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| <p><b>FIFTY-THIRD REGULAR SESSION</b><br/><b>May 20 -22, 2013</b><br/><b>Washington, D.C.</b></p>  | <p><b>OEA/Ser.L/XIV.2.53</b><br/><b>CICAD/doc.2030/13</b><br/><b>20 May 2013</b><br/><b>Original: English</b></p>         |
| <p><b>THE ECONOMICS OF THE DRUG TRADE</b><br/><b>MS. MELISSA DELL, SOCIETY OF FELLOWS – HARVARD UNIVERSITY, USA</b></p>  |   |

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| <p style="text-align: center; font-size: 2em; color: #4a5a9a;">The Economics of the Drug Trade</p> <p style="text-align: center; font-size: 1.2em;">Melissa Dell (Harvard)</p> <p style="text-align: center; font-size: 1.2em;">CICAD, May 2013</p> | <p>Drug trade economics</p> <p>Melissa Dell</p> <p>Introduction</p> <p>Illicit drug demand</p> <p>The illicit drug supply chain</p> <p>The distribution of illicit drug proceeds</p> <p>Money laundering and the transmission of earnings</p> |
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## Introduction

Economics is central for understanding the functioning of the illicit drug trade. This presentation discusses:

- ▶ Illicit drug demand
- ▶ The illicit drug supply chain
- ▶ The distribution of illicit drug proceeds
- ▶ Money laundering and the transmission of earnings

Drug trade  
economics

Melissa Dell

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Illicit drug demand

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## Illicit drug demand

- ▶ Estimating the size of global and hemispheric drug markets presents tremendous challenges
- ▶ UN estimates place total illicit drugs retail sales at \$320 billion, though other estimates are lower
- ▶ The UN estimates annual drug revenues in the Americas at just under half the global total. North America occupies a dominant share of the hemispheric total.
- ▶ Approximately two thirds of total revenues accrue to retailers in consuming countries
- ▶ Wholesalers and traffickers through transit countries account for another 20-25% of revenues

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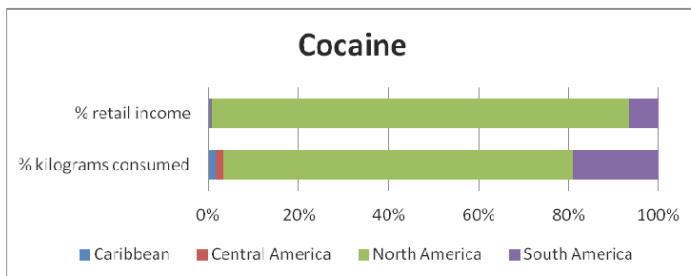
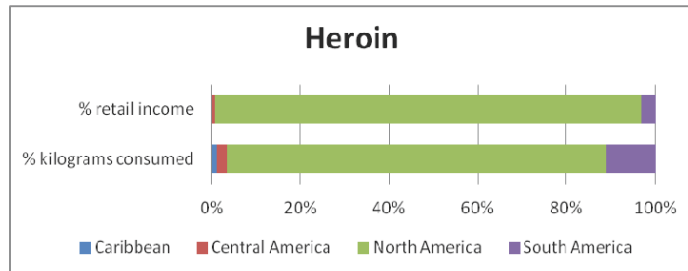
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## Drug demand



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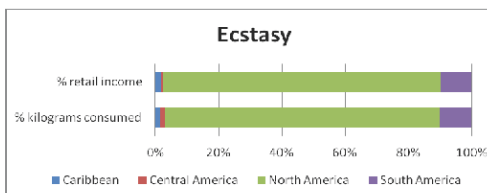
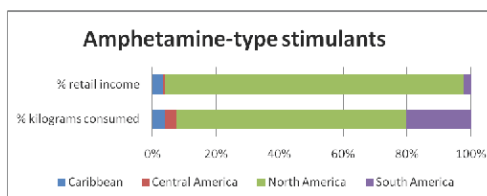
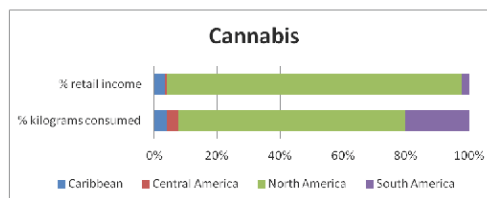
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## Drug demand



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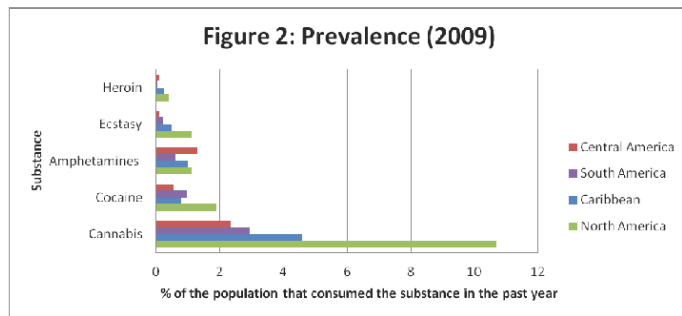
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## Prevalence



Source: 2011 World Drug Report.<sup>3</sup>

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## The illicit drug supply chain

- ▶ Drug trade operations are not typically vertically integrated
- ▶ Mexican drug trafficking organizations control a substantial part of international smuggling and wholesale markets and are increasingly purchasing cocaine in South America
- ▶ Markups for illicit drugs are orders of magnitude higher than markups for legal goods
- ▶ For many substances, markups would likely fall substantially if the substances were produced, transported, and distributed as legal commercial goods.

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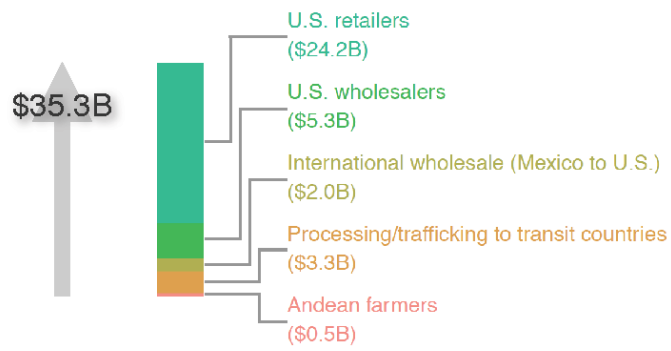
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## Gross profits in the U.S. cocaine trade



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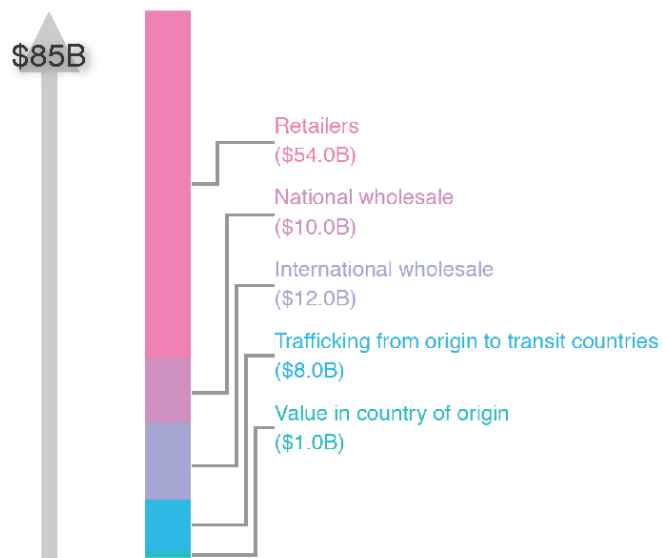
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## Gross profits in the global cocaine trade



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## Money laundering and the transmission of earnings

- ▶ Cash smuggling is a primary mechanism of income transfer along the drug production chain
- ▶ Traditionally, cash was smuggled from the U.S. into Mexico and then a portion was shipped onward to Colombia
- ▶ Recently, financial resources have more typically been transferred directly from the U.S. to source countries
- ▶ Drug-related proceeds available for laundering through the financial system total  $\approx 0.4$  to  $0.6\%$  of global GDP
- ▶ Around half of these proceeds are estimated to be laundered within the jurisdiction where profits are generated

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