over time - Why, How, Ever increasing or fluctuating

Did you attempt to grow your trafficking business?

If so what factors were important in allowing/making this to happen

If not what factors prevented you from doing this

Answer:

3. Roles conducted and method of working:

ALWAYS REMEMBER TO ASK WHY, WHAT DRUG, WHAT GEOGRAPHICAL LOCATION AND WHAT DATE

3a. Role conducted when started dealing?

What did you do, job

Remain the same throughout career?

Regularly change

How and why did it change

3b. Method of working when started dealing?

Patterns of working, on a job to job basis, always the same – more than one

Did this remain the same throughout career?

Regularly change (haphazard/opportunistic strategy)

How and why did it change

What factors are important for a successful deal?

Reliable supplier/buyer, management of risk, planning, particular people etc

3c. Why did you carry on dealing/trafficking drugs?

Answer:

4. People worked with and known about:

ALWAYS REMEMBER TO ASK WHY, WHAT DRUG, WHAT GEOGRAPHICAL LOCATION AND WHAT DATE

Who did you work with and what were their roles?

Ask about their bosses/suppliers, people above boss/supplier, people worked alongside them, people who worked for them (including legitimate businesses, e.g. hauliers, law enforcement personnel, accountants, solicitors)

How identify people

How many suppliers, customers, workers etc (this is important)

Skills needed

Did people change, how

Pay them - pay depend on

Pay you - pay depend on

Risks working with others

How assess if safe to work with

Ever any conflicts – violence

Ever felt the threat of violence, how, why

Factors made you trust or distrust someone

How communicate with them – directly, through a third party, always same way or change methods, who initiated contacts

Answer:

5. Exit:

Did you consciously stop trafficking at any time?

Why, could you have left if wanted to, what might have made you stop, what prevented you from leaving

What has happened to your organisation/network/contacts since you have been in prison?

Answer:

General Market Knowledge

ALWAYS REMEMBER TO ASK WHY, WHAT DRUG, WHAT GEOGRAPHICAL LOCATION AND WHAT DATE

6. Costs:

Did you keep a track of the costs of doing a deal?

Costs of doing one job vary from beginning to end?

What costs are there, Why, Which costs

Did you ever pay more than usual for drugs? If so, did you sell them on for more or reduce the purity or reduce the weights?

If the costs of the person you bought the drugs from increased do you think these were passed on to you? How?

Increased price, Decreased Purity, Reducing weights

Ever do anything to try and reduce how much a drug deal would cost you?

Different suppliers, cheaper transport, reduce weights, decrease purity, pay cheaper wages

Factors affecting the price you sold your drugs for?

Prices other sellers had, willingness of customers to pay, quality of product, volume,

Answer:

7. Customers:

How many customers did you have?

Why did you choose them/they choose you?

Price, well-known, quality, reliability

Did you have to make efforts to keep customers?

Why, what

Did you usually have a customer lined up when you purchased drugs?

Ever attempt to sell drugs to new customers?

Why, How, Always need to find new customers

Did you charge different prices to different customers?

When, why, location, how well know them

Were there ever conflicts with your customers over price or purity?

Why, when, how resolved

Were there fluctuations in demand from customers? (individual customers or more generally)

Low demand, high demand, how did you respond to changes in demand?

Did you ever lose any customers?

When, why, location

8. Competition:

Did you know people dealing in the same type of and quantities of drugs as you?

Yes or no

How many

Aware of their prices, discuss prices with them, fix prices with them

Did you tend to compete or collaborate with them?

Fix areas for dealing with them

Fix which customers to sell to

People cut their prices to compete

Share information on cheaper suppliers

Share information on law enforcement activities

Lend people a supply of your drugs if they had a shortfall

Borrow drugs of another supplier if you had a shortfall

Any violence between competitors

Trust others at your level – how and why

Did other suppliers ever try and sell you drugs?

How? Did they make them seem more attractive in any way?

Answer:

9. Branding:

Were drugs branded?

Which drugs? How many brands do you know of? Effect on prices?

Did you brand drugs?

Why? Effect on the prices you sold for?

Answer:

10. Dealing with Money

I would like to talk through what happens to the money involved in buying and selling drugs.

Did you have a regular income from your deals?

Did you know how much profit you made on a deal?

Good 'return' on a deal? Variation between different drugs?

What happened to the money you made?

Spend profits on

Buy more drugs, what proportion used to buy more drugs

Invest, what proportion

Methods used to invest money

Always same method or different methods

Invest money in legitimate businesses, how know the business

Some methods more risky than others

Methods for dealing with money changed over time, why

Move money out of the country, how and why

Employ specific people to deal with money (e.g. accountants, solicitors) what tasks did they perform, how meet them, how trust them, how much pay them, how trust them, same people each time, work for just you

Did you ever have cash flow problems?

If yes: for how long? Why? Would you change strategy? Would you become involved in other crimes?

What are the benefits or problems with giving credit?

What are the benefits or problems with receiving credit?

Answer:

11.Risks

We are now going to talk about things that hindered your work within the drug dealing/trafficking environment.

ALWAYS REMEMBER TO ASK WHY, WHAT DRUG, WHAT GEOGRAPHICAL LOCATION AND WHAT DATE

When working as a dealer/trafficker tell me about any difficulties you had on a day to day basis

Logistical problems, problems getting hold of drugs, violence, drugs stolen, law enforcement agencies,

Did you think about any risks that you faced?

At what point during a deal did you feel vulnerable?

Either to LEAs or to other traffickers

Did you do anything to reduce these risks?

Did any risk prompt you to change your way of working?

Did you ever not go through with a deal?

If so, what made you decide not to?

Of the risks that you faced which concerned you most? *(see if they can rank them from most to least)*

Answer:

12. Law Enforcement Activities:

12a. Did law enforcement activities impact on the way you worked?

How and why

Change routes, stop dealing, change drugs, merge networks, change roles, increase collaboration, reduce collaboration, increase prices, work out new ways to transport drugs

Were you ever able to anticipate where and when law enforcement activities would occur?

12b. Are there key people that if taken out would significantly disrupt your work?

Why? Would it take long to fill this role?

12c. Did you change behaviour with increased knowledge/awareness of:

- a) law enforcement activities?
- b) sentencing?

Answer:

13. Getting Arrested and Imprisoned:

13a. Tell me about how you got arrested and imprisoned.

Doing something different

Working with different people

Working with different drugs

Using a different route

Conducting a different role

Aware of law enforcement activity

How much disruption did your arrest cause

What effect has being in prison (currently/previously) had on you and your trafficking career?

Desire to Exit/Re-enter

Trafficking Contacts

Knowledge of trafficking

Answer:

13b. Did you think you would go to prison if you were caught?

How long a sentence did you think you would receive if caught?

Answer:

Structured Section
(0.25 hours)

Note for interviewer. The next section is structured. You must ask each question in the order it appears and complete the relevant section of the tool.

Specific Example of a Transaction

I am going to ask you structured questions in this section that you can pick your answers from. Some of the questions will not have a choice of responses so you will need to provide us with the answer.

I would like to breakdown a specific example of a purchase and a sale including how you got the drugs, what you did with the drugs and how you sold them.

We would like the example to be the most recent transaction you completed before prison but not the one you were arrested for. Are you able to think of this example?

Purchase:

1. How long ago is this example from?

- One month before imprisonment
- Two to six months before imprisonment
- Six months to one year before imprisonment
- One to two years before imprisonment
- Two years + before imprisonment
- Other
- Don't know

2. What drugs were you dealing with?

- Heroin
- Cocaine
- Crack
- Ecstasy
- Amphetamines
- Cannabis
- LSD
- Poly drug
- Other
- Don't know

3. What quantity were you dealing with?

Insert quantity ...

- Don't know

4. What location did you get the drugs from?

.....
 Don't know

Timescales:

5. How many deals of this kind would be completed a week/month/year? (*ask as appropriate*)

.....
 Don't know

Getting the Drugs:

Price and Purity:

6. What did you pay for the drugs (£/kg)?

.....
 Don't know

7. How pure was the drug?

- 100%
- 90-99%
- 75-89%
- 50-74%
- 25-49%
- 1-24%
- Don't know

8. Did you test the purity of the drugs you bought?

- Yes
- No
- Don't know

9. Did you pay for drugs when they were given to you or after you had sold them?

- When given
- After sold
- Don't know

10. Did you shop around for good deals?

- Yes
- No (*go to 11*)
- Don't know (*go to 11*)

10b. If yes: Why and how?

.....
 Don't know

11. Was anybody else involved in organizing buying of the drug?

- Yes
- No (go to 12)
- Don't know (go to 12)

11a. If yes: How many people?

Insert quantity.....
 Don't know

11b. Did you pay them or share profits with them?

- Pay them (go to 11c)
- Share profits with them (go to 11d)
- Neither (go to 12)

Sale of Drugs:

12. What location did you sell the drug in?

.....
 Don't know

13. What weights did you sell the drug in?

.....
 Don't know

14. What price did you sell the drug on for?

Insert Price (per weight)
 Don't know

15. Did you change the purity of the drug before you sold it?

- Yes
- No
- Don't know

16. Did you have more than one customer for the drug?

- Yes
- No
- Don't know

16a. Did you sell at the same price to all customers?

- Yes
- No
- Don't know

17. Did you let customers buy drugs on credit?

- Yes
- No (*go to 18*)
- Don't know (*go to 18*)

17a. If yes: why and when?

.....
 Don't Know

Transport:

(ask as appropriate)

18. How did you transport the drugs between where you bought them from and where you sold them?

Into the UK? (*if not relevant go to 19*)

- Boat
- Plane
- Person
- Car
- Other
- Don't know

18a. How much did it cost to transport the drugs in this way?

Insert price (£'s).....
 Don't know

18b. What chance did you perceive of the drugs being stolen along this route?

- High
- Medium
- Low
- None
- Don't know

18c. What chance did you perceive of being arrested along this route?

- High
- Medium
- Low
- None
- Don't know

18d. Was there a chance that the drugs could be seized along this route but you could not be arrested?

- Yes
- No
- Don't know

18e. What chance did you perceive of the drugs being seized along this route?

- High
- Medium
- Low
- None
- Don't know

19. How did you transport the drugs between where you bought them from and where you sold them?

Around the UK? *(if not relevant go to 20)*

- Train
- Plane
- Lorry
- Car
- Other
- Don't know

19a. How much did it cost to transport the drugs in this way?

Insert cost (£'s).....

- Don't know

19b What chance did you perceive of the drugs being stolen along this route?

- High
- Medium
- Low
- None
- Don't know

19c. What chance did you perceive of being arrested along this route?

- High
- Medium
- Low
- None
- Don't know

19d. Was there a chance that the drugs could be seized along this route but you could not be arrested?

- Yes
- No (*go to 22*)
- Don't know (*go to 22*)

19e. What chance did you perceive of the drugs being seized along this route?

- High
- Medium
- Low
- None
- Don't know

Stock:

20. How long did you keep the drugs in your possession?

- Up to 1 day
- 1-2 days
- 3-5 days
- 6-10 days
- 11-20 days
- 21+ days
- Don't know

21. Did you have to pay someone to store the drugs?

- Yes
- No (*go to 21b*)
- Don't know (*go to 21b*)

21a. If so, how much?

Insert price (£'s).....

Don't know

21b. What was the chance of the drugs being:

a) seized by law enforcement agencies whilst being stored?

High

Medium

Low

None

Don't know

b) stolen whilst being stored?

High

Medium

Low

None

Don't know

22. Did you have a constant supply of stock?

Yes

No

Don't know

Payments to officials:

23. Did you have to make any payments to any officials?

Yes

No

Don't know

Money:

24. Do you know how much profit you made?

Yes

No (*go to 25*)

Don't know (*go to 25*)

If yes: how much?

(ideally per weight).....

Don't know

25. What did you do with the cash?

Spent on living

Spent on more drugs

Saved or invested the money

Other

Don't know

26. What proportion of the money did you spend on each of the different uses?

Enter % in relevant boxes

Spent on living (*end of structured questions*)

Spent on more drugs (*end of structured questions*)

Saved or invested the money (*go to 34a-e*)

Other (*end of structured questions*)

Don't know (*end of structured questions*)

26a If you invested or saved the money, where did you invest/save the money?

UK

Europe

N. America

S. America

Asia

Other (please specify)

26b If you invested or saved the money, what type of investment or savings did you make?

Property

Business

Savings account

Shares

Other (please specify)

26c Did you have to pay anyone to help you invest or save the money?

Yes

No (*end of structured questions*)

Don't know (*end of structured questions*)

26d If yes, who were they? (*not name – job role or something similar eg accountant, solicitor*)

.....

Don't know

26e How much did you pay them?

Insert price (£'s).....

Don't know

(end of structured questions)

Typologies for Analysis

1. Within the last year that you were dealing what was (for the main drugs dealt by the dealer):

- the greatest weight of bought?
- the least weight of bought?
- the greatest weight of bought?
- the least weight of bought?

- the greatest weight of sold?
- the least weight of sold?
- the greatest weight of sold?
- the least weight of sold?

Area operated	Role	Weight bought/sold					
		50 plus kilos	21-50 kilos	11-20 kilos	6-10 kilos	1-5 kilos	Less than a kilo
International	Wholesaler - buys drugs outside UK, brings in and sells in bulk						
	Buyer – buys drugs outside UK						
	Seller – brings drugs inside the UK and sells in bulk						
	Transporter – transports drugs (e.g. mule or haulier)						
UK - National	Wholesaler - buys and sells in bulk across the UK						
	Buyer – buys drugs in the UK in bulk in different areas						
	Seller – sells drugs in the UK in different areas						
	Transporter – national transportation within the UK						
UK - Local/Regional	Wholesaler - buys and sells in bulk in one area in bulk						
	Buyer – buys drugs in the UK in bulk in one area in bulk						
	Seller – sells drugs in the UK in one area in bulk						
	Retailer – sells drugs to users (dealer)						
	Storer – holds drugs between purchase and sale						
	Transporter – local transportation within the UK						

Demographic Information

Gender: Male Female

Age:

16-20 21-25 26-30 31-35 36-40 41-45 46-50
 51-55 56-60 61-65 66-70 71-75 76-80

Country of birth

Employment

Highest level of qualification achieved

Marital status

Sentence

Previous convictions

Previous custodial sentences

How many?

Prison establishment

Ethnicity:

WHITE

- 01 [British](#) 02 [Irish](#) 03 [English](#) 04 [Scottish](#) 05 [Welsh](#) 06 [Cornish](#)
- 07 [Cypriot](#) (part not stated) 08 [Greek](#) (including Greek Cypriot)
- 09 [Turkish](#) (including Turkish Cypriot)
- 10 Mediterranean (including [Italian](#), [Portuguese](#) and [Spanish](#))
- 11 All Republics which made up the former [Yugoslavia](#)
- 12 All Republics which made up the former [USSR](#)
- 13 Other White European 14 [Irish Traveller](#) 15 [Jewish](#)
- 19 Other White, Mixed White, White Unspecified

MIXED

- 21 White and Black Caribbean 22 White and Black African 23 White and Asian
- 24 Black and Asian 25 Black and Chinese 26 Black and White
- 27 Chinese and White 28 Asian and Chinese 29 Other Mixed, Mixed Unspecified

ASIAN

- 41 Indian or British Indian 42 Pakistani or British Pakistani
- 43 Bangladeshi or British Bangladeshi 44 Mixed Asian
- 45 Hindu 46 Moslem 47 Sikh 48 Punjabi 49 Kashmiri
- 50 East African Asian 51 Other Asian British Asian Asian Unspecified

BLACK

- 61 Caribbean 62 African 63 Mixed Black
- 64 Somali 65 Other Black, Black British, Black Unspecified

CHINESE OR OTHER

- 81 [Chinese](#) 82 Africa - colour not defined 83 Middle East 84 [Arab](#)
- 85 Vietnamese 86 Any Other Group

Anything Else

Is there anything else that you would like to discuss that we have not talked about today?

THANK YOU FOR YOUR PARTICIPATION

Produced by the Research Development and Statistics Directorate, Home Office

This document is available only in Adobe Portable Document Format (**PDF**) through the RDS website

<http://www.homeoffice.gov.uk/rds>

Email: public.enquiries@homeoffice.gsi.gov.uk

ISBN: 978 1 84726 550 0

© Crown copyright 2007