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**REASSESSING NORTH AMERICAN COUNTER-NARCOTICS POLICIES**

**Eduardo Medina Mora**

First of all, let me thank the Trilateral Commission for their kind invitation to address such a distinguished audience on one of my favorite topics. It is a favorite because I have no choice.

We are going to talk about something which is very popular and a matter of concern in the United States, which is weapons of mass destruction, because that's exactly what drugs are, especially stimulants. When one has seen youngsters and even family members destroyed by drugs and then losing their ability to perform in life, to relate to each other, and then we see the numbers and how this phenomenon grows throughout our societies, there's no doubt that these are weapons of mass destruction. We don't, of course, build up policy from that perspective, but I guess this is something relevant to state.

Another comment here before getting into the matter is that President Calderon last night stated the right objectives for Mexico and for the region, which is to increase competitiveness, and we cannot have a competitive environment apart from the structural reforms that he mentioned without the rule of law. The drug cartels have the ability to destroy institutions, to compete with the state in those powers constitutionally reserved for the states—the monopoly of the use of power and the monopoly in collecting taxes. That is what these organizations are doing now in relevant, not very extensive, areas within Mexico.

This has, of course, an explanation. We have no choice, so this commitment of the government to fight the drug cartels comes essentially from the best national interest, not from the aim of pleasing the United States. Of course, this is a transnational problem in nature, and it cannot be solved without international cooperation and understanding of the role played by geography in the value-added chain from producers to consumers. There is no way a country can be successful if the relevant countries in the value chain are not deeply involved and committed.

Let me first address some history here. In the '60s and '70s, most of the marijuana consumed in the United States came from Colombia through the Caribbean. Colombia was not originally a cocaine country. The criminal organizations in Colombia moved from contraband of alcohol and cigarettes to marijuana producing and shipping that product to the United States, then to cocaine—processing the cocoa leaves from Peru and Bolivia, and then starting growing these leaves in their own territory. Of course, this gave Colombia a relevant and major role in this business.

The consumption of cocaine in social patterns in the United States rose dramatically among the yuppies in New York and the artistic community in Los Angeles and extended to other levels of society. The United States became and still is today, of course, the number one country in cocaine consumption in the world, at least in terms of volume.

Colombia shipped this product to the United States through the Caribbean to Florida, and Florida was the entrance door. Then the Colombian cartels gained a tremendous level of economic power and from there political power. The Cali and Medellin cartels were highly relevant in Colombian politics for quite

awhile. Two things happened here. First, the United States, especially the Coast Guard, closed successfully the Caribbean route, and the product then moved from the Caribbean to Central America and Mexico as a route to reach the United States. That happened in the early '90s.

Then Plan Colombia was not successful in getting Colombian cocaine production down. It is essentially at the same volume level as it was 15 years ago with a different composition, higher yield crops, smaller plantations in different geographical areas where the traditional approach of trying to get rid of those production areas through defoliation with air equipment provided by the United States is not working any more.

But it did succeed in dismantling the level of power, economic and political power, of the big cartels. The business really didn't disappear but fragmented into much smaller concerns, and new actors came into the ground, which were the FARC, Auto Defensas Unidas (AUC), and the ELN which also played a role in protecting and then interfacing markets here. From these, and using Central America and Mexico as a route, the Mexican cartels acquired a tremendous economic power because of their ability to gather a larger chunk of the value added in the total chain—getting first the ability to ship the product through the territory towards the United States, then gaining control from the Colombians closer to the provision areas, and gaining control over the Colombians towards the consumer in and within the United States.

This gave these Mexican organizations a tremendous ability to produce cash and therefore produce power. The Colombians evolved from contraband organizations with a more territorial approach originally to ones with a more transactional approach in terms of the business, and the business is sizeable. Last year, and this is one of the relevant indicators, the U.S. banking community, the U.S. banking system, provided the Mexican banking system in the neighborhood of \$1 billion in cash to sustain the needs of the Mexican banking system in dollar-denominated currency to meet the needs of the market, but Mexico returned to the United States, according to the figures of the Fed and the Mexican Central Bank, in the neighborhood of \$16 billion in cash the same year, so Mexican banks are shipping \$1.2 billion in cash a month back to the United States, excess cash.

This money, of course, is coming through the border in cash, not in banking transactions, not in remittances, but in cash, and it's reflecting the size of the business. We have agreed, because this is a convention, with the DEA, that drug-related money is at least \$10 billion in cash that stays in Mexico, not counting the amount of cash that is shipped from Mexico to Colombia in order to pay for the product. Our assessment is that the Mexican market is worth in the neighborhood of \$2.5 to \$3 billion a year—the domestic market, of course, with lower prices than those in the United States.

But something happened here: U.S. consumption patterns have been changing dramatically over the last few years. Cocaine consumption is down in terms of volume and therefore prices. At least until December 2006, prices went down significantly on the wholesale level. The Mexican cartels therefore started facing three or four years ago very significant diminishing in their total operating income, and drugs being a commodity, the total income of the industry therefore was not large enough to provide for enough ability to sustain the size and the complexity of a criminal structure built up during those very good years since the mid '80s to early 2000.

Therefore, from an economic perspective, and drugs being a commodity, the process that we face today is a market consolidation process. And market consolidation processes are typically solved through mergers and acquisitions, through failed companies in Chapter 11, and through diversification, new markets, new products, and all of this is happening in Mexico. It's just that the market consolidation process is not being solved in a civilized way. There are actually acquisitions from one organization to the other one, but it is not through agreement but through violence. And, of course, new markets are then sought.

The Mexican domestic market is highly relevant, and the domestic market has been growing very rapidly. The last 12 years in a row per capita consumption of all drugs except marijuana, which is stable, has been growing at rates over 20 percent a year, so the domestic market is highly relevant here. Also we face a kind of criminal involution from drugs that are not producing enough cash towards extortion and kidnapping in those areas in which they have control, because the state privatized the local police forces which are now supporting their activities, disputing the state's monopoly and the use of power in collecting taxes.

We have, of course, been facing this with strategy. I'm not going to outline that at this moment, but I would say that what we are trying to do is first to map the problem from a different perspective. The strategy was, from a very evil combination of politics and policy, trying to get the most effort into the dismantling of the command and control segment of the cartels, what I call the "kill the chairman strategy" which is to capture large and relevant kingpins hoping that that would destroy the organization's ability to produce and trade with drugs, which is, of course, not the case.

We have to focus on the operational, logistic, commercial areas of these concerns and try to, of course, focus our efforts there and focus on cash, cash coming from the United States to Mexico—at least, as I said, \$10 billion related to drugs and weaponry. These are the areas or the components of the equation that are north to south. The south to north component is drugs going up, but the north to south component is highly relevant. It is cash and weapons. It is very difficult for us to understand the permissive U.S. laws letting U.S. citizens or residents acquire an assault rifle. That's difficult enough, but what is unexplainable is that one individual can get 30 or 50 assault weapons in his hands and then ship them to Mexico, or even grenade launchers and all kind of weapons that are giving these organizations a tremendous fire power that surpasses what the police have.

Have we been successful in this effort? I would say that we have several indicators. One indicator is we have been disrupting these organizations dramatically. One indicator is U.S. prices: U.S. prices to the consumer in June, as compared with December prices, are up an average 25 percent for cocaine, 23 percent for meth, and purity is down from the high eighties to low sixties for those same dates. The September numbers, which are not official but come from a sample of 13,700 samples throughout the United States, if you combine purity diminishing and price up, might reach almost 65 percent as compared with December. This is not that demand is growing: it's that the supply has declined dramatically in the United States, and this is, of course, a combined effort of the U.S. law enforcement community, Mexico disrupting these organizations, and Colombia, of course, doing their share.

**Eduardo Medina Mora** *is Attorney General of Mexico.*