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Global and Australian Heroin Markets

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**Amy Gibson, Louisa Degenhardt, Libby Topp,
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LIST OF ABBREVIATIONS

ADIS	Alcohol and Drug Information Service
AFP	Australian Federal Police
ALP	Australian Labor Party
DEA	Drug Enforcement Agency
EUR	Euro
HIV	Human Immunodeficiency Virus
IDRS	Illicit Drug Reporting System
IDU	Injecting Drug User
LCP	Liberal Country Party
LSD	Lysergic Acid Diethylamide
NCADA	National Campaign Against Drug Abuse
NSW	New South Wales
NT	Northern Territory
PDR	People's Democratic Republic
R & R	Rest and Recreation
SP	Starting Price
TAS	Tasmania
UN	United Nations
US	United States

EXECUTIVE SUMMARY

Introduction

This report has been prepared in order to provide a contextual background describing the heroin markets of the world, and Australia in particular. It covers opium cultivation, heroin production and the trafficking of heroin from the different opium cultivation areas to the final market destinations. In Australia, the history of both opium and heroin consumption and supply are detailed from the first instances of opium smoking in the country to the diverse heroin markets of the 1990s in Sydney and Melbourne.

Global heroin markets

Opium cultivation

Opium has been grown over large areas of Asia for many centuries. Afghanistan, in South West Asia has been the world's largest opium producer for the last decade; followed by Myanmar, in South East Asia. Other opium-cultivation areas such as the People's Democratic Republic (PDR) of Lao, Central and Southern America produce relatively little in comparison. In 2001, Afghanistan experienced a 94% reduction in opium output due to political disturbances in the country. In 2002, opium cultivation returned to pre-2001 levels, with Afghanistan producing 76% and Myanmar producing 18% of world opium. Opium cultivation in the South East Asian area has decreased steadily since the mid-1990s.

Opiate trafficking

Based on opiate seizure data, trafficking routes from Afghanistan pass through Iran, the Balkans, Pakistan and Central Asia to Europe. In recent years, traffic on the Central Asian route and through the countries of Eastern Europe appears to have increased.

There are many different trafficking routes from Myanmar through Asian, and these pass through Malaysia, Singapore, Hong Kong, Thailand, Vietnam, Sri Lanka, India, and China. These trafficking routes have also changed over time, and there has been an increased level of traffic through Southern China, down the Mekong River, and through the Andaman Sea along the Southern Myanmar coastline.

Heroin supply

For the last decade, the West European heroin market has been primarily supplied by South West Asian heroin, whereas the Australian and Canadian markets receive the majority of their heroin from South East Asia. In the early 1990s, the United States was supplied by South East Asian heroin, but this changed from 1994 when South East Asian supply was disrupted. Heroin producers from Columbia took over to become America's main source of heroin supply.

Opium and heroin prices

Opium prices at the point of cultivation (farm-gate prices) are directly related to the size of the harvest. The farm-gate price for Afghanistan heroin soared in 2001 whereas farm-gate prices in Myanmar and Lao PDR have remained relatively consistent since the mid-1980s.

Wholesale heroin prices in the heroin markets of Western Europe and the United States have steadily decreased over the last decade, and the increase in farm-gate prices in Afghanistan was not reflected in price increases in Western Europe. The Canadian market experienced no obvious changes in heroin prices, unlike the Australian market, which experienced increases in price during 2001.

Australian heroin markets

History of Australian heroin markets

Australia had extensive use of quasi-medical use of opiates in the 19th century. Progressive restrictions on the access to opiates began in the 1890s and continued until heroin was prohibited in the mid 1950s.

There was a large scale illicit cocaine market in 1920s and 1930s but, with the exception of some limited heroin use among the Sydney Chinese community in the late 1950s, illicit heroin use largely began in Australia in the early to mid 1960s when it was introduced by American servicemen on R & R leave.

The size of the illicit heroin market increased after the end of the Vietnam War with the development of organised heroin trafficking between Australia and South East Asia, as

criminals who had previously derived their incomes from prostitution and gambling moved into drug importation. The heroin market was also allowed to grow further due to continued police protection established during policing of more traditional criminal activities of gambling and prostitution. During the mid-1980s, increases in the number of heroin users lead to the creation of the National Campaign Against Drug Abuse.

Australian heroin markets in the 1990s

The increased availability, decreased price and increasing quality of heroin in the mid-1990s were all indicators of an expanding heroin market, and were accompanied by a steep rise in heroin overdose deaths. This was the state of Australian heroin markets in 1999; the year before the first reports commenced that heroin had suddenly become very difficult for experienced heroin users to find.

1. INTRODUCTION

This report provides an overview of both historical and recent trends in global heroin production, trafficking and supply. It aims to document: (i) the cultivation of opium and the production of heroin; (ii) the areas in which production is concentrated; (iii) the current knowledge on the global routes of heroin trafficking; and (iv) document the sources of heroin of the major heroin markets such as Europe, the United States of America, Canada and Australia. Opium and heroin prices at different stages of the global production and supply chain are investigated. A brief description of the associated production and trade in chemicals used for the production of heroin from opium is included.

Heroin markets in Australia are documented, including the first incidences of opium smoking by Chinese immigrants and the appearance of heroin as a drug of abuse at the time of the Vietnam War. Legislative changes regarding the use of opium, heroin and other drugs are discussed with each change in the drug markets, as are the incidences of corruption within the police forces that potentially contributed to the expansion of Australia's heroin market. Changes leading up to and including the expansion of the heroin market in the 1990s are discussed with particular reference to the prominent heroin markets of Sydney and Melbourne, cities which together contain the majority of Australia's heroin users.

2. GLOBAL HEROIN MARKETS

2.1. An historical perspective on opium and heroin

2.1.1. Historical use of opium

Opium is one of the oldest medicines known to humans. The writings of the Sumerians suggest that they used opium in 3300 BC for medicinal and recreational purposes (Fernandez, 1998). The Chinese were familiar with the therapeutic qualities of opium before 1000 AD (Rolls, 1992), and it was incorporated into Western European medicine by the 16th century (Berridge, 1987). Opium was usually taken orally until the 17th century, when the supply of opium and tobacco by the Dutch East India Company led to a diffusion of opium smoking throughout Asia. By the 18th century, opium was established as a major trade commodity. Chinese opium consumption escalated throughout the 19th century because of organised opium trafficking by British and American traders. Chinese efforts to stop the trafficking culminated in the Opium Wars (Harding, 1988).

During the 19th century, opium use increased in Great Britain, where it had been acclaimed as a panacea when introduced some centuries earlier, and also in the United States (Berridge, 1987, Cowell, 1997). Opium was usually consumed orally, in a large range of commercial preparations known as ‘secret remedies’ (Berridge, 1987). By the end of the 19th century, Australia had the world’s largest per capita consumption of proprietary medicines (Manderson, 1993), many of which contained opium (Section 3).

2.1.2. Opium cultivation and heroin production

Heroin (diacetylmorphine) is produced from the opium poppy, *Papaver somniferum*, and belongs to the opium family. Opiates such as morphine, opium and codeine are all derivatives of the opium poppy, whereas methadone and pethidine are synthetically produced opioids (Australian Crime Commission, 2003).

The opium poppy can be grown at high altitudes in poor soils, and in some parts of the world is the only convenient cash crop for peoples living over 1000 metres above sea level (Williams, 1980). As heroin is dependent on opium poppy crops, there are many

risks involved with its production. Opium cultivation is visible from aircraft or satellite, is susceptible to drought, floods and frost, and is reliant on skilled labour for cultivation (Gordon, 2001).

Once a crop of opium poppies is ready for harvesting, the poppy seed pods are carefully scored with a knife to allow the milky sap inside to seep out and harden to form a brownish-black gum. This gum is opium in its rawest form and is generally shaped into bricks or cakes for transportation. Opium gum is then processed into morphine base, then to heroin. Extraction of heroin from raw opium reduces the weight and volume to one tenth and requires both precursor chemicals and reagents (Williams, 1980); (United States Drug Enforcement Administration, 2000). This extraction is generally done close to the site of production. The predominant chemical used in the production of heroin is acetic anhydride. Approximately one kilogram of acetic anhydride and one kilogram of morphine is required to produce one kilogram of heroin (Australian Bureau of Criminal Intelligence, 1996). Other chemicals used in the synthesis of heroin from opium include acetone, diethyl ether and hydrochloric acid (NSW Police, personal communication, 2003).

It is estimated that approximately 50% of the reagents are common to the production of both heroin and methamphetamine (Senior Australian Government Law Enforcement Officer, personal communication, 2003). China is a major producer of the precursor chemicals for the production of both heroin and methamphetamine, including acetic anhydride, potassium permanganate and piperonylmethylketone. Although China vigilantly monitors exports of these precursor chemicals, some diversions do occur (United States Department of State, 2003). Japan is also a producer of precursor chemicals including ephedrine (Reid and Costigan, 2002). Twenty percent of the global production of acetic anhydride is estimated to occur within the member states of the European Union (European Monitoring Centre for Drugs and Drug Addiction, 2002).

2.1.3. History of opium cultivation

Historically, cultivation of the opium poppy has occurred in dry, warm climates over large parts of Asia, including the modern countries of Turkey, Iran, Afghanistan, Pakistan, India, China and other regions (Williams, 1980). Recorded opium cultivation

occurred first in the Mesopotamian, Egyptian and Cypriote civilisations, then in Persia and India some three thousand years later.

South and West Asia

There have been reports of opium cultivation along the western seacoast of India since the early 14th century. Poppy cultivation became a state monopoly in the first Moghul dynasty (1524-1530) and an important commodity of trade with China. The opium monopoly was taken over by the British East India Company in the mid 18th century. During this time the British had more than a million registered farmers growing opium for the East India Company in 500,000 acres of prime land, and opium production was common in regions such as Bengal and Kashmir (Reid and Costigan, 2002). During the era of the British East India Company in the 18th and 19th centuries, the British sponsored the growth of opium throughout the East Asian region but most prominently in British India and Yunnan province, China (Gordon, 2001).

From the 18th century, when Pakistan was under British colonial rule, the taxes and levies from legal opium production were important sources of income for the authorities. After Pakistan achieved independence in 1947, commercial domestic opium production was encouraged to replace the opium imported from India. Between 1955 and 1975 annual opium production was estimated at 7.2 metric tons, and this increased dramatically to 800 metric tons in 1979. Poppy cultivation dropped substantially from 24 metric tons in 1996/1997 to approximately 11 metric tons in 2000. Most opium is cultivated in the regions closest to Afghanistan's main production areas (Reid and Costigan, 2002).

Opium has been a traditional crop in some parts of Afghanistan since the 18th century, following its introduction, purportedly by Alexander the Great more than 2,000 years ago (Cowell, 1997). In 1932, Afghanistan produced an estimated 75 tons of opium, in comparison to the 6,000 tons produced by China. From the late 1980s onwards, with intense fighting and civil war destroying agriculture and other income generating activities, opium production increased dramatically (Reid and Costigan, 2002). Afghanistan became the world's leading opium-producing country in 1991 (United Nations Office on Drugs and Crime, 2003); (Australian Crime Commission, 2003).

Iran was also an important opium producing centre for centuries, both for domestic use and for trafficking to other countries. Cultivation of opium was prohibited in 1955 and both the production and exports of opium fell sharply. Supervised opium cultivation was once again permitted in 1969 due to the large opium-using population in the country, and nationwide opium maintenance programs were initiated. Before the Islamic Revolution in 1979, there were an estimated 33,000 hectares of opium under cultivation, but this had reduced to an estimated 3,500 hectares in 1993 and negligible levels in the late 1990s (Reid and Costigan, 2002).

Central and South East Asia

China and Hong Kong have a long history of involvement in opium trafficking, although it has not always been opium travelling out of China. In payment for tea purchases, the British East India Company smuggled Indian-produced opium into China, and by the early 19th century importation was at about 250 tons annually (Reid and Costigan, 2002). Opium cultivation in China was prohibited by the Emperor in 1799, but opium smuggling by the British and the Americans continued. This finally led to two Opium Wars between the Chinese and the British in 1839 and 1856. When the Chinese Government burnt a large shipment of opium from British merchants in 1839, Britain sent gunboats to attack and the first Opium War began. When China lost, the British legalised the importation of opium into China, and Hong Kong came under British control in the Treaty of Nanjing (Cowell, 1997).

With all restrictions on the importation of opium lifted, the British colonial Government established Hong Kong as one of the largest business centres for opium flowing into China, trafficking 2,555 tons of opium in 1840. In 1918, the opium trade accounted for almost 45% of the colonial Government's revenue (Reid and Costigan, 2002). Opium cultivation in China had already become more widespread around the time of the first Opium War, and by the early 20th century, China was harvesting enough opium to supply the estimated 15 to 20 million people in the country addicted to opium and 100 million non-addicted opium-smokers (Reid and Costigan, 2002, United Nations Drug Control Program, 2000). In 1946, when opium was reclassified under the Dangerous Drugs Ordinance, heroin soon became the drug of choice as it was less bulky to ship and cheaper to purchase (Reid and Costigan, 2002).

Chinese opium production has decreased over time with law enforcement efforts, including aerial surveillance of suspected opium poppy planting regions by the National Narcotics Control Commission and Forestry Department since 1992. The State Council reports that the illegal cultivation of drug plants in China has been virtually eradicated (Information Office of the State Council of the People's Republic of China, 2000).

Under British colonial rule of the Straits Settlements, Singapore also became a part of the opium trade in the early 19th century. By 1819, the Government was earning more than half its funding by leasing an opium franchise to the Chinese.

In Lao PDR, the trading of opium expanded with the arrival of Chinese traders and French colonial rule in the 19th century (Reid and Costigan, 2002). In 1899, French colonialism in Lao PDR consolidated the processing, trafficking and sales of opium into a single monopoly that supplied opium for smoking in government-owned opium dens. By 1918, 115 tonnes of opium was sold annually from domestic crops, and more supplies were imported into the region (United Nations Drug Control Program, 2003). Opium production, use and sale were prohibited by the Royal Lao Government in 1971, although ethnic minorities could obtain permits to cultivate opium poppy (Reid and Costigan, 2002).

Vietnam has a long history of opium cultivation, used medicinally and to relieve hunger in some ethnic minorities in the mountainous areas of the country. The Government first made efforts to eradicate opium cultivation after the country's independence in 1945, but this proved unsuccessful by the early 1960s (Reid and Costigan, 2002). The levels of opium production in Vietnam have continued to decrease since mid-1990 (Commission on Narcotic Drugs, 2003), although some cultivation continues in the north-western provinces (Reid and Costigan, 2002).

Opium cultivation in north-eastern Myanmar is believed to have been introduced by Chinese traders from Yunnan province in the 17th century (Reid and Costigan, 2002). The British gained control of the Shan State in northern Myanmar in the late 19th century and continued in their attempts to monopolise the opium trade (Cowell, 1997). Despite opium trading in Myanmar becoming illegal in 1906, the cultivation of opium poppies continued in the Shan State (Reid and Costigan, 2002).

Myanmar gained independence from the British at the end of World War II. In the 1950s, as the Chinese Government tightened control, opium poppy cultivation was further forced out of the Chinese province of Yunnan, and into northern Myanmar (Gordon, 2001). Since this time, opium poppy cultivation has been a major source of income for separatist groups in Myanmar and the market expanded considerably during the Vietnam War (Gordon, 2001), during which time there was a growing demand for opium both in the West and among the American troops: estimates suggested that 34% of all American troops in Vietnam commonly used heroin (Robins et al., 1975).

Historically, opium cultivation in Thailand has occurred in the northern border areas near Myanmar and Lao PDR, in the Chiang Mai, Chiang Rai, Hong Son and Tak provinces. Here it has been grown by many of the tribal communities as a source of cash and for cultural and medicinal uses (Reid and Costigan, 2002).

Central and South America

Following the end of the Vietnam War in the mid 1970s, there was a search for a new source of opium for the American markets. “Mexican Mud” heroin temporarily replaced “China White” heroin until 1978 when the United States Government sprayed Mexican poppy fields with Agent Orange (Cowell, 1997). In the last decade, Central and Southern American opium production regions have only contributed a small part of world opium supplies. Mexico and Columbia were the two major countries in this region to cultivate opium poppy in 2002. Mexican heroin is generally lower grade brown heroin or “black tar” compared to the white heroin produced in Columbia. The brown colour of this form of heroin is due to insufficiently purified morphine and is often contaminated with procaine and methapyrilone hydrocarbons (Australian Bureau of Criminal Intelligence, 2000). There is some evidence recently that traffickers operating in Mexico are seeking the expertise of Columbian chemists to produce higher grade heroin for export (United States Drug Enforcement Administration, 2000). After a year of high opium production in Columbia in 1994 (United Nations Office on Drugs and Crime, 2003), between 1995 and 2001, the area under cultivation for opium poppy in Columbia remained relatively stable at between 6,000 and 7,500 hectares (Australian Bureau of Criminal Intelligence, 2001).

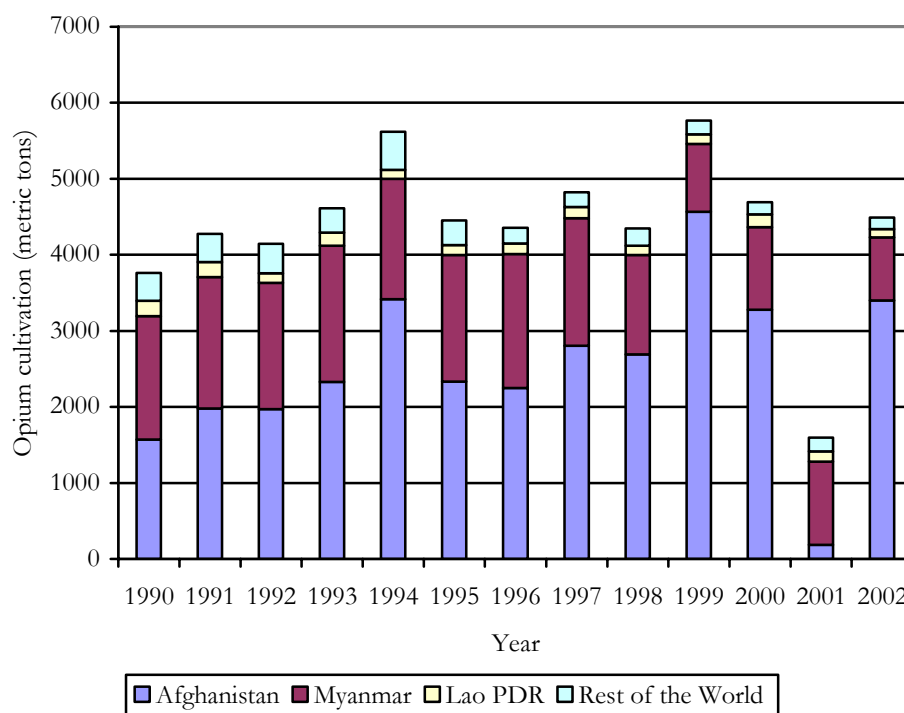
2.2. Current major opium cultivation regions and recent trends

Currently, the majority of the world's opium is cultivated in three regions: South West Asia's "The Golden Crescent" (Afghanistan), South East Asia's "The Golden Triangle" (Myanmar, Lao PDR, Thailand) and in Central and Southern America (Columbia and Mexico) (Figure 2.1). Of these regions, South West Asia accounts for most cultivation, with 76% of the world's opium cultivation in 2002 attributed to Afghanistan (United Nations Office on Drugs and Crime, 2003). Most opium cultivation in South East Asia occurs in Myanmar, which cultivated 18% of world opium in 2002 (United Nations Office on Drugs and Crime, 2003). In comparison with Afghanistan and Myanmar, Central and Southern America are minor opium cultivators (Australian Crime Commission, 2003), producing about 3% of the world's total in 2002 (Commission on Narcotic Drugs, 2003); Figure 2.2).

Figure 2.1: Global opium cultivation regions in the last decade



Figure 2.2: Global opium cultivation 1990-2002

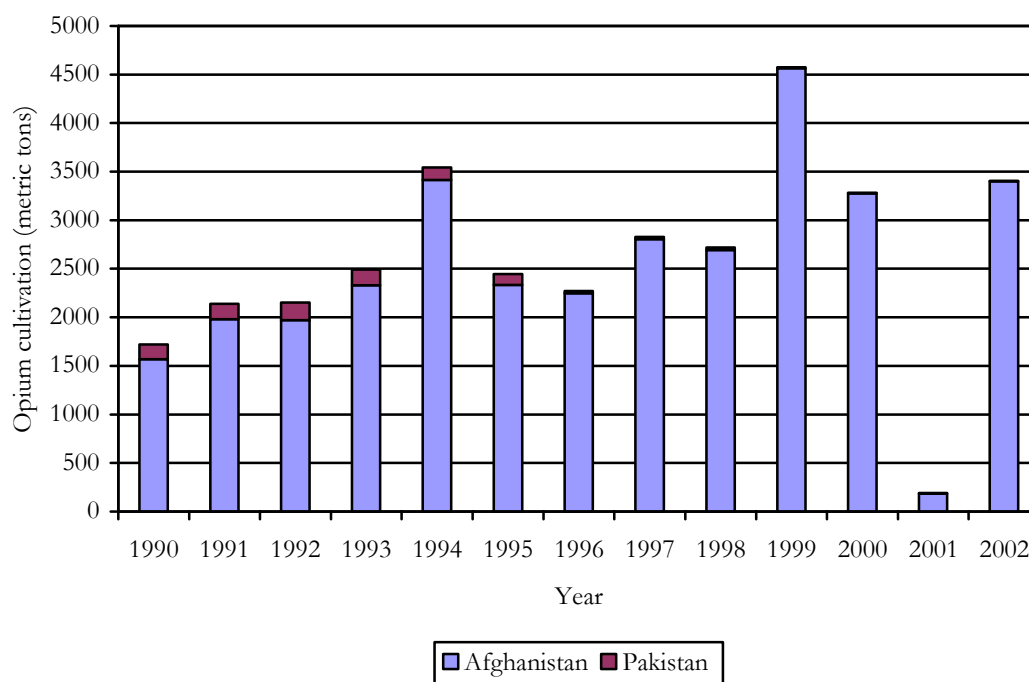


Source: United Nations Office on Drugs and Crime (2003)

2.2.1. Opium cultivation in South West Asia (Golden Crescent)

World opium cultivation experienced a dramatic change after the 27th July, 2000, when the Taliban party of Afghanistan imposed a total ban on the cultivation of opium poppies. The high degree of compliance with this ban resulted in a 94% reduction in opium poppy yields in Afghanistan from the 2000 to the 2001 harvest (Figure 2.3) (United Nations Office for Drug Control and Crime Prevention, 2002a). As a result, the world cultivation of opium was estimated as 1,600 tons in 2001, compared to approximately 4,700 tons in 2000 (United Nations Office on Drugs and Crime, 2003). The ban on opium cultivation renewed by the Afghan Interim Administration after the overthrow of the Taliban following September 2001 was only mildly effective (Australian Crime Commission, 2003) and 4,600 tons of opium were produced globally in 2002 (Figure 2.2) (Commission on Narcotic Drugs, 2003).

Figure 2.3: South West Asian opium cultivation 1990-2002



Source: United Nations Office on Drugs and Crime (2003)

2.2.2. Opium cultivation in South East Asia (Golden Triangle)

Three years of drought in the opium cultivation regions of South East Asia, followed by abnormal flooding, resulted in 1999 having the Golden Triangle's lowest opium cultivation levels in a decade (Figure 2.4; (Gordon, 2001). This drought had the greatest effect in Myanmar, where the area planted with opium poppies decreased by 16% to 130,300 hectares (Australian Bureau of Criminal Intelligence, 2000).

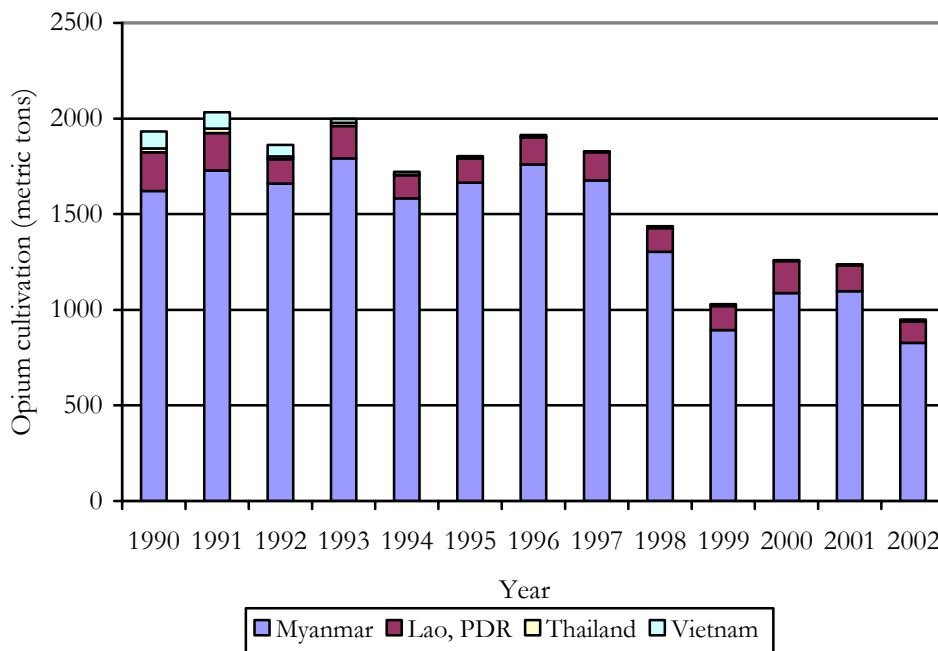
The levels of opium cultivation in Thailand have continued to decrease since the mid-1990s (Commission on Narcotic Drugs, 2003). Opium crop replacement programs have been associated with a decrease in the area under opium cultivation from 9000 hectares in 1985 to just over 1000 hectares in 2001 (Commission on Narcotic Drugs, 2003). In an attempt to avoid eradication efforts by the Thai authorities, farmers have been planting crops outside traditional cultivation times and using fertilizers and irrigation systems (Office of the Narcotics Control Board, 2002).

In 2001, Myanmar's opium cultivation remained relatively stable while Afghanistan's opium cultivation decreased (Figure 2.4). This resulted in Myanmar being the world's largest opium cultivator for the year 2001 (1,097 tons), compared to 838 tons in 2002 (Commission on Narcotic Drugs, 2003), when Myanmar was the world's second largest cultivator of opium after Afghanistan. It should be noted that the 2002 figures came from the first United Nations International Drug Control Program (UNDCP) comprehensive survey of opium poppy cultivation using a combination of extensive fieldwork and satellite imagery (United Nations Office for Drug Control and Crime Prevention, 2002b). Since this survey used a different methodology than 2001 and previous years, the significance of the decrease between the 2001 and 2002 production levels is yet to be determined (Australian Crime Commission, 2003). Qualitative interviews with village headmen indicated that the number of opium poppy fields decreased between the 2001 and 2002 poppy seasons (United Nations Office for Drug Control and Crime Prevention, 2002b). According to eradication statistics, 92% of Myanmar's opium poppy cultivation in 2002 occurred in Shan State, a mountainous region with limited road access near the Chinese border (United Nations Office for Drug Control and Crime Prevention, 2002b). Most opium poppy fields are sown in October and harvested in February, with the harvest in southern Myanmar occurring earlier than in the northern regions. Unlike in Thailand (Office of the Narcotics Control Board, 2002), two crops per year in Myanmar are not common, although this was not investigated in great detail by the 2002 survey (United Nations Office for Drug Control and Crime Prevention, 2002b).

Within the Shan State, 46% of the opium poppy cultivation takes place in the northern region, and 22% occurs in the Wa Special Region (United Nations Office for Drug Control and Crime Prevention, 2002b). The Wa special region is an autonomous region in one of the poorest areas in Myanmar with a history of conflict, isolation and poor infrastructure. Opium poppy cultivation is primarily poverty-driven, although with a project to develop infrastructure and achieve rice self-sufficiency, the Wa Central Committee aims to phase out poppy cultivation by 2005 (United Nations Office for Drug Control and Crime Prevention, 2002b). This would be more likely to occur if viable alternatives to opium cultivation were made available to farmers, and only if heroin production and trafficking were no longer considered a desirable method of income generation for key players in that area.

Lao PDR is currently the third largest opium cultivator in the world after Afghanistan and Myanmar (Australian Bureau of Criminal Intelligence, 2000), and produced two percent of the world's opium in 2002 (United Nations Office on Drugs and Crime, 2003). In the late 1990s, 32% of villages in the northern provinces cultivated opium to generate or supplement cash income (Reid and Costigan, 2002). Between 1992 and 1998, the number of hectares under opium poppy cultivation increased (Australian Bureau of Criminal Intelligence, 2000). This was followed in 1999 by decreasing levels of opium production, and in the 2001/2002 season there were 14,052 hectares under cultivation, the lowest on record since 1992 and a reduction of 19% from the preceding season (Australian Crime Commission, 2003). Domestic production of heroin is limited although some laboratories are located in the northwest of the country (Reid and Costigan, 2002).

Figure 2.4: South East Asian opium cultivation 1990-2002



Source: United Nations Office on Drugs and Crime (2003)

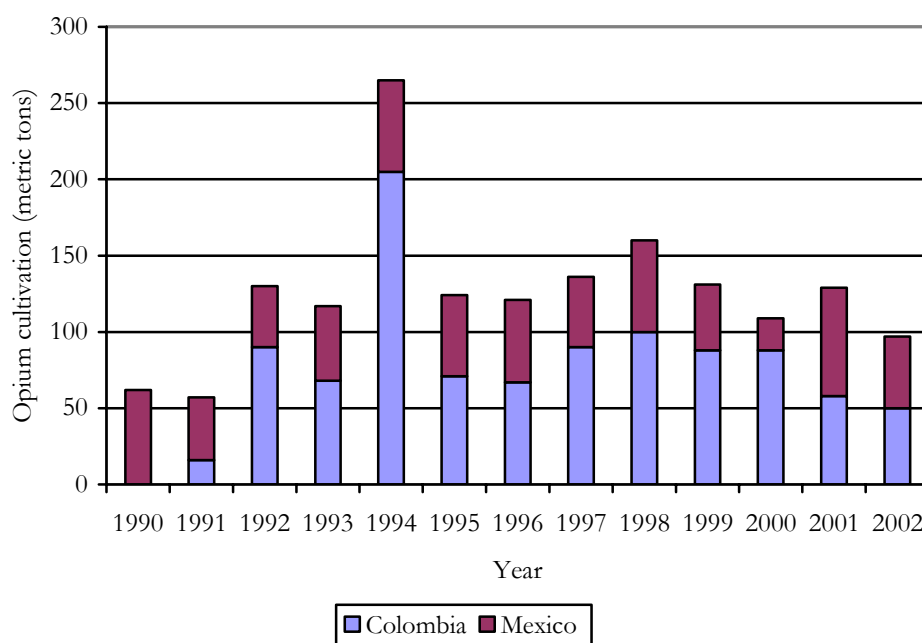
2.2.3. Opium cultivation in Central and Southern America

Opium cultivation occurs in Columbia and Mexico (Figure 2.5). The first reports of heroin production in Columbia appeared around 1992 when drug lords were said to be introducing high grade heroin into the United States (Cowell, 1997).

Columbia cultivated one point seven percent of the world's opium poppy in 1999 (Australian Bureau of Criminal Intelligence, 2001). After a United States-sponsored aerial eradication program, preliminary estimates show Columbia had an estimated 3,828 hectares of opium poppy under cultivation in 2002, a reduction from 2001 (6,500 hectares). Almost all heroin produced in Columbia is exported to the United States (United States Department of State, 2003).

In 1999, Mexico cultivated one percent of the world's opium poppy (Australian Bureau of Criminal Intelligence, 2001), however this amount is significant as the vast majority is converted into heroin to supply the United States market (United States Drug Enforcement Administration, 2000). Opium poppy is primarily grown in the inaccessible regions of the Sierra Madre Mountains. In these mountains, opium yields are higher due to larger plants and greater numbers of poppy bulbs per plant (United States Drug Enforcement Administration, 2000) and favourable climate and terrain mean that two or three harvests per year are possible. In 2001, Mexico had an area under cultivation of 4,400 hectares and this decreased to 2,700 hectares in 2002 (United States Department of State, 2003).

Figure 2.5: Central and Southern American opium cultivation 1990-2002



Source: United Nations Office on Drugs and Crime (2003)

2.3. Opiate trafficking routes

Drug trafficking trends are assessed primarily on the basis of seizure data. It should be noted that seizures are indirect indicators of drug trafficking trends, because they also reflect the intensity and effectiveness of law enforcement efforts (Commission on Narcotic Drugs, 2003). Since the world's two largest illicit opium production areas are in Asia, it is not surprising that the majority of global seizures of opiates occur in this region. In 2001, 69% of all opiates seizures were in Asia, 25% were in Europe and six percent were in the Americas (United Nations Office on Drugs and Crime, 2003). The four highest ranking countries for opium seizures in 2001 were Iran (76%), Pakistan (5%), Tajikistan (4%) and China (3%). Heroin and morphine seizures in 2001 show a slightly different pattern and the four highest ranking countries were China (20%), Iran (19%), Pakistan (13%) and Turkey (8%; (United Nations Office on Drugs and Crime, 2003).

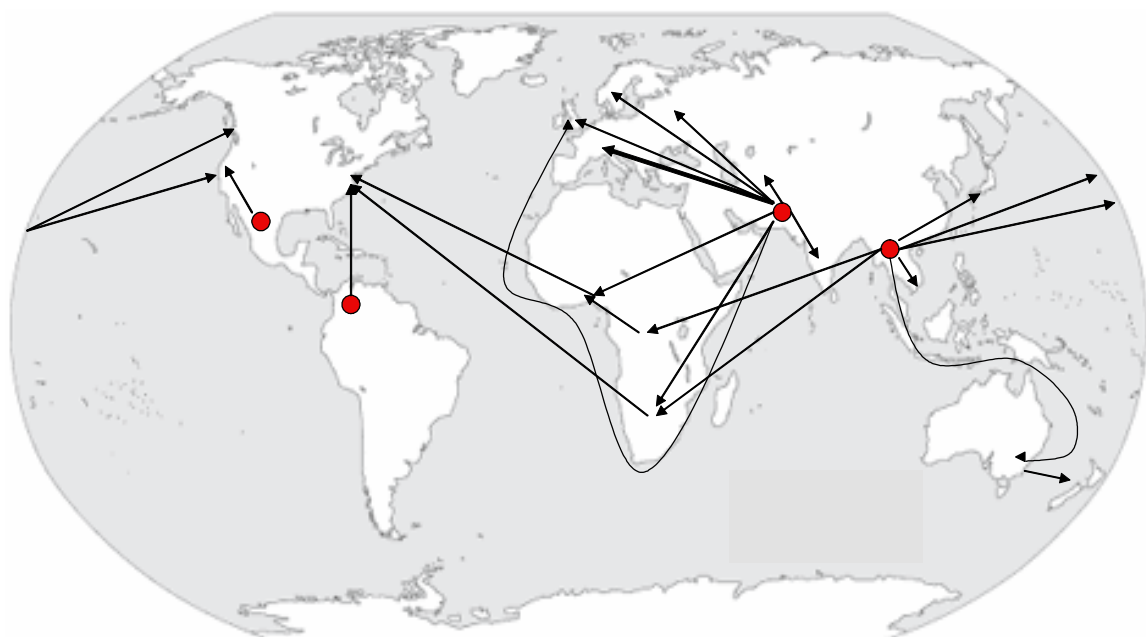
Currently, drug trafficking groups in South West Asia supply the bulk of the European heroin market, and groups in South East Asia predominately supply the markets in North America and Oceania (United Nations Office for Drug Control and Crime

Prevention, 1997). Opium produced in Central and Southern America mainly supplies North America (Commission on Narcotic Drugs, 2003).

There has been a recent shift in opiate trafficking patterns, particularly in South West Asia. Most heroin processed closer to the sites of cultivation, so a higher proportion of opiates are being trafficked as heroin whereas seizures of opium and morphine are beginning to decrease (Commission on Narcotic Drugs, 2003). One likely reason for this trend is that refined forms of opium such as heroin are more compact and easier to conceal.

From 2000 to 2001 there was an overall decline in global seizures of opiates, this decrease being greater for morphine and opium than for heroin. The overall decline in seizures is related to the decreased production in South West Asia in 2001 (Commission on Narcotic Drugs, 2003). Excluding the transient decrease in 2001, global levels of heroin seizures are rising steadily. A record level of 53 tons of heroin was seized in 2000 (10 to 20% of heroin production levels). The 50 tons seized in 2001, represented the second highest global seizure level on record and approximately 44% of the heroin produced in that year (Commission on Narcotic Drugs, 2003).

Figure 2.6: General directions of heroin and opium traffic from world production areas



Note: Routes shown are general indications of the directions of illicit drug flows

Source: Modified from United Nations Office on Drugs and Crime (2003)

2.3.1. Trafficking routes originating from South West Asia

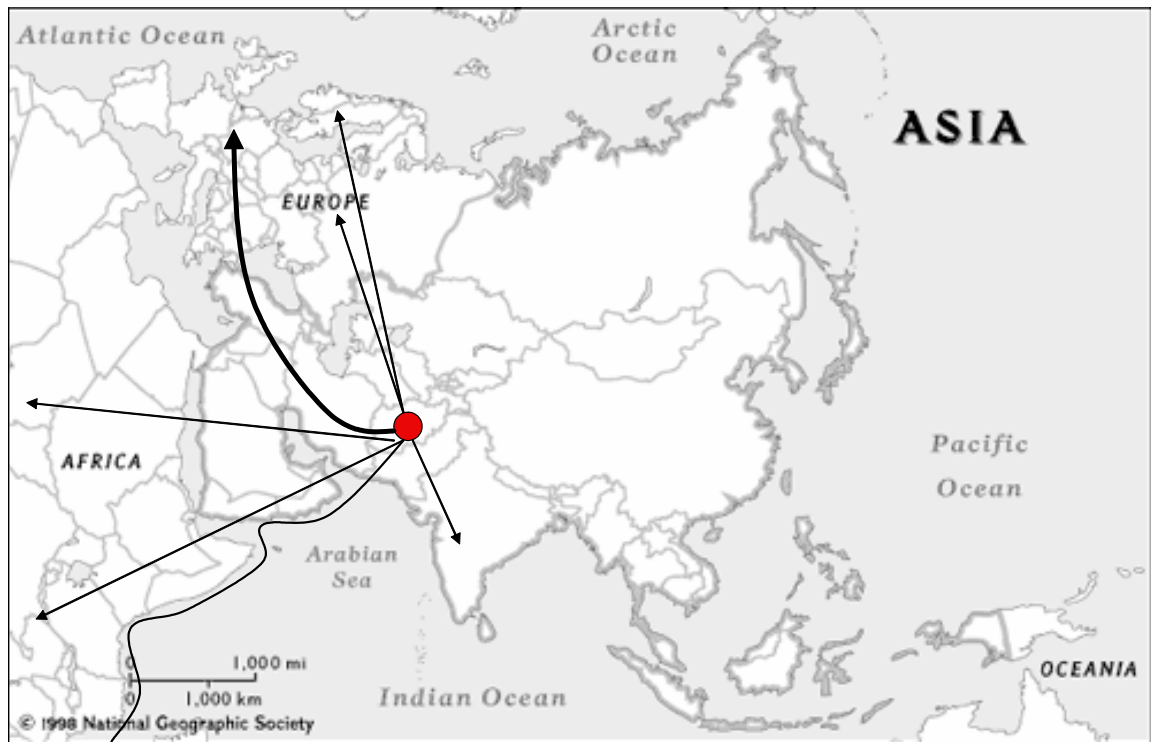
There are three major trafficking routes for opiates from Afghanistan: through Iran, Pakistan and Central Asia (Figure 2.7). All routes continue to be used extensively, but in recent years there appears to be an increased shift to using the Central Asian route via Eastern Europe (including Russia, Estonia, Bosnia and Slovenia). Seizure rates in this region, particularly Tajikistan and Russia, have increased accordingly (Commission on Narcotic Drugs, 2003); (European Monitoring Centre for Drugs and Drug Addiction, 2002).

Iran links the opium cultivation area of Afghanistan with the markets of Europe, Turkey, Russia and the Persian Gulf (Reid and Costigan, 2002). This country accounted for 84% of world opium seizures in 2000 (United Nations Office for Drug Control and Crime Prevention, 2002a) and had the second highest levels of heroin and morphine seizures in 2001 (United Nations Office on Drugs and Crime, 2003).

Afghanistan-produced opium and heroin are also transported to the markets of Europe and Russia across the mountains of the Afghanistan-Pakistan border, a region that is not well policed (Reid and Costigan, 2002). Africa is heavily used as a transit region for South West Asian heroin en route to Western Europe, most commonly via Pakistan (Commission on Narcotic Drugs, 2003). A small amount of South West Asian heroin also makes its way to the United States via Nigerian trafficking organisations (United States Drug Enforcement Administration, 2000).

India remains a transit route for heroin and morphine base from Afghanistan, and Pakistan. It has been estimated that 32% of heroin seized in India has its origins in these two countries (United States Department of State, 2001). India also receives some of its supply of opiates from South East Asia.

Figure 2.7: General directions of heroin and opium traffic from the South West Asian cultivation areas



Note: Routes shown are general indications of the directions of illicit drug flows

Source: Modified from United Nations Office on Drugs and Crime (2003) and includes information from above.

2.3.2. Trafficking routes originating from South East Asia

Sri Lanka's popularity as a transshipment point for heroin from the Asian production regions has grown since the late 1970s. Heroin produced from both the South East and South West Asian production regions passes through the island nation and the coastline is not well patrolled. Shipments of heroin pass out of the country through Colombo international airport and seaport (Reid and Costigan, 2002).

In 1980, Malaysia was a major transit point for opiates produced in the Golden Triangle. This was because of the country's close proximity to the major production areas of the time, Myanmar and Thailand, and difficulties in patrolling its long coastline. After 1980, Malaysia followed Singapore in increasing penalties for drug trafficking, resulting in reduced use of both countries as transit areas (Williams, 1980).

Trafficking of South East Asian opium substantially increased through China from the early 1980s, with the opening of the country and growth of foreign trade (United States Department of State, 1997). By the mid-1990s, the primary trafficking route for South East Asian heroin was by road from Myanmar to Kunming, the capital of the Chinese province of Yunnan, and then along the southern Chinese provinces of Guangxi and Guangdong en route to Hong Kong (United States Department of State, 1993, Australian Bureau of Criminal Intelligence, 1996). Aided by the rapid increase in the availability of road, air and rail links, new trafficking routes also developed through a number of interior provinces (United States Department of State, 1997). The amount of heroin travelling across the Myanmar-Chinese border increased at a rapid rate from 1993 to 1999, accompanied by increasing levels of seizures in China (United States Department of State, 1999) and rapidly growing opium and heroin addiction (Gordon, 2001). China has invested significant resources to combating trafficking mainly in the South West border areas and the South East coastal areas of the country (Information Office of the State Council of the People's Republic of China, 2000).

In 2000, the number of Chinese heroin seizures remained steady. This was accompanied by reports that narcotics traffickers had increased the production of methamphetamine and other synthetic drugs in China, shown by rapidly increasing levels of methamphetamine seizures (United States Department of State, 2001). Seizures of heroin and amphetamine-type substances both increased in 2001 and 2002. The great majority of heroin seized in China in 2002 was produced in Myanmar, with smaller quantities of heroin entering from Lao PDR and Vietnam. A greater flow of heroin now enters China from the Golden Crescent production areas (United States Department of State, 2003), indicating a change in the traditional opiate trafficking routes.

The traditional trafficking route for heroin from Myanmar was across the Myanmar-Thai border near the Thai provinces of Chiang Mai and Chiang Rai. In the mid-1990s the majority of heroin began to be passed through China instead of through Thailand. This arose out of a shift in the main opium poppy cultivation areas within Myanmar to closer to the Chinese border, and continuing crackdown in Thailand on heroin trafficking (Gordon, 2001). Despite the change in trafficking patterns, some heroin still passes through Thailand, and the country remains an important transit location for heroin of

Myanmar origin (Australian Crime Commission, 2003). Most heroin and opium exits Thailand via maritime routes in the south of the country (Office of the Narcotics Control Board, 2002).

Another potential trafficking route for heroin produced in the Golden Triangle region is the Mekong river (Australian Bureau of Criminal Intelligence, 1996). The Mekong River originates high on the Tibetan plateau and travels through six countries, China, Myanmar, Lao PDR, Thailand, Cambodia and Vietnam before entering the South China Sea near Ho Chi Minh city, Vietnam. This river is the principle transport route linking Yunnan province in China with South West China and South East Asia. The volume of cargo transported along this river grew significantly in the early 1990s (Australian Bureau of Criminal Intelligence, 1996).

There has been a growing tendency recently for drugs to be trafficked south through the Andaman Sea, in the Indian Ocean south of Rangoon. Australia's largest heroin seizure to date of 390kg in 1998 came through this route (Gordon, 2001).

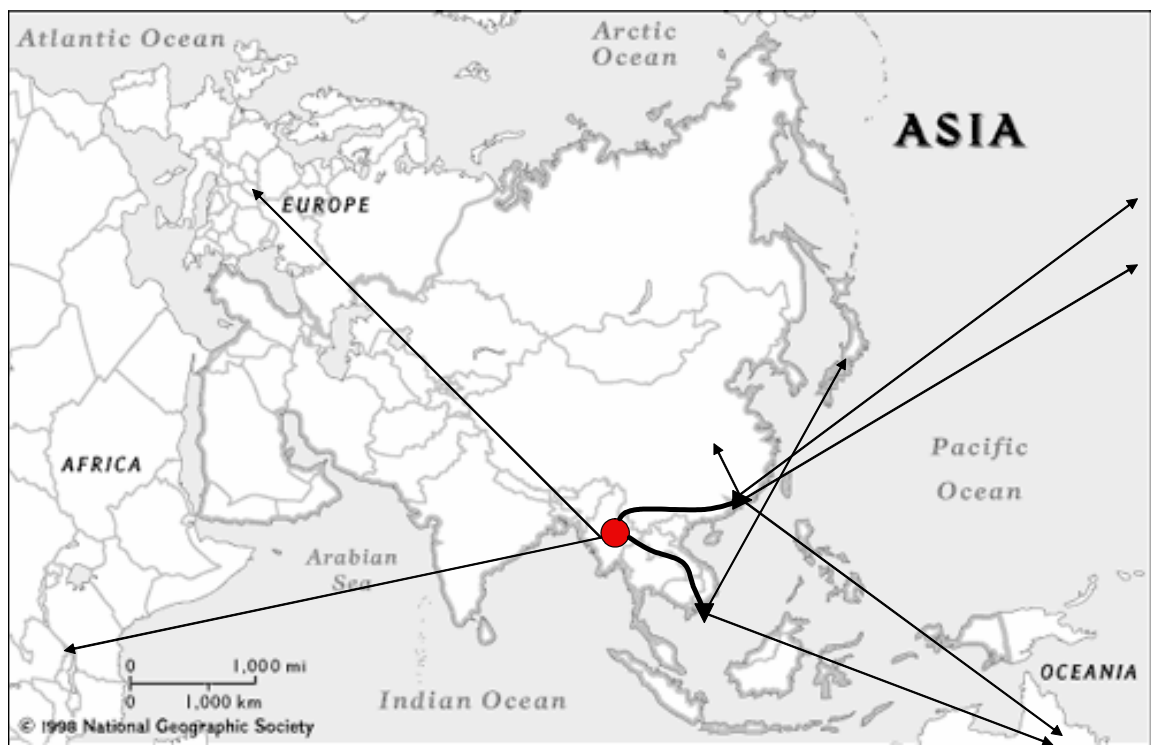
Opium seizures in the South East and South West Asian region in 2001 were largely similar to seizure levels reported in 2000. In India, there was a slight decrease in seizure levels, Vietnam showed a slight increase and there was a larger increase in opium seized in China. Twelve heroin processing laboratories were detected in China in 2001, and 16 were detected in Myanmar (Commission on Narcotic Drugs, 2003).

The 2001 levels of heroin seizures in South East Asia and China increased in 2001 to record levels of almost 14 tons (Commission on Narcotic Drugs, 2003). This was 27% of the world's total heroin seizures. Levels from the previous year amounted to 15% of the world's heroin seizures, and the increase in South East Asia and China in 2001 occurred as seizure rates in South West Asia decreased. China's seizure rate of heroin doubled in 2001 compared to 2000, and it seems that China is now being used as an important transit country for South East Asian heroin supplies (Commission on Narcotic Drugs, 2003).

The Golden Triangle region supplied heroin markets in East Asia, South East Asia, Australia and Canada in 2001 (Gordon, 2001). Some of the heroin available in India has

its origins in the Golden Triangle, particularly Myanmar and to a smaller extent, Nepal (Reid and Costigan, 2002). A small amount of South East Asian heroin makes its way to the United States via Nigerian trafficking organisations (United States Drug Enforcement Administration, 2000).

Figure 2.8: General directions of heroin and opium traffic from the South East Asian cultivation areas



Note: Routes shown are general indications of the directions of illicit drug flows

Source: Modified from United Nations Office on Drugs and Crime (2003) and includes information from above.

2.3.3. Trafficking routes originating from Central and Southern America

Columbian heroin passes through a number of Central and Southern American countries en route to the major markets of the United States and Europe. One pathway is from Columbia to Panama, then via courier on commercial airlines to El Salvador and Honduras, then via bus to Guatemala. In Guatemala large narcotics shipments regularly move through the country with little law enforcement intervention. Columbian heroin is also shipped through Ecuador's ports. Seizures in this country rose from 110kg in 2000,

to 230kg in 2001, to 350kg in 2002 (United States Department of State, 2003). Fishing vessels, cargo ships, small aircraft, and “go-fast” boats all transit Panamanian water and air space on their way to other Central American countries and the United States. Couriers also move heroin from Panama by commercial air flights to the United States and Europe. Chile, Venezuela, Costa Rica and Nicaragua also all play roles as heroin transit countries in the region (United States Department of State, 2003). South American heroin is also body carried across the United States-Mexican border and is frequently ingested prior to crossing (United States Drug Enforcement Administration, 2000).

Mexican heroin enters the United States primarily by couriers through ports of entry along the South West border. Body carriers cross the border as the drivers or passengers of vehicles, or by walking across in the pedestrian lanes (United States Drug Enforcement Administration, 2000). Columbian heroin production groups also contract Mexicans as transportation specialists and employ Mexicans to body carry Columbian heroin products into the United States via the South West border (United States Drug Enforcement Administration, 2000).

2.4. Heroin supply

2.4.1. Western Europe

The West European heroin market has been supplied primarily by heroin of Afghanistan origin since 1990 (Gordon, 2001), although it also receives some supply from the South East Asian region (European Monitoring Centre for Drugs and Drug Addiction, 2002). Most monitoring of the European market is concentrated on Afghanistan-produced heroin, so it is not possible to ascertain if there was an increased supply of South East Asian heroin to the Europe market during Afghanistan’s reduced production in 2001 (Senior Australian Government Law Enforcement Officer, personal communication, 2003).

2.4.2. United States

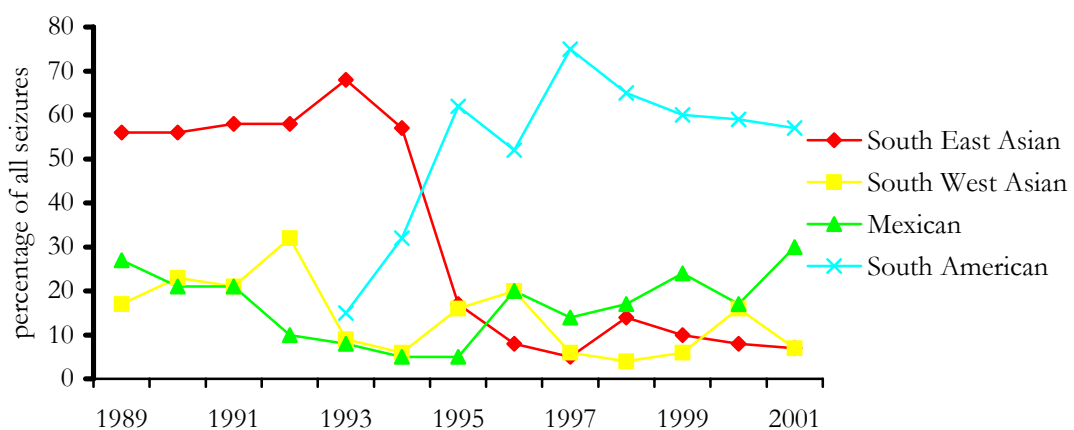
Currently, the vast majority of heroin supplied to the United States is thought to come from South America (see Figure 2.9). However, in the early 1990s, the majority of heroin

in the United States originated from South East Asia. According to the US Department of Justice Drug Enforcement Administration (US Department of Justice Drug Enforcement Administration, 2002), in 1994, a joint Royal Thai Government/ Drug Enforcement Agency endeavour, “Operation Tiger Trap”, disrupted South East Asian trafficking

Expanding opium cultivation and heroin production in the early 1990s in Columbia allowed Columbian syndicates to take advantage of the void created by the reduced traffic of South East Asian heroin to the United States (US Department of Justice Drug Enforcement Administration, 2002). This shift is seen clearly in Figure 2.9 with the dramatic drop in South East Asian heroin seized in the United States, and the increase in South American seizures. It has been suggested that South East Asian syndicates may have sought other markets, particularly Canada and Australia, to replace the United States market (protected source reporting).

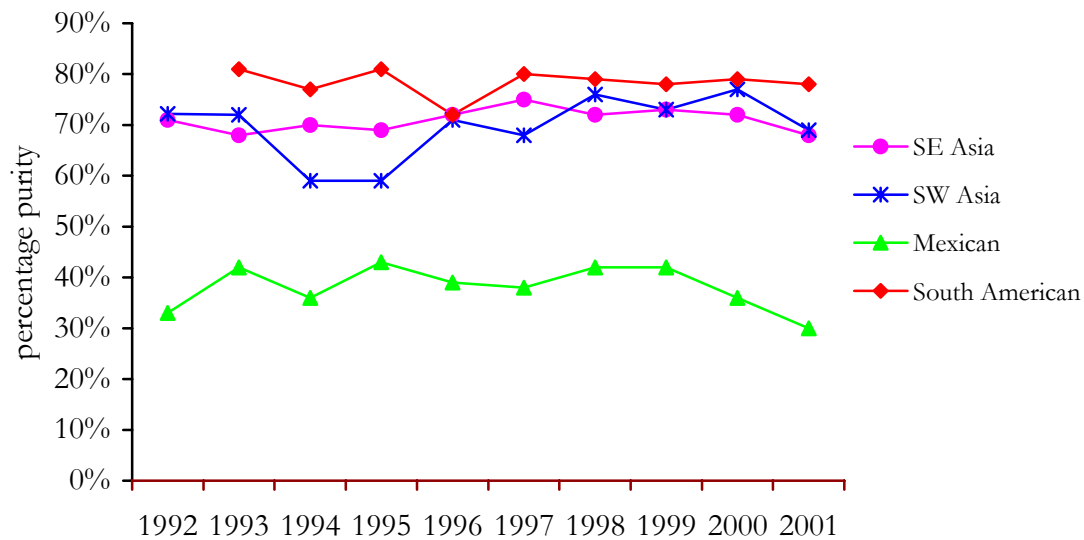
In recent years there has been an increased supply of Mexican heroin to the United States market, as well as increased collaboration between Mexican and Columbian heroin production and trafficking groups (United States Drug Enforcement Administration, 2000).

Figure 2.9: Source of heroin seized in the United States, 1989-2001



Source: US DEA heroin signature program; based upon net weight of seizures

Figure 2.10: Average purity of seizures in United States according to source of supply, 1992-2001



Source: US DEA heroin signature program; based upon net weight of seizures

Within the United States, different geographic areas receive heroin supply from different production regions. The different heroin supply regions are generally divided by the Mississippi River, with heroin markets east of the river being supplied by predominantly South American heroin and markets west of the river dominated by lower purity Mexican heroin (US Department of Justice Drug Enforcement Administration, 2003). The cities of North Eastern United States include New York, the country's largest heroin market. In 2001, no Drug Enforcement Agency purchases were made of heroin originating from South West Asia in markets east of the Mississippi River (US Department of Justice Drug Enforcement Administration, 2003).

2.4.3. Canada

South East Asia is the principal source of heroin available in Canada. Approximately 71 kilograms of heroin were seized in Canada over 2001, less than half of the 168 kilograms reported in 2000 after successive seizures of 57 kilograms in August 2000 and 93 kilograms in September 2000 (Royal Canadian Mounted Police, 2002). The Royal Canadian Mounted Police report that both seizures were a major loss for criminal organizations, and reluctance to incur further financial loss may have been a deterrent to

suppliers as well as importers. The same Asian-based trans-national importation groups have targeted Australia and Canada with heroin shipments in the past (Royal Canadian Mounted Police, 2002).

Heroin is commonly trafficked to Canada on air couriers, in cargo and via the postal system, entering through the international airports of Vancouver, Toronto and Montreal. Trafficking routes to Canada pass through India, Nigeria, Thailand and Ghana, although there has been some diversification through China, Malaysia, Indonesia and small South Pacific nations. The smaller amount of South West Asian heroin entering the country commonly transits through India, and South American heroin is rarely a source of heroin in Canada. (Royal Canadian Mounted Police, 2002)

2.4.4. Australia

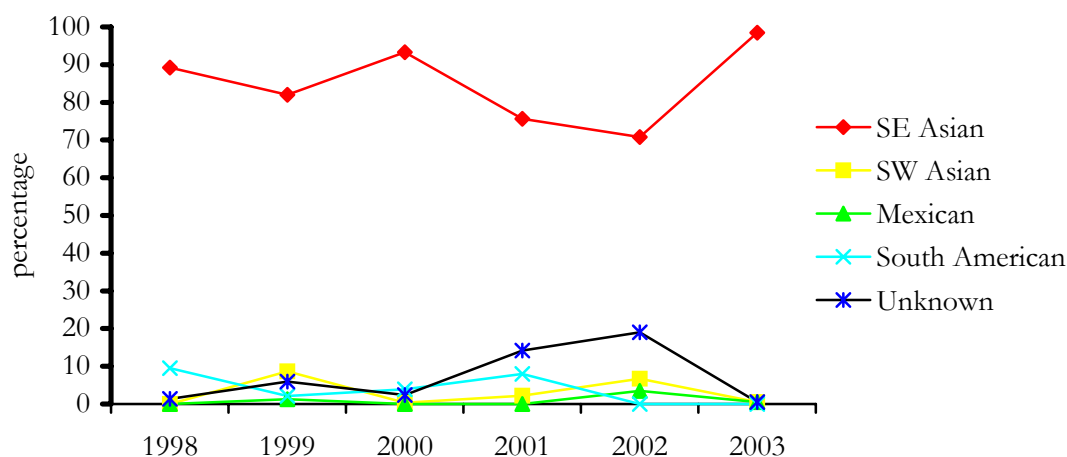
In the mid-1960s, the amount of opium used by the members of the Asian community in Australia (mostly of Chinese descent) began to decrease, with a shift instead to heroin which was easier to conceal and import. Heroin in the broader Australian community began to grow in popularity towards the end of the 1960s (see Section 3; (Williams, 1980).

In 1979, the main route for heroin produced in Thailand and Malaysia to Australia was via commercial airlines. A large number of small heroin importations occurred by overseas mail to Australia (Australian Federal Police, 1980). This report also remarked on a notable increase in high-grade heroin being supplied from the Middle East, although in 1980, Thailand was the immediate source of most heroin entering Australia (Williams, 1980). Heroin traffickers using body or baggage concealment methods generally came via airline to Sydney from cities such as Bangkok, Kuala Lumpur, Hong Kong or Singapore (Williams, 1980).

From the 1990s, there were increased reports of use of “mother ships” to traffic heroin to Australia. These were steel-hulled vessels, modified to carry large supplies of heroin. The vessels would sail close to countries and other boats, while “shore parties” would collect heroin in smaller quantities from the “mother ship” and take it ashore. Importation by steel hulled mother ships may have been affected by the vigilance

associated with people smuggling into Australia in the late 1990s, and this method of drug trafficking became less common (Collins et al., 2003).

Figure 2.11: Source of heroin seized in Australia, 1998-2003



Source: AFP heroin signature program; based upon number of seizures

The majority of heroin supplied to the Australian market originated from Myanmar, the largest opium producer in the South East Asian region (Figure 2.11; (Australian Crime Commission, 2003).

The preference of Australian users for the high quality heroin from the Golden Triangle means that heroin from South America is thought unlikely to greatly contribute to Australia’s heroin supply (Australian Crime Commission, 2003). Nevertheless, heroin from this region does enter Australia (Figure 2.11): in 1999, the Australian Federal Police made the first known seizure of “Mexican tar” in Australia (Australian Bureau of Criminal Intelligence, 2000).

2.5. Opium and heroin prices

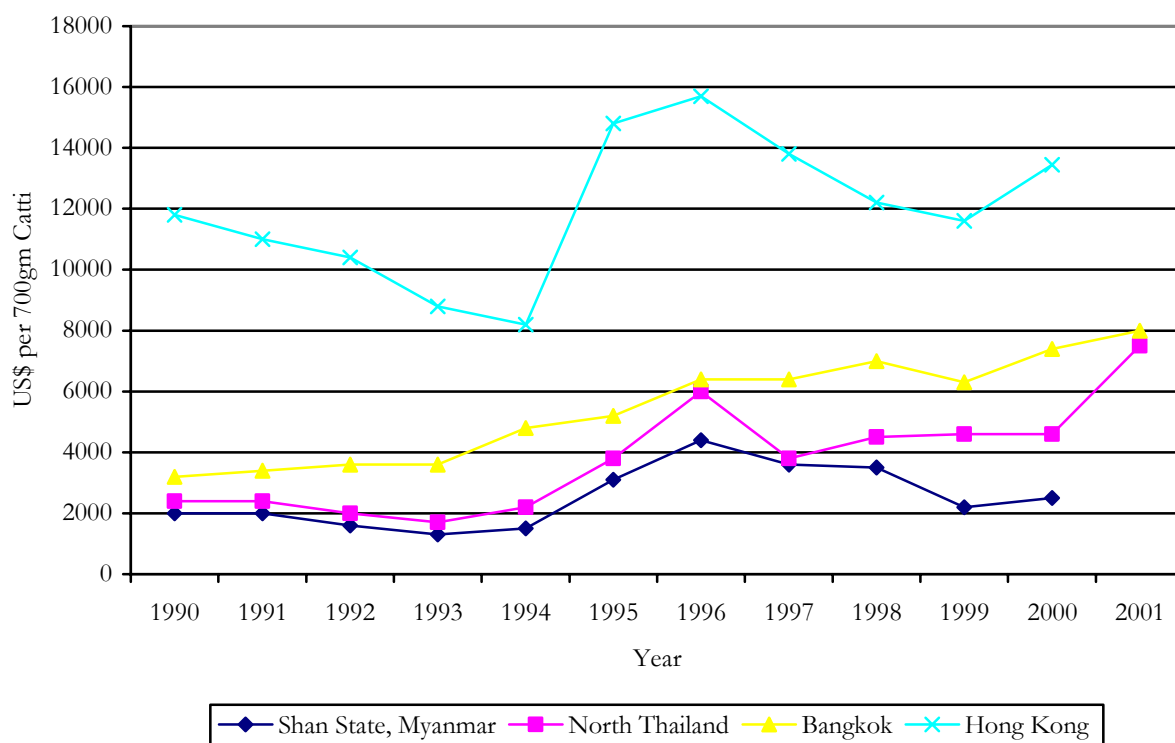
The “farm-gate price” is the price offered by opium traders to opium poppy farmers in their own villages (US Department of Justice Drug Enforcement Administration, 2001b). This farm-gate price for opium fluctuates over the year and is influenced primarily by crop production levels. Generally, prices are high just before a harvest or when the harvest has been poor, and prices fall as supply is plentiful. Other point-of-sale factors

apart from opium availability also determine the price offered to opium farmers. These include differences in the local economies due to currency fluctuations, differences in the ability to transport opium, and opium trader preferences (US Department of Justice Drug Enforcement Administration, 2001b).

The farm-gate price of opium is the lowest in the supply chain. Traders then resell the opium to local heroin refinery operators for a modest profit (US Department of Justice Drug Enforcement Administration, 2001b). As the heroin is transported, the price increases with additional associated costs such as transportation and smuggling fees, buyer-seller relationships and profit margins (Figure 2.12). The greatest price rise occurs at the point heroin leaves the general region. For instance, the fee for smuggling heroin from Bangkok to New York can be as high as US\$5,000 to \$10,000 per catti (700gm; (US Department of Justice Drug Enforcement Administration, 2001b).

Prices are higher in locations where the controls are stricter and the risk of getting caught is higher, and also appear to depend on whether the buyer is local or foreign (Lintner, 2002). For instance, in 2000, the price of a US\$2500 catti of heroin in Shan State, Myanmar had increased to approximately US\$47,000 by the time it reached Australia (Australian Bureau of Criminal Intelligence, 2001) or US\$60,000 by the time it reached the United States (US Department of Justice Drug Enforcement Administration, 2001b). No other commodity in the world increases as much in value when transported from one point to another, making the drug trade highly lucrative (Lintner, 2002).

Figure 2.12: Average wholesale prices (US\$) of South East Asian heroin in different Asian locations, per 700gm unit of heroin, 1990-2001¹



Source 1990-2000 data: (US Department of Justice Drug Enforcement Administration, 2001b) Source for 2001 data: (US Department of Justice Drug Enforcement Administration, 2001a)

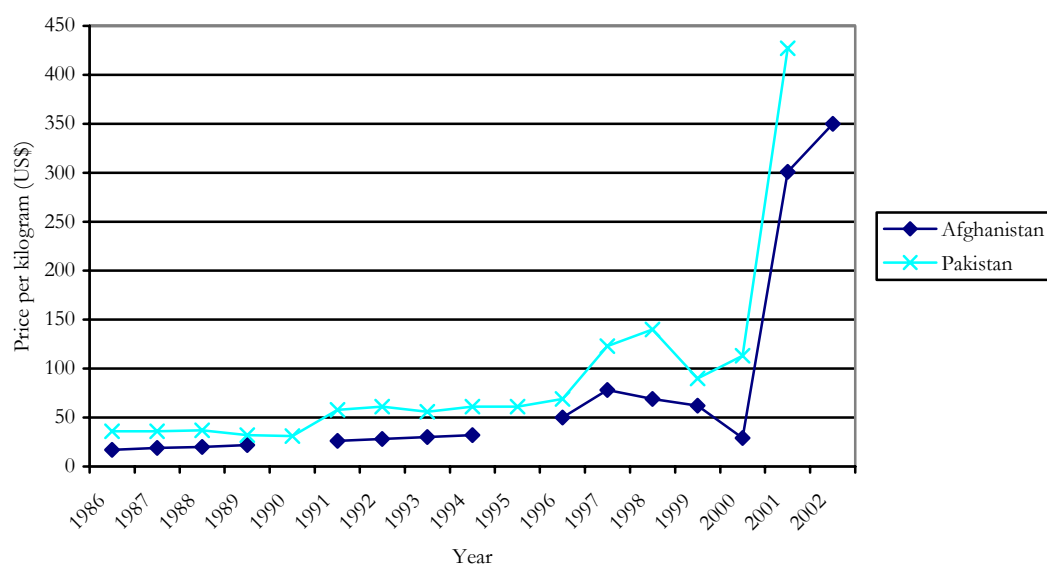
2.5.1. Source countries

South West Asia

Farm-gate prices of opium in Pakistan and Afghanistan can be seen to fluctuate according to the levels of production (Figure 2.13). When Pakistan’s opium production reduced to 24 metric tons in 1996, the price per kilo rose accordingly. The price of Afghanistan’s opium rose dramatically in 2001, with less substantial price rises continuing in 2002 as opium cultivation levels began to recover.

¹ Note: For clarity, this graph only shows the lower estimate of average price estimates.

Figure 2.13: South West Asian opium farm-gate prices 1986-2002



Source: Prices for 1997-2001 are expressed in constant 2001 US\$ (United Nations Office for Drug Control and Crime Prevention, 2002a). For 2002 data, it is presumed that the 2002 US\$ value was used as a comparison, but this was not stated (United Nations Office on Drugs and Crime, 2003). Prices for 1986-1996 data expressed in constant 1996 US\$ (United Nations Office on Drugs and Crime, 1998).

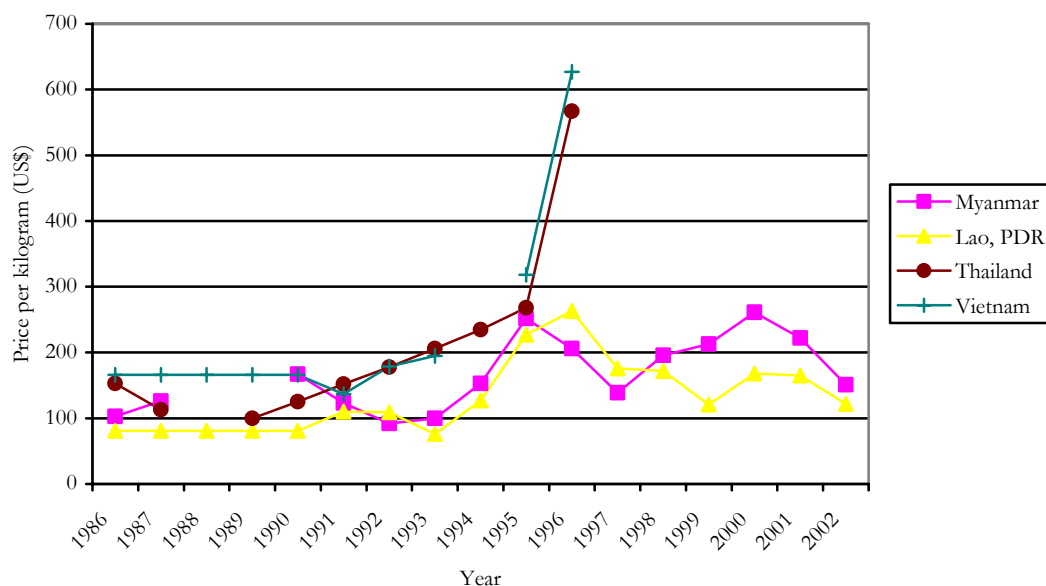
South East Asia

The prices of South East Asian heroin are driven by the two major opium countries in the region: Myanmar and Lao PDR. With the exception of decreased crop production levels due to poor weather conditions, the price of opium and heroin in mainland South East Asia remained robust throughout the 1990s despite decreasing production of raw opium during this time (US Department of Justice Drug Enforcement Administration, 2001b). Farm-gate prices for opium sales in Myanmar and Lao PDR between 1986 and 2002 have shown gradual changes (Figure 2.14) but no dramatic price fluctuations related to reduced production levels such as those seen in Thailand, Vietnam, Afghanistan and Pakistan (United Nations Office on Drugs and Crime, 2003).

The US Department of Justice Drug Enforcement Administration (US Department of Justice Drug Enforcement Administration, 2001b), believe it is likely that South East Asian heroin prices, driven by Myanmar and Lao PDR, will continue to be stable in the future. These prices have withstood economic and political turmoil and weather disruptions in the region for the last decade, and any short-term fluctuations in South

East Asia were not translated into price fluctuations in the Metropolitan New York heroin market, where prices have remained stable. The authors believe this pattern is likely to continue in the future (US Department of Justice Drug Enforcement Administration, 2001b).

Figure 2.14: South East Asian opium farm-gate prices 1986-2002



Source: Prices for 1997-2001 are expressed in constant 2001 US\$ (United Nations Office for Drug Control and Crime Prevention, 2002a). For 2002 data, it is presumed that the 2002 US\$ value was used as a comparison, but this was not stated (United Nations Office on Drugs and Crime, 2003). Prices for 1986-1996 data expressed in constant 1996 US\$ (United Nations Office on Drugs and Crime, 1998).

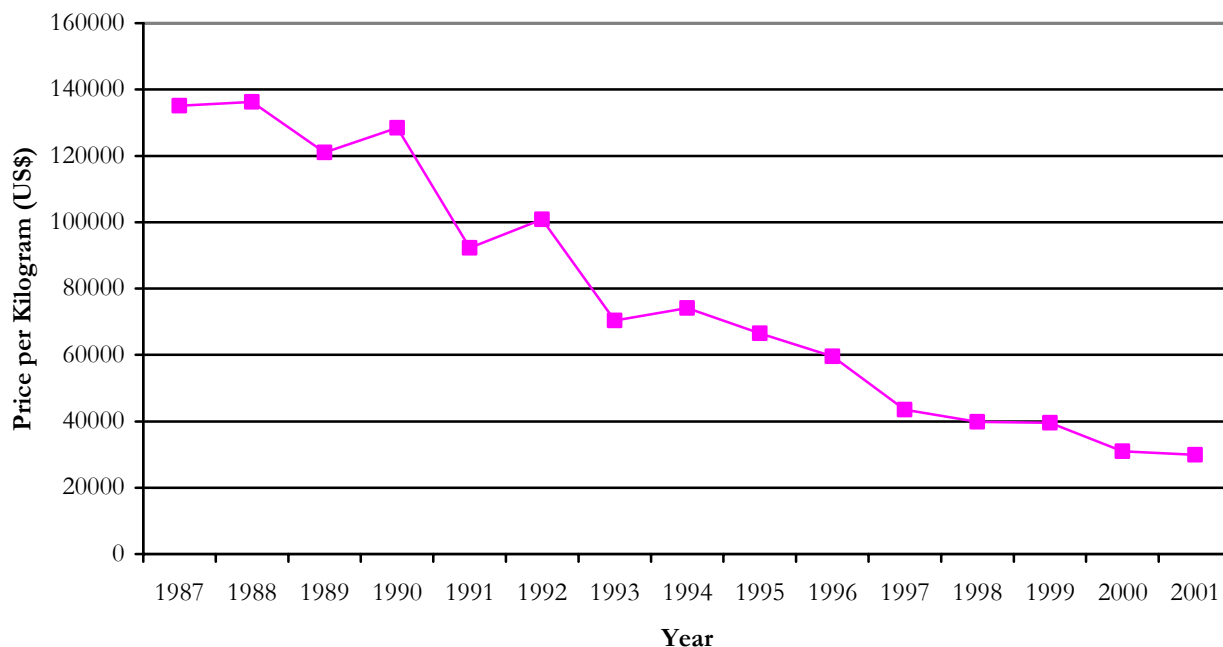
2.5.2. Destination countries

Western Europe

Street prices of heroin ranged between EUR 25 and EUR 330 per gram in 2000 in the countries of the European Union, and highest prices for that year were reported in Ireland, Finland and Norway (European Monitoring Centre for Drugs and Drug Addiction, 2002). The price per kilogram of heroin has decreased in Western European countries (Figure 2.15; (United Nations Office on Drugs and Crime, 2003). Heroin prices per gram in European Union countries have generally reported to be stable or decreasing in 2000 for all countries except for Portugal, Sweden and the United Kingdom, where

the price of “brown heroin” showed an increase (European Monitoring Centre for Drugs and Drug Addiction, 2002).

Figure 2.15: Heroin price per kilogram (US\$) in Western Europe, 1987-2001²



Source: United Nations Office on Drugs and Crime (United Nations Office on Drugs and Crime, 2003). Prices are expressed in constant 2002 US dollars.

It was noted that the price of opioids in Europe remained stable for the majority of 2001, only increasing in price near the end of 2001. It appears that a proportion of opiates produced in Afghanistan in pre-2001 harvests were stockpiled and released in 2001 (Commission on Narcotic Drugs, 2003). The price of opium rose at a higher rate than heroin, suggesting that heroin was still being released from stockpiles (Australian Crime Commission, 2003). Heroin shortages were not reported in the European markets during

² The price for Western Europe has been calculated from the Annual Reports submitted to the UN Office of Drug Control and uses a weighted average (by population) of: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom (United Nations Office on Drugs and Crime (2003) United Nations, New York..

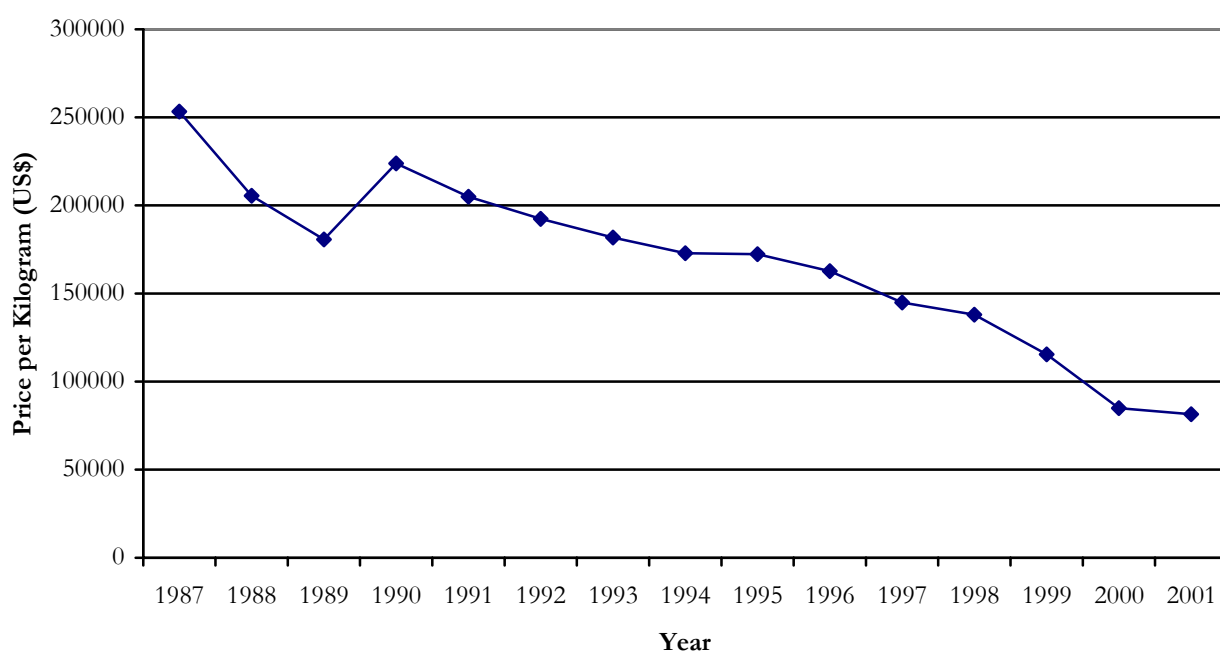
2001, although the purity of street heroin in the United Kingdom fell from 61% at the beginning of 2001 to 43% at the end of 2001 (Commission on Narcotic Drugs, 2003).

United States

In the United States, heroin markets tend to be unique for each major metropolitan area, and the US Department of Justice Drug Enforcement Administration (US Department of Justice Drug Enforcement Administration, 2003) have cautioned against attempts to calculate national “averages” in price and purity levels. This program expresses heroin prices for each metropolitan area in units of “price per milligram pure”, units that bear little relation to the street price of heroin.

However, data from the Annual Reports given to the United Nations Office of Drug Control do record national heroin prices (United Nations Office on Drugs and Crime, 2003). These show how the reported price per kilogram heroin in the United States has steadily decreased over the years (Figure 2.16).

Figure 2.16: Heroin price per kilogram (US\$) in the United States, 1987-2001



Source: United Nations Office on Drugs and Crime (United Nations Office on Drugs and Crime, 2003).
Prices are expressed in constant 2002 US dollars.

Canada

Vancouver, British Columbia is one of the major Canadian heroin markets and is commonly the first arrival location for South East Asian heroin entering the country. In 2002, heroin price per catti ranged between AU\$71,000 and AU\$77,000 and street prices per gram were estimated at AU\$175. These prices are relatively unchanged since 1999, and are also fairly consistent across the major Canadian urban centres (Senior Officer, Vancouver Police Department, personal communication, 2003).

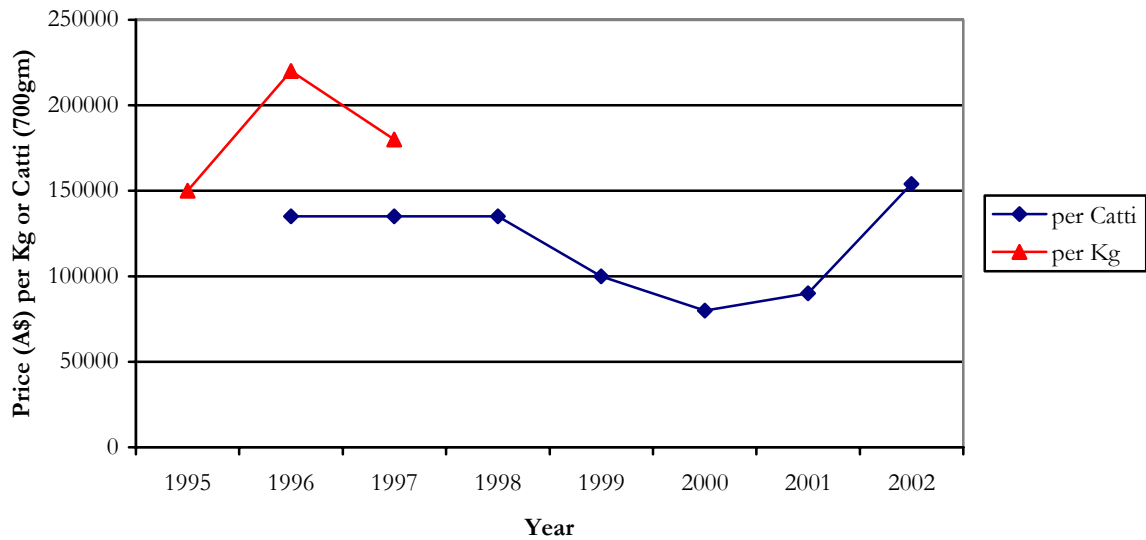
A senior officer with the Vancouver Police Department reports that they have little intelligence on heroin trafficking in comparison with the amount of intelligence on cocaine trafficking, leading them to suspect that heroin trafficking is reduced (Senior Officer, Vancouver Police Department, personal communication, 2003). This officer had no information on the current demand for heroin in the region.

Australia

South East Asian heroin trafficking groups are thought to have targeted the Australian heroin market from the early 1990s, supplying cheaper, purer heroin than had previously been supplied to Australia (protected level source). In Sydney, Australia's largest heroin market, the median street heroin price almost halved, from \$400 per gram in 1996 to \$220 per gram in 2000 (Darke et al., 2002). This is also reflected by the reduction in the wholesale (catti) price of heroin during that time (Figure 2.17).

Australian heroin street prices suddenly increased in markets around the country in accordance with a reduced supply of heroin in 2001 (Miller et al., 2001, Day et al., 2003). The wholesale prices of heroin appear to have been slower to increase, although it should be noted that the number of seizures used to construct the prices for Figure 2.17 were not mentioned in the original Australian Illicit Drug Report data (Australian Bureau of Criminal Intelligence, 1996, Australian Bureau of Criminal Intelligence, 1997, Australian Bureau of Criminal Intelligence, 1999, Australian Bureau of Criminal Intelligence, 2000, Australian Bureau of Criminal Intelligence, 2001, Australian Bureau of Criminal Intelligence, 2002, Australian Crime Commission, 2003).

Figure 2.17: Heroin prices in NSW, Australia per kilogram and per catti (700gm), 1995-2002³



Source: (Australian Bureau of Criminal Intelligence, 1996, Australian Bureau of Criminal Intelligence, 1997, Australian Bureau of Criminal Intelligence, 1999, Australian Bureau of Criminal Intelligence, 2000, Australian Bureau of Criminal Intelligence, 2001, Australian Bureau of Criminal Intelligence, 2002, Australian Crime Commission, 2003). Data originally recorded per quarter (with some missing data), this data presented as the median of quarterly values.

³ Note: For clarity, this graph only shows the lower estimate of average price estimates.

2.6. Summary and conclusions

Historically, opium has been cultivated in the warm climates over large parts of Asia, occurring first in the ancient civilisations, and continuing into recent history in Persia (Iran), China and India under the control of British colonial rule. In the countries of South West Asia in the 1990s, only Afghanistan remained as a major opium cultivating country, with small amounts continuing to be produced by Pakistan and India, and negligible levels by Iran.

Although one of the world's leading cultivators of opium in the 18th century, China no longer cultivates a substantial amount of opium. South East Asian countries such as Thailand and Vietnam have both decreased their opium cultivation levels through eradication programs in the last decade, such that only Myanmar and Lao PDR remain as South East Asia's major opium cultivating countries. The whole South East Asian area has shown a continuing downwards trend in opium cultivation levels from the mid-1990s, with more marked decreases in production noted in 1998 and 1999 due to drought conditions in the area.

In the 21st century, the great majority of the world's opium supplies originate from just two countries: Afghanistan and Myanmar. Both countries supply largely separate regions of the world; Afghanistan's opium is trafficked to the markets of Europe and Central Asia, while Myanmar predominantly supplies South East Asia, China, Canada and Oceania (including Australia). The United States receives the majority of its heroin supply from the smaller production areas of South America (Columbia) and Mexico.

In 2001, Afghanistan's opium production decreased dramatically, driving down total world opium production. The countries of Western Europe supplied by this region did not experience heroin shortages during this year, nor did they experience any significant changes in heroin prices. Opium cultivation levels in Myanmar showed no major changes during this time and most countries supplied by these cultivation levels had no disruptions to heroin supply. Australia was the exception: the country experienced a significant and sustained reduction in the availability of heroin from the beginning of 2001, despite receiving the great majority of their heroin supply from Myanmar.

Heroin trafficking routes from the two major opium cultivation regions have showed some gradual diversification in recent years. Trafficking routes originating from Afghanistan pass through Iran, Pakistan and Central Asia, although the traffic on the Central Asian route has been increasing in recent years. Heroin leaving Myanmar and the South East Asian opium cultivation areas is now more likely to pass through China and seizures have been discovered on less common trafficking routes such as through the Andaman Sea.

The prices of heroin in the United States and Western Europe have gradually decreased since the late 1980s and did not appear to be affected by the reduced opium cultivation in South West Asia in 2001. Less complete information on heroin prices is available for Canada, but reports indicate that heroin prices are relatively stable. Australia's heroin prices, although decreasing through the 1990s, increased in response to the heroin shortage in the country in 2001. This reduced heroin availability in 2001 appears to have been restricted to the Australian heroin market.

3. AUSTRALIAN HEROIN MARKETS

This section provides an historical overview of the Australian heroin market. There are currently few histories of heroin use in Australia apart from the two seminal texts on the topic by Alfred McCoy (1980) and Desmond Manderson (1993). Both texts provide a comprehensive, if at times speculative, history of heroin use and markets in Australia, although neither cover the 1990s, a period when heroin markets in Australia underwent rapid expansion (Darke et al., 2002) and when Australia introduced several effective drug monitoring systems (Shand et al., 2003). Moreover, neither of these two texts remain in print. This section therefore aims to provide an accessible and updated overview of the history of Australian heroin markets. Given the paucity of data on the early opiate and heroin markets in Australia the works of McCoy (1980) and Manderson (1993) are used extensively in detailing the situation up to the 1980s.

3.1. The late 1800s: opium use in Australia

As noted in Section 1, opium use has a long history. During the 19th century, opium use increased in Great Britain, where it had been acclaimed as a panacea when introduced some centuries earlier. Opium was usually consumed orally, and a bewildering array of commercial preparations in the form of ‘patent remedies’ were sold (Berridge, 1987). Although a limited number of proprietary medicines had been available in Sydney since the 1820s, it was not until the 1870s that the Australian market became a target of patent medicine companies who derived large profits from ‘secret remedies’ that generally had a high opium or alcohol content and often both.

McCoy (1980) suggested that European immigrants to Australia, familiar with cold, damp climates and lush, fertile landscapes of their homelands, regarded this hot, dry country as an unhealthy environment and regarded the liberal use of opiates and other drugs as health protection. The pharmaceutical industry cultivated this view through media campaigns that promoted public faith in, and cultural tolerance for, medical and non-medical opiate and other drug use. By the end of the 19th century, Australia held the dubious honour of having the world’s largest per capita consumption of proprietary medicines (Manderson, 1993).

Most of the opium used in Australia was legally imported from Hong Kong (Rolls, 1992). From 1857, colonial Governments earned substantial revenue from heavy duties on imported opium (Manderson, 1988a). The remainder of the market was supplied by opium smuggled into the country or cultivated locally by a small number of growers (Rolls, 1992). Despite the high rates of opiate consumption, the only attempts to regulate its use in the late 19th century were directed solely at suppressing opium smoking among the Chinese community (Manderson, 1993). These efforts were arguably more influenced by prejudice against the Chinese than by concern for public health (Manderson, 1993).

Large numbers of male Chinese who immigrated to Australia in the 1840s and 1850s to seek work on the goldfields introduced opium smoking to Australia. As the goldfields were successively mined out, Chinese miners moved to Sydney and Melbourne where they gathered in enclaves in which gambling and opium smoking were often highly visible (McCoy, 1980). Although few had smoked opium in China, Rolls (1992) estimated that up to 90% of Chinese men who remained in Australia for more than two years patronised opium ‘dens’.

Antagonism towards the Chinese peaked in the 1890s with tabloid media reports that European women who lived among the predominantly male Chinese communities were smoking opium (Rolls, 1992). The tabloid media assumed that no self-respecting European would choose this alien lifestyle and so argued that the Chinese must have lured these women into their opium dens and enslaved them to opium addiction and prostitution. The popular media made much of this threat to European women even if, as Manderson (1988a) argued, most of the women had been abandoned by European men, and were better treated by the Chinese than by the European community.

Heavy use of proprietary opium remedies among the European population was regarded as “medicinal use” while opium smoking became synonymous with all that was perceived as deviant and offensive about the Chinese (Swift et al., 1997). Victoria’s anti-opium laws of 1892 and 1905, and the corresponding Federal law of 1905, made clear that the Chinese were their target: opium smoking was severely restricted, but the importation of opium for proprietary medicines favoured by European users was left unregulated (Manderson, 1993). With the passage of the federal law, a concerted opium suppression

campaign began. The NSW parliament prohibited opium smoking under the 1908 Police Offences (Amendment) Act (Manderson, 1993).

The Commonwealth Department of Health prohibited the importation of opium for smoking on September 7, 1914 in response to international pressure to suppress opium smoking expressed in the Hague Convention of 1912. Fear that Chinese opium smokers were evading the prohibition by substituting legal opiates such as laudanum and morphine led to increased restrictions on the use of all licit opiates. Australia's first attempts at opiate prohibition restricted access but did not eliminate opium use among the Chinese community. Some older men in the Chinatowns of Sydney and Melbourne continued smoking opium into the 1960s and 1970s (Rolls, 1992).

The prohibition on the importation of opium established a precedent on which Australian legislators built. Legislation was adopted in several Australian States between 1914 and 1925 to increase the range of drugs included in the category of 'Dangerous Drugs' that could only be used with a doctor's approval. Such laws reflected the growing authority of the medical profession, the decline of the proprietary medicines industry and the subordination of pharmacists (see next section Manderson, 1988b). A regime evolved in which the use of many drugs was progressively prohibited. Manderson (1993) has argued, that like "all legal orthodoxies...once enacted it soon became assumed that the approach taken by the opium prohibition laws was both necessary and inevitable. Laws gain permanence beyond their years, and their mere existence validates later laws built upon them" (p.58).

3.2.1900-1920: regulation of opioid drugs in medicine

While Australia was suppressing opium smoking, awareness was growing in the medical profession that some patients developed dependence on proprietary medicines that contained opium, morphine, heroin and cocaine. As the number of patients treated for such dependence increased, doctors began to advise restraint in their use, although it was several decades before these views affected public policy and legislation (Manderson, 1993). This delay probably reflected two factors (McCoy, 1980). Firstly, in Australia, as in other countries, the proprietary medicine industry was the largest newspaper advertiser. It used the substantial economic influence that this position provided to discourage

newspapers from printing adverse information about their products, deterring people from using proprietary remedies, or campaigning for legal restrictions on their sale (McCoy, 1980).

Secondly, the organised pharmacy profession was a powerful obstacle to the passage of laws that restricted the use of drugs of dependence to patients with a medical prescription. Pharmacy was a respected craft in colonial Australia, and as men of considerable influence, pharmacists established a drug industry that suited their interests. Pharmacy Boards were founded in 1876 in NSW and Victoria, their members chosen by pharmacists and invested with significant authority to self-regulate the profession and the administration and enforcement of the colonies' Sale and Use of Poisons Acts (1876) (Manderson, 1993). The 'repeat customer' was the basis for a successful pharmacy business that laws controlling the sale of drugs of dependence was seen to discourage. This was particularly the case in NSW, where pharmacists appeared less concerned than those in Victoria with ethics and professional responsibilities. Whereas the Victorian Pharmacy Board advocated the labelling of drug contents and the restriction of sales to reduce the incidence of dependence on proprietary medicines, most NSW pharmacists opposed such legislation (McCoy, 1980).

In the early 20th century the Commonwealth Government and Victorian Governments passed laws that effectively increased legislative control over opiate use. This occurred in parallel with international drug control developments and in the face of resistance from foreign drug manufacturers and their Australian agents (Lonie, 1979). The 1905 Commonwealth Commerce Act and its 1910 amendment prohibited the importation of medicines unless their contents were listed on the label. The Victorian law required disclosure of the amounts of morphine, opium, heroin, cocaine or cannabis in proprietary medicines (Manderson, 1993). Both laws effectively reduced the opiate content of proprietary medicines. Despite opposition, NSW eventually followed Victoria's example and passed a Pure Food Act which applied the Federal Commerce Act to locally produced goods (Manderson, 1993).

By 1910, the proprietary medicine industry was required by law to label its preparations. Although these disclosure provisions meant that consumers might no longer inadvertently become dependent on such medicines, users could still purchase them

without restriction. Temperance reformers campaigned for further restrictions on these medicines. In 1913, the Victorian Parliament amended the Poisons Law to require a doctor's prescription for cocaine, heroin, morphine or opium and preparations that contained these drugs (Manderson, 1993). In 1914 the Australian Government limited the importation and distribution of cocaine, heroin, morphine or opium and preparations containing these drugs, to doctors and pharmacists. These legislative reforms restricted access to these drugs in Australia, but they did not limit the quantities that a doctor could prescribe nor the number of times that a prescription could be dispensed (McCoy, 1980). This oversight meant that users could purchase these drugs for as long as was desired and a doctor was prepared to prescribe them.

In 1914, the US Congress passed the Harrison Narcotics Act, which made narcotics sale or possession a federal offence and denied habitual users access to supplies from doctors and pharmacists (Manderson, 1992). NSW and Victoria did not pass similar laws until the 1920s, and only after considerable compromise with the powerful pharmacy industry. Even then, many dependent opiate users were still legally maintained by their doctors. Despite State laws that prohibited the prescription of a drug 'merely for the purposes of addiction', supply was in effect authorised so long as the user was prescribed the drug by a medical practitioner and supplied by a single pharmacist (Manderson, 1993).

3.3. The 1920s: control of cocaine use following World War I

During World War I, stimulant drug use became an issue among Allied troops in Europe, including Australians. The Australian Army attempted to minimise drunkenness in the interests of military discipline, by imposing restrictions on the sale of alcohol and penalties for drunkenness. Untrained Army dispensers, however, liberally dispensed cocaine, heroin and morphine, to soldiers seeking relief from the stresses of trench warfare (McCoy, 1980). The use of cocaine was passed from the troops to the prostitutes with whom they consorted, and this pattern of use continued after the war when the soldiers returned home.

In the 1920s, cocaine use among prostitutes in Sydney and Melbourne caused considerable concern among police in these cities. The pharmacy industry was embarrassed by newspaper exposés that unethical pharmacists supplied prostitutes with

cocaine. In an effort to pre-empt restrictive legislation, the Pharmacy Boards began a campaign in 1919 to raise the ethical standards of the trade. The Victorian Pharmacy Board authorised the Dangerous Drug Regulations of 1922, under which a doctor's prescription was required to purchase cocaine and heroin, and each prescription could be dispensed only four times (Manderson, 1993). Illicit dealers emerged following the consequent reduction in pharmacy sales of cocaine. The Pharmacy Boards, who had lost the battle over the right to prescribe and were thus subordinated to doctors, were nominally responsible for enforcement of drug laws. Scandals damaged the reputations of the Boards that were not perceived to be independent or impartial (Manderson, 1993). They proved incapable of effectively policing illicit sales and were forced to cede their enforcement powers to the police.

State police forces formed specialist Drug Squads to enforce drug laws (McCoy, 1980). By 1920, Victorian Police were arresting street dealers and pharmacists who sold cocaine to criminals. NSW Police did not enforce drug laws until the passage of the Police Offences (Amendment) Drugs law of 1927, which made the possession of cocaine an offence (Manderson, 1993). The politically powerful NSW pharmacy industry, represented by Members of Parliament who were pharmacists (Manderson, 1993), ensured that it was not until 1934 that NSW legislation granted the Police Drug Bureau responsibility for the suppression of illicit drug use.

Australia's ratification of the Geneva Convention (1925), which added cocaine and cannabis to the list of prohibited drugs, had a significant effect on drug policy at the State and Federal level. Australia prohibited the importation and use of cannabis in 1926, despite the fact that at that time its use was unknown. By the late 1920s, in line with the Convention, a wide range of drug suppression laws and policies had been established that remain the basis of contemporary State drug law enforcement.

Australian compliance with international drug control treaties was largely in response to international pressure rather than to domestic demand for such laws (Manderson, 1993). Throughout the 1920s and 1930s, the number of drugs on which restrictives were applied steadily increased. Manderson (1993) attributed this to a 'habit of law making' and suggested that the expansion of laws occurred with relatively little debate because drug use was considered an issue of little importance.

Nevertheless, the justification for expansion of drug laws over subsequent decades increasingly focused on the dangers of drugs and the potential for addiction. As addiction came to be conceived as a pathological disease rather than a moral weakness (Harding, 1988), the legal structures provided the medical profession with increased control over opiates and cocaine, and made non-medical and recreational use of these drugs illegal. As Manderson (1993) has argued, whatever “the many underlying attitudes and pressures that propelled the formation of drug laws in Australia, the medical concept of addiction...(became) the principal overt reason for their maintenance.” (p104)

In the years 1927-30, Sydney’s ‘Razor Gang Wars’, named for the weapon of choice among those involved, were fought over control of the distribution of illicit cocaine (McCoy, 1980). As the resources devoted to drug control increased, and pharmacists and petty traffickers were forced out of business, the criminal ‘underworld’ became the main source of cocaine. Price and profitability increased, and the ensuing violence among rival distribution groups caused great public concern. Police regained control of Sydney’s streets after the passage in 1929 of the NSW Vagrancy (Amendment) Act, which provided harsh penalties for anyone “consorting with criminals”. This law made it a serious crime for known criminals to be seen in each others’ company. It was an effective, if authoritarian, measure (McCoy, 1980) by the mid-1930s cocaine trafficking was eliminated.

The experience with cocaine trafficking indicated that NSW police were able to effectively enforce laws against cocaine use when given the necessary means and public support to do so. This was not the case with the enforcement of other ‘vice’ laws. The Australian Labor Party (ALP) regarded the ‘sly grog’ trade (the service of alcohol outside of the 6pm hotel closing time) and starting price (SP) bookmaking (the illegal off-course betting on horse-racing) as socially ‘acceptable’ activities. The police were accordingly not given the necessary support to control these vices that survived into the 1950s as the economic base for organised crime and a major motive for police corruption (McCoy, 1980).

3.4. The 1940s-1950s: post World War II drug control

World War II changed Australia's international relations with a move away from Britain towards reliance upon the United States to guarantee Australia's security. The United States was and had always been more intolerant of drug use than Britain, and Australia began to take a harder legislative stance towards drug use. As a wider range of drugs were developed and promoted, many, including pethidine, were added to the list of restricted drugs. Throughout the 1950s, the United States no longer pursued an isolationist foreign policy and its officials increasingly dominated international organisations involved in drug control. These attitudes also influenced Australian policies towards drugs and international drug control measures.

In May 1953, under considerable pressure from the United Nations Drug Commission and with little consultation within Australia, the Australian Government prohibited the importation of heroin. This policy seemed to be motivated more by a wish to comply with international treaties rather than a concern for public health because illicit heroin dependence was rare in Australia (Davies, 1986). Australia's signing of the United Nations Single Convention on Narcotic Drugs (1961) and its ratification in 1967, committed the country to the system of international drug control.

The classification system in the Convention treated heroin and cannabis as drugs deserving of the tightest legal controls because of their unique properties and dangers. There was nonetheless, a small illicit heroin market in the 1950s and 1960s among Sydney's Chinese community, who imported heroin from Hong Kong for their own use because it was cheaper and easier to conceal than opium (Rolls, 1992). As in other countries, attempts to suppress opium smoking may have increased heroin use (Courtwright, 1982, Gray, 1995, Westermeyer, 1976).

3.5. The 1950s: growth in 'organised' crime in Sydney and Melbourne

McCoy (1980) argued that the prohibitions of the 1920s – severe restrictions on alcohol sales and the prohibition of 'dangerous drugs' – provided an economic base that permitted organised crime to emerge in Sydney and Melbourne. As in most developed countries in the 19th century, Australian Governments had tolerated and taxed personal vices such as gambling, prostitution, alcohol and drug use. During the early 20th century,

governments sought to suppress these vices and the organised trades in them using criminal legislation. McCoy (1980) argues that rather than eliminating them, the criminalisation of these vices made the illegal industries that developed to meet demand vulnerable to control by professional criminals. This trend was more marked in Sydney than Melbourne.

According to McCoy (1980), the greater organisation of crime in Sydney than in Melbourne reflected the characteristics of these cities and their police forces. Both were port cities in the 20th century with core businesses of transport and cargo handling that allowed the shipment of contraband and organised theft (Morrison, 1997). During world economic downturns when port cities experience high rates of unemployment, prostitution, gambling and other forms of organised crime provide alternative sources of employment and income. Unlike Sydney, Melbourne's economy was based on manufacturing and banking, which provided more protection against downturns in global trade, reducing opportunities for organised crime.

The Victorian Police was established with a local community orientation in 1852. They did not recruit from the ranks of convicts to the same extent as NSW Police, who during colonial times were often found to collaborate with the criminals they were supposed to apprehend. The Victorian Police also seemed not to attract the same degree of public hostility as the police in NSW and so were better able to enlist public cooperation (Lintner, 2002), providing a more consistent restraint on the growth of organised crime. In Victoria, regular and comprehensive Royal Commissions into police performance encouraged generally higher standards of conduct than in NSW, reducing the scale of systematic corruption and disrupting the development of long-term alliances between officers and criminals. According to McCoy (1980), the combination of Sydney's economic dependence on its port and its less effective police force created an environment that was more conducive to the development of organised crime.

These two features of Sydney enabled the profitable criminal milieu involved in 'sly grogging', SP bookmaking and prostitution during the years between the World Wars to develop an organised professional criminal class. This was also encouraged by unprecedented affluence in Sydney during World War II when United States and Australian soldiers spent their recreational leave in Sydney. Their spending increased the

demand for 'sly grog', gambling, hotel accommodation, restaurants, prostitution, and female escorts. A black market also developed to supply rationed items and counterfeit ration cards and produced a new generation of professional criminals (McCoy, 1980). NSW Police were generally free of systematic corruption in the 1930s but emerged from World War II seriously compromised in their capacity to control organised crime and professional criminals. The result was a steady expansion of the scale of criminal operations throughout the 1950s and 1960s, as was revealed in subsequent Royal Commissions.

3.6. The 1960s: the impact of heroin use during the Vietnam War

Demand for heroin in Australia increased during Australia's involvement in the Vietnam War (1962-1972). In the late 1960s, Chinese heroin producers established heroin laboratories along the Thai-Burmese border areas, and exported heroin to Vietnam for sale to American soldiers (Hirst, 1979). American servicemen began to smoke and inject heroin, and within a relatively short period, as many as a third of the troops were using heroin (Robins et al., 1975). American soldiers visiting Sydney on 'R & R' leave introduced heroin use to prostitutes and bohemians. By the late 1960s, the market originally established to meet the demand from American soldiers provided locals with access to heroin in Sydney's Chinatown and Kings Cross (Rolls, 1992). The growth of the heroin market prompted the establishment of methadone maintenance programs in the early 1970s (Mattick and Hall, 1993).

Australian criminals quickly joined in this profitable business. The case of John Egan, a police officer with the NSW Special Branch, illustrates the ease with which Australians could enter the international heroin trade in the late 1960s. Egan managed a team of heroin 'couriers' recruited from ex-police and police on leave that operated between Hong Kong, Sydney and America. Egan's team transported AU\$22 million worth of heroin into the United States and a little into Sydney (in which significant demand for heroin was yet to develop) in the 15 months before being "busted" in early 1967. Their operations also revealed the capacity for corruption within NSW Police (McCoy, 1980).

By the late 1960s it was evident that, in addition to a burgeoning demand for drugs, there were sufficient corrupt police in NSW to allow professional drug trafficking to develop

(McCoy, 1980). The biographies of criminal personalities such as Arthur ‘Neddy’ Smith (Smith and Noble, 1993) reveal the way in which organised crime figures, using the massive profits from heroin trafficking, corrupted police in Australia’s most populous State.

After American forces withdrew from Vietnam in the mid 1970s the Chinese heroin syndicates that had supplied heroin to United States troops shifted their focus elsewhere (McCoy, 1980). As the scale of heroin use among American soldiers in Vietnam became apparent in the US, it became a political imperative to ensure that South East Asian heroin did not fill the void in the United States heroin market created by the eradication of Turkish opium production. The United States Drug Enforcement Agency (DEA) significantly increased the number of agents in South East Asia and spending on local enforcement efforts. These efforts appear to have reduced the flow of South East Asian heroin to America, as there was a marked decrease in the amount of South East Asian heroin entering the United States. The traffickers’ experience with American soldiers may have suggested that very large profits could be made by selling heroin to affluent Westerners. Traffickers sought new markets for heroin in Europe and Australia, where there were (then) relatively few addicts (McCoy, 1980).

In Australia during the same period, the flourishing Kings Cross drug scene declined with the end of ‘R & R’ flights in the early 1970s. As income from American troops disappeared, the number of drug users in Kings Cross gradually diminished. The drug scene was a relatively localised phenomenon, with heroin and cannabis use during the late 1960s confined largely to those who lived in the Kings Cross area. During the 1970s the heroin and cannabis markets expanded beyond Kings Cross. McCoy (1980) suggested that criminals from Sydney’s Eastern suburbs, who were involved in SP bookmaking, illegal gambling and extortion, began to associate with ‘counter-culture trendies’ who had travelled the world, and used cannabis, hashish, LSD, opium and heroin. Many were surfers and trendsetters and they introduced their friends and customers to illicit drugs. The more active dealers moved to the affluent Northern Beaches area, partly because they could now afford it, and partly to avoid the growing violence of the inner-city drug trade. In the Northern Beaches they established a network of teenage dealers and surfers and rapidly developed a market for LSD, cannabis and

amphetamines. This was Sydney's first suburban drug subculture, which gradually expanded to other metropolitan regions.

3.7. The 1960s: organised crime's role in drug trafficking

Throughout the 1960s, the ruthlessness and professionalism of Sydney's organised criminals continued to increase. The outcome was influenced by the 1965 State elections in which after a quarter of a century in power, the ALP was defeated by the (conservative) Liberal-Country Party (LCP). Established criminal leaders found their old political contacts useless, and a small number of criminal syndicates with allies in the new Government expanded their power by monopolising police and political protection. The struggle for control of organised crime produced exceptional violence, with the execution on nine underworld figures between 1963 and 1969, in struggles over the control of the criminal milieu (McCoy, 1980).

Between 1965 and 1976, NSW developed a significant problem with political and police corruption (McCoy, 1980). Sydney's criminal entrepreneurs enjoyed unprecedented prosperity, expanding into illegal casinos and systematic fraud in the flourishing poker machine and licensed club industries. Fourteen illegal casinos were established in Sydney during this time illustrating the city's tolerance for organised crime. Indeed, McCoy (1980) has argued that politicians were complicit in the organisation of the criminal milieu in Sydney.

The public visibility of organised crime in NSW prompted media and parliamentary scandals that led to the establishment in August 1973 of a Royal Commission into Organised Crime under Mr Justice Moffitt. Justice Moffitt concluded that organised crime was well established and that Sydney's organised criminal syndicates had developed links with the American Mafia. He highlighted the inability of NSW Police to suppress organised crime. Evidence from Europe and America revealed a strong association between gambling and heroin smuggling and Mr Justice Moffitt was concerned that these links would be forged in NSW. His recommendations were not acted upon, and by the late 1970s, organised crime in NSW was a professional, ruthless and powerful industry (McCoy, 1980).

3.8. The 1970s: development of a mass market for cannabis

In the early 1970s cannabis became a symbol of rebellion against authority (Penington, 1999), and produced the first mass market for an illicit drug in Australia. The demand for cannabis was efficiently exploited by organised criminals, who played a major role in the development of the market and made substantial profits from importing and domestically cultivating cannabis (McCoy, 1980). Although no single group dominated supply, cannabis distribution provided a welcome new business opportunity for criminal entrepreneurs, who between 1972 and 1977 had lost a number of their profitable activities with the 'legalisation' of abortion, the loss of 'standover' income from prostitutes who serviced American servicemen on R & R, and the closing of the illegal casinos in December 1977 by the new ALP Government. By the mid-1970s, the income of Sydney crime syndicates was limited to gambling and prostitution standover. Illicit drugs were an obvious alternative.

The entry to the drug market of professional criminals from the 1970s onwards was not unique to Australia (Dorn et al., 1992). Sydney's organised criminals used, however, the police and political contacts they had acquired through a decade of involvement in the more 'acceptable' illegal industries of gambling, abortion and prostitution. The income generated from illegal drugs allowed criminal bribe-givers to achieve the balance of power in relationships with corrupt police and politicians, who were silenced by the risk of exposure (McCoy, 1980). This, according to McCoy, permitted Sydney's syndicates to move into drug trafficking with a high degree of protection from law enforcement.

3.9. The 1980s: organised crime moves into heroin

In 1977 public concern about the murder of Donald Mackay, a prominent anti-drug campaigner and conservative politician from regional NSW, prompted State Governments and Federal Government to establish the Drugs Royal Commissions under Justice Woodward and Justice Williams, respectively. The earlier South Australian Royal Commission into the Non-Medical Use of Drugs that reported in 1978 questioned the basis of Australia's drug laws related to cannabis. Mr Justices Woodward and Williams, by contrast, advocated increasing police powers to enforce existing drug laws.

Despite public pressure on the NSW Government, the heroin market continued to grow. A decade of corruption connected with the illegal casino industry, SP bookmaking and prostitution impaired the ability of the NSW Police and State Government to control organised crime. They were unable to prevent its move from vice trades traditionally acceptable to the majority of Australians into large-scale and highly profitable heroin distribution.

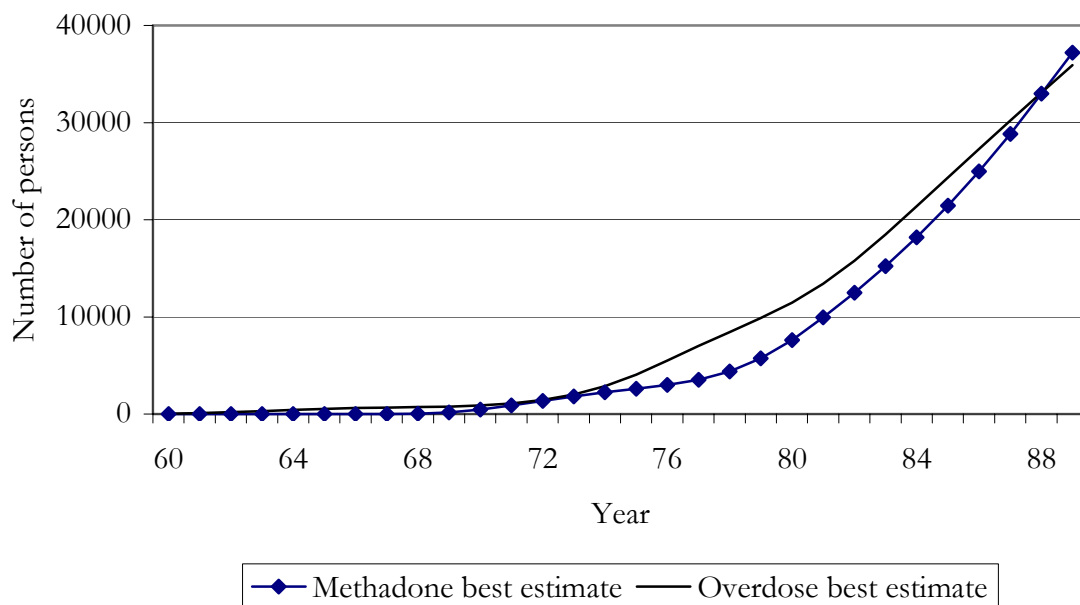
Meetings in the mid-1970s between local criminals and American organised crime groups may have linked Australia with the international narcotics traffic (McCoy, 1980). Whether coincidental or not, the amount of South East Asian heroin entering Australia increased substantially after Mafia representatives visited Australia. Bulk heroin importation came to be controlled by a small number of criminal groups because law enforcement efforts in Bangkok meant that Chinese exporters preferred to deal only with established contacts who purchased large amounts of heroin. The Australian Royal Commission of Inquiry Into Drugs, under Mr Justice Williams, defined the key threat of drug trafficking as arising from the involvement of organised crime, rather than from drug use per se (Manderson, 1993).

No single syndicate dominated Australia's drug traffic in the 1970s. Unlike traffickers in the US in the 1960s, who regularly imported large amounts, Sydney drug syndicates of the 1970s handled smaller quantities, using couriers and smuggling techniques (Hall, 1981). As summarised by McCoy (1980), there was no single 'Mr Big', but there was a number of 'Mr Big Enoughs'. While individuals travelling on commercial airlines took the risks of importing small amounts of heroin during the 1970s, organised crime importers were the most regular and substantial suppliers of Australia's heroin. Leading syndicate figures subcontracted out the management of the operations. In turn, the 'manager' employed reliable criminal operatives, and retained legitimate professionals – solicitors, police, and judiciary – as required. Their success was evident in the continued expansion of Sydney's, and subsequently Australia's, heroin markets and by the fact that, as in other countries, organised crime syndicates remained the key players in the importation of heroin into Australia (Lintner, 2002, Morrison, 1997).

3.10. The 1980s: Government responses to increased heroin use in Australia

The expansion of Australia's illicit heroin markets in the early and middle 1980s led to increases in the number of dependent heroin users (see Figure 2.1 Hall et al., 1999). Political concerns about the visibility of heroin use and property crime committed by dependent heroin users led to a Special Premiers' Conference that launched a National Campaign Against Drug Abuse (NCADA) with additional Federal funding for drug programs.

Figure 2.1: Back projection estimates of the number of dependent heroin users, 1960-1989



Source: Hall, Ross, Lynskey, Law & Degenhardt, (2000)

The NCADA funded a number of policy responses to dependent heroin use. One was a significant increase in 1985 in the provision of methadone maintenance treatment for heroin dependence (Mattick and Hall, 1993). Fear that HIV would be transmitted via needle sharing led to the establishment in 1987 of the first needle and syringe programs (Feacham, 1995).

In the mid-1980s, the newly created Australian Federal Police, which replaced the discredited Australian Bureau of Narcotics, disrupted many of the criminal syndicates that had traditionally controlled Australia's heroin distribution, including those of

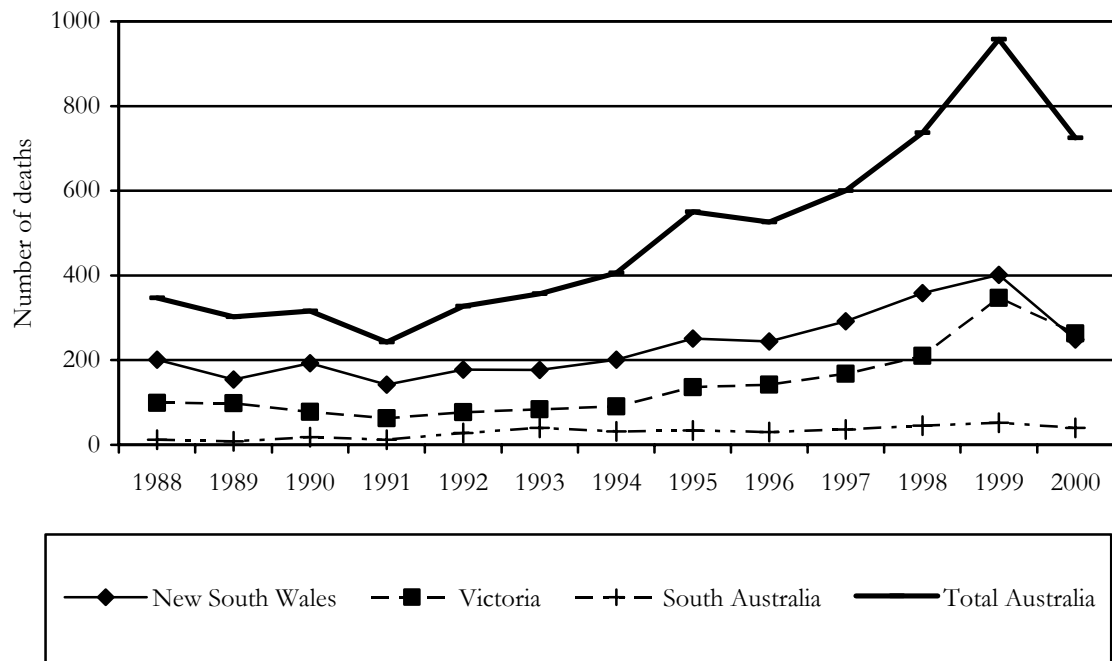
Leonard ‘Lenny’ McPherson and Arthur ‘Neddy’ Smith (Lintner, 2002). The success of these police campaigns, however, created a vacuum in heroin distribution that was filled in the early 1990s by South East Asian crime syndicates. The heroin market continued to flourish, but now with a wider range of nationalities involved in street-level heroin dealing that had traditionally been controlled by ‘white’ Australians (Lintner, 2002).

3.11. The 1990s: the nature and scale of heroin markets in three Australian jurisdictions

The clearest indication that the Australian illicit heroin market grew during the 1990s is the steep rise in opioid overdose deaths that began in the early 1990s in Sydney and Melbourne (see Figure 2.2 Hall et al., 1999). The increase began in the early 1990s but the steepest increase in heroin-related deaths occurred around the time that national illicit drug monitoring systems were established (Fry and Topp, 2002, Shand et al., 2003). These included the annual Needle and Syringe program survey (MacDonald et al., 2001) and the Illicit Drug Monitoring System (IDRS) (Hando et al., 1997, Shand et al., 2003). Between 1996 and 2000, comparable data were collected on illicit drug markets around the country. These data indicated that heroin was the drug injected most often in Australia (MacDonald et al., 2001). Six jurisdictions contained viable heroin markets⁴ in the sense that drug market participants reported consistent heroin availability (Darke et al., 2000), relatively high purity and decreasing or stable heroin prices every year- all consistent with an expanding heroin market (Caulkins and Reuter, 1998).

⁴ In two smaller, satellite markets in which heroin has not been readily available, the illicit use of other opioid preparations has dominated, namely methadone in Tasmania (TAS; Bruno, R. and McLean, S. (2001) National Drug and Alcohol Research Centre, Sydney. and morphine in the Northern Territory (NT; O'Reilly, B. and Rysavy, P. (2001) National Drug and Alcohol Research Centre, Sydney..

Figure 2.2: Number of opioid deaths among persons aged 15-44 years, 1988–2000



Source: Australian Bureau of Statistics

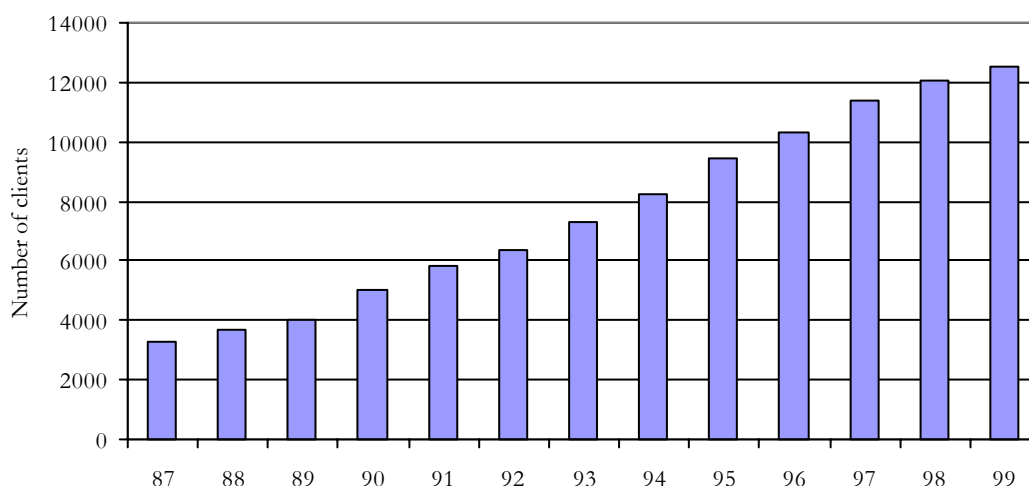
Injecting drug users' (IDU) reports suggested that heroin dominated illicit drug markets in NSW and Victoria (Darke et al., 2000). These two States were thought to account for one-half and one-quarter, respectively, of Australia's heroin markets (Hall et al., 2000). Although hidden populations cannot be precisely defined, the capital cities – Sydney and Melbourne – probably contain the majority of illicit drug market participants in those States. Law enforcement intelligence suggested that Sydney remained Australia's centre for heroin importation and trafficking during this time (Australian Bureau of Criminal Intelligence, 2002). The following section details the heroin markets in the two largest Australian cities, Sydney and Melbourne.

3.11.1. NSW

In Sydney, the median price of a street gram almost halved, from \$400 in 1996 to \$220 in 2000 (Darke et al., 2002). Analyses of the average purity of heroin seized by law enforcement officials increased over the same period from 44% in 1996/97 to 58% in 1999/00 and 65% in 1998/99 (Topp et al., 2003). Rising heroin use was also reflected in

increasing numbers of persons entering methadone maintenance treatment during this period (Figure 2.3).

Figure 2.3: Number of methadone clients in NSW on 30 June by year, 1987-1999

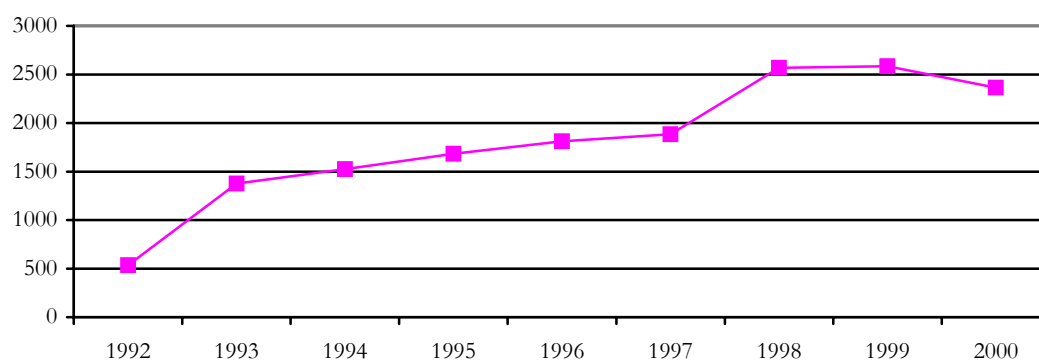


Source: Pharmaceutical Services Branch database, NSW Health

As shown in Figure 2.4, the number of all heroin-related calls made to the Alcohol and Drugs Information Service increased by 576% from 1992 to 1998 while calls from heroin users have increased by 619%. This is strongly suggestive of an underlying increase in the number of heroin users. While it is possible that individuals may ring ADIS several times, this was true across the study period and so is unlikely to explain such a dramatic increase in calls to the service⁵. The increase is also consistent with other indicators such as the increased number of fatal heroin overdoses and first time entrants to methadone maintenance.

⁵ It should be acknowledged, however, that the increase in calls may also be *partially* attributable to an increased awareness of ADIS among the public.

Figure 2.4: Number of heroin-related calls made to NSW ADIS by heroin users, 1992-2000



Source: NSW ADIS (note that data from 1992-1996 were obtained from reported aggregate data, whereas data from 1998-2000 were derived from unit record level data)

Along with the expansion in the size of the heroin using population and in the diversity of crime groups involved in distribution, there was a shift in the 1990s in the location of the drug markets where heroin was distributed. Although Kings Cross, the premier drug market, remained a key locale for the drug trade, the large, almost exclusive heroin market of Cabramatta emerged, as did the smaller, more localised Redfern market.

Kings Cross

The early history of the Kings Cross drug market is pivotal in the history of Australian drug markets, the details of which have been outlined earlier in this report. By the 1980s, Kings Cross was home to a thriving open-air drug market, dealing in heroin, cannabis, amphetamine, and later, “party drugs” such as ecstasy and more recently cocaine and methamphetamine. The drug market offered opportunities for small time and large scale drug dealing (Southgate et al., 2003). The market attracted local and out-of-town IDU, sex workers, young people, a nightclub crowd, backpackers and an array of tourists and visitors (Southgate et al., 2003). Public injecting was common: in 1998, 32% percent of residents surveyed in Kings Cross reported that they had seen one public injection episode in the prior month (MacDonald et al., 1999). Commercial drug injecting rooms were present in Kings Cross from at least the early 1990s (Rutter et al., 1997), and were brought to public attention during the Wood Royal Commission (Dolan et al., 2000). The thriving red light district in Kings Cross also resulted in at least two ‘safe houses’

(rooms-for-rent that cater for brief sex work liaisons) where injecting is known to take place (Southgate et al., 2003).

Cabramatta

In the early 1990s, there was a notable increase in heroin distribution and use in the South Western Sydney suburb of Cabramatta. From the early 1990s, there were increasing reports of heroin in the area, thought to be “Chinese No. 4” heroin (Maher et al., 1998). The establishment of a visible, street-level heroin market in the area led to increases in heroin overdoses, heroin related arrests, and other associated crimes. There were substantial increases in community concern, with extensive reports of heroin injection on the street, and many reports of increasing numbers of young persons (many of Indochinese descent) involved in the market as user-sellers (Maher et al., 1998). Much of the lower level dealing was thought to be relatively freelance, but there was evidence that dealers were in some cases “taxed” by local gangs (Maher et al., 1998).

In response to this increasingly visible market, there was a period of “high profile, intensive and sustained police intervention”, with increases in the number of beat police, mobile patrols, officers on horseback and police dog teams (Maher et al., 1998). These interventions did not appear to reduce the availability of heroin, but rather led to reports of more risky street-based heroin injection, as users attempted to consume the heroin before being apprehended by police (Maher et al., 2001). These changes were reported to be particularly among younger users, who were more likely to use in a group in public setting and share equipment, raising concerns about the risk of blood borne virus transmission, particularly hepatitis C (Maher et al., 1998).

Redfern

A number of notable changes occurred to the heroin market in NSW from the late 1980s: the use and dealing of heroin was noted from around this time by police. It has been argued by Lintner (2002) that the drug market in Redfern was in part developed through links developed in prisons and juvenile detention. Lintner (2002) argued that indigenous Australians in custody may have developed links with South East Asian detainees, leading to the establishment of the drug market in Redfern, a locale known for its indigenous population (Lintner, 2002).

3.11.2. Victoria

Specific heroin markets in Melbourne were not a major point of interest until the emergence of the street-based markets that characterised heroin supply and procurement in the late 1990s (Fitzgerald et al., 1999). Up until the mid-1990s heroin supply was often referred to as “residentially-based” or directed from dealer’s homes. There is only limited documentation on the history of Melbourne’s heroin markets (Dietze and Fitzgerald, 2002). The brief notes that follow emerge from interview work with injecting drug users and police in Melbourne’s inner city conducted during the period 1998-2001 and reported by (Dietze and Fitzgerald, 2002). Like most histories of illegal activity these stories are partial as there is little verification of “facts”.

In the early 1980s in Melbourne, inner city suburbs had yet to experience rapid gentrification. The Fitzroy/Collingwood area still housed substantial welfare and working class populations that accompanied the poor in the public high-rise housing estates. Working class hotels were alongside this residential population. In the early 1980s, local police reported being wary of entering some of these hotels on their own for fear of violence. Documentation from covert operations on these public hotels during the 1980s suggested a more consumer-accessible location-based drug trade than the residentially-based markets previously described.

Later in the 1980s and early 1990s amusement parlours and pool rooms became sites for drug markets in Fitzroy/Collingwood; trends apparent for some time in St Kilda in the southern edge of Melbourne. One particular pool room in this area was the location of a thriving heroin trade. Likewise, hotels in Fitzroy and Richmond became well known as places to buy heroin and amphetamines. At the time, there was a cultural shift in the inner city. Inner city hotels became the site of a burgeoning live and independent music scene, and increasingly became host to a vibrant and eclectic mix of people following this new entertainment. High streets like Smith Street in Fitzroy/Collingwood and Church Street in Richmond were increasingly becoming entertainment precincts. The increased flow of recreational consumers of many pleasurable commodities provided the opportunity for distribution of illegal drugs, creating opportunities for the changes in heroin supply later observed.

The changes in heroin accessibility that occurred during the 1980s in inner city Melbourne could have been precursors to the rapid expansion of the street heroin markets across greater Melbourne that occurred in the mid 1990s. The critical cultural shift that occurred during the 1980s created a linkage between access to heroin and the development of the inner-city recreational consumer commodity market. Licensed hotels, live music venues, amusement parlours, and pool-rooms all distributed pleasurable commodities; heroin became available through the same sites. There was a cultural shift that increased the visibility of the heroin market to those that attended these venues.

The emergence of street-based heroin markets in Melbourne

A number of shifts occurred in the distribution and use of heroin in Melbourne from mid 1995 to 2001 which saw the emergence of the street-based drug markets (Fitzgerald and Hope, 1999, Fitzgerald et al., 1999). Melbourne's street-based drug markets had all the characteristics of "open" markets (Edmunds et al., 1996, May et al., 1999), that is, access to the market was high, drug dealing was highly visible, the market was mobile and rapidly re-deployed in response to police activity. There was a high level of associated crime, public disorder and public drug use.

Similar changes were noted in other areas of Melbourne, notably the inner suburb of Footscray and the outer suburbs of Springvale, Dandenong and Frankston (Figure 2.6). This produced areas that have commonly been termed the "drug hotspots" in Melbourne. The increased visibility of the street heroin markets resulted in increased levels of drug outreach and needle and syringe program services which enabled documentation of the size and nature of the heroin market. This increase was perhaps best documented in the increasing number of drug users receiving methadone maintenance treatment (Figure 2.7).

Figure 2.6: Greater Melbourne metropolitan area and selected suburbs

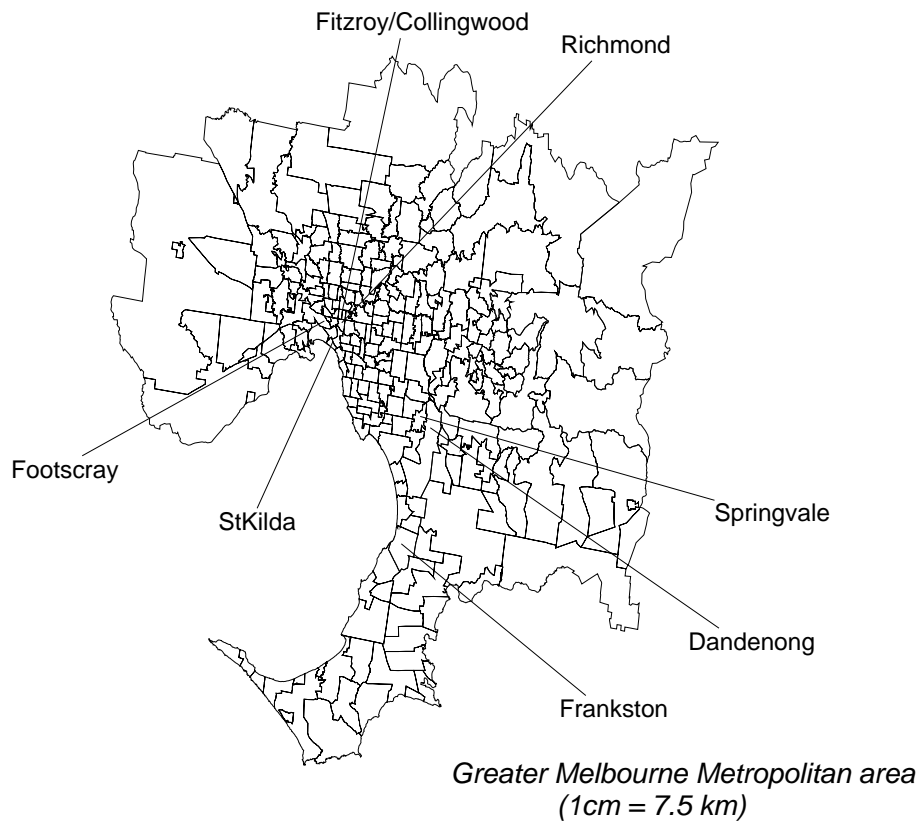
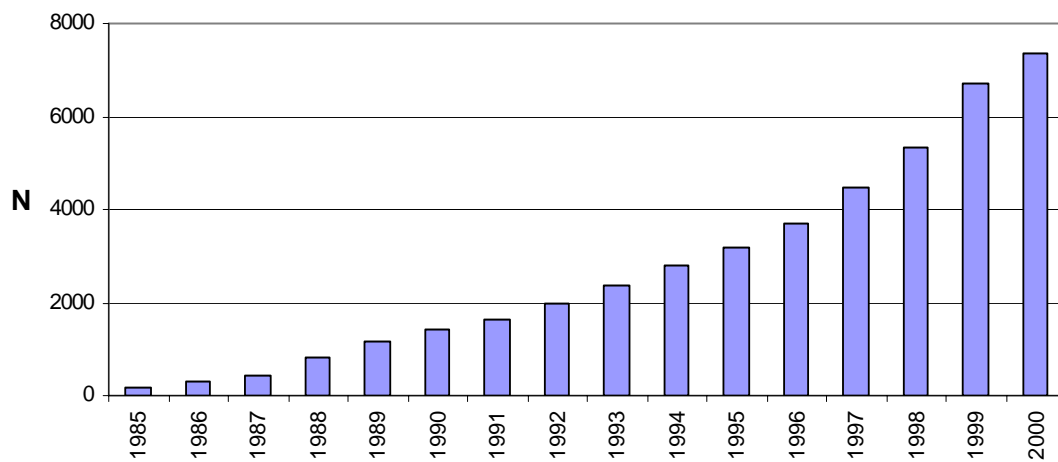


Figure 2.7: Number of clients on the Victorian methadone maintenance program, 1985-2000



Source: Drugs and Poisons Unit, Victorian Department of Human Services

3.12. Conclusions

Australia experienced a long history of opiate use, beginning with quasi-medical use in 19th century. Heroin was not prohibited until the mid 1950s, following progressive increases in restrictions to opiates commencing in the 1890s. Despite a large scale illicit cocaine market in 1920s and 1930s and with the exception of some limited heroin use among Sydney's Chinese community in the late 1950s, illicit heroin use largely began in Australia in the early to mid 1960s when it was introduced by American servicemen on R & R leave.

The size of the illicit heroin market increased after the end of the Vietnam War with the development of organised heroin trafficking between Australia and South East Asia, as criminals who had hitherto derived their incomes from prostitution and gambling moved into drug importation. The market flourished under continued police protection established during the policing of more traditional criminal activities in gambling and prostitution. This peaked with a major epidemic and the consequent creation of the NCADA. Another heroin epidemic occurred in the early to mid 1990s as evidenced by the increased availability, decreased price and increasing quality of heroin. During this period the location and size of heroin markets expanded in both Sydney and Melbourne.

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