

Economics of the Illicit Drug Industry: A Case Study of Honduras

非藥物經濟學以宏都拉斯為例

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Master Thesis Presented to the College of Technology
Management

National Tsing-Hua University Hsinchu, Taiwan, R.O.C.

In Partial Fulfillment of the Requirement for the Degree
of International Master in Business Administration

-IMBA-

ABSTRACT

By gathering and analyzing data, this paper offers a formal analysis of drug trafficking in Honduras. The final purpose is to present an estimate of the economic impact of the industry in the country; because data for the area is very difficult to acquire, very few empirical studies of the topic in Honduras exist, making this one of the first in its nature. The analysis measures the economic model of drug trafficking as well as its position in the world's market. It also analyzes the policy impacts and the alternatives to the current war on drugs. Finally, the study presents the main findings and impacts of the industry in Honduras. The author acknowledges that in various parts of the country the drug-trafficking industry helps to relieve poverty and underdevelopment, however it concludes that the negative impacts are much higher, the intangible costs include the high violence, corruption and migration and the tangible costs add up to US\$ 796.5 million annually, such high value is definitely preventing economic growth. Recommendations on policy changes are proposed.

ACKNOWLEDGEMENTS

I want to express my deep and sincere gratitude to everyone that contributed with their help in the realization of this work, especially Professor Stephen Chou, who as an advisor helped not only supervise but also guide and monitor this research. I would like to thank my classmates and friends, thank you to those of you that showed special interest in my work and for all the suggestions received. Special gratitude to the International Cooperation and Development Fund (ICDF) and to the government of Taiwan for the incredible opportunity to study in this amazing country.

A profound thank you to Mr. Jorge Murillo, my companion, for all the motivation and support given. Finally, to my dear family, especially to my mother, father and brother, whom from miles away provided understanding, patience and encouragement.

To everyone, thank you very much.

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MOTIVATION AND FINDING OF NEED

There is little formal economic, political and social analysis of the drug impacts in Central America, specifically in Honduras, most of the academic information available focuses on Mexico, South America and in a larger scale United States. Drug trafficking has become in recent years a big social, economic and political problem in the region. It is of utmost importance to study the problem further in order to have all the possible considerations to fight it.

Because estimating the size of global and hemispheric drug markets presents tremendous challenges and the drug trade tends not to be vertically integrated and Honduras and Central America as a region are fairly new as big players for this illicit drug trade, a research that compiles all the findings is needed. The following research is important because it sheds light in a problem that in the past few decades has dramatically grown and spread throughout Latin America and at the same time it has acquired unprecedented operational concepts, which makes it a lethal threat against many fragile democracies.

PROBLEM STATEMENT

To identify the criticality of the drug trafficking industry in Central America, focusing more on Honduras, and the possible expected consequences for the region.

The final purpose of the research is to attempt to give a general understanding on the numbers of drug trafficking, specifically the economic aspect and impact in Honduras.



METHODOLOGY

The methodology used for this research will be *deductive reasoning*. This methodology works from the more general to the more specific. Sometimes this is informally called a "top-down" approach. It begins with the topic, later the topic is narrowed down into a more specific one. The research will look into the effect patterns of drug trafficking in the region of South America and compared them to those of Central America, specifically Honduras, which is the most recent focal point of drug trafficking in Latin America. The results will then be analyzed into the political, economic and social environment of Central America in order to estimate the consequences of drug trafficking of the past 6 years (2008-2013).

For the purpose of this research the following methods will be implemented:

1. Deriving evidence from an expert
2. Cause and effect
3. Relevant examples

By analyzing and gathering data, this paper will present a formal analysis of the impacts of drug trafficking in Honduras and Central America up to 2013.

1. ILLICIT DRUG MARKET OVERVIEW

The issue of illicit drug markets has had a significant visibility in the past few decades. Because illicit economic activities (specifically those related to illicit drugs) are part of the shadow economy and therefore highly unregulated, it is very difficult and often impossible to obtain reliable information on the illegal drug market's estimates. The most basic inputs needed for the correct and accurate estimation of such markets -export and import data, market prices, consumed quantity, turnout and output data- are frequently estimated and often based on incomplete data (Geffray, 2002).

At the present time, many attempts to measure the market have been made, frequently the studies use two different methods; one is based using an approach to the *demand side* and the other one approaches the data on the *supply side* (Richards, 1993). They both rely heavily on limited information and, as previously stated, require diverse suppositions to complete missing information. The *demand-side* method usually makes use of survey data; such data is extracted from households, youth/student surveys, prison population data and hospital records of drug-based admissions. Because this type of method prompts a lot of under-reporting, researchers need to make assumptions. On the other hand, the *supply-side* method relies on satellite data, which estimates the production size (usually that of coca and poppy production), in this case researches have to make assumptions of the location of those plantations, frequency in harvest, average drug content and efficacy of eradication efforts (OEA, 2013). However, it is agreed that the size of the illicit drug market is large making it at the present time a multi million-dollar global business.

1.1 Drug Classes

In this research the illegal drug market will be based on the classification that the United Nations Office of Crime and Drugs uses for the mayor drug classes.

The first drug class is more commonly known as '*marijuana*', cannabis is a genus of flowering plants that has historically been used for seed, seed oils, and medicinal and recreational purposes as well as part of religious and spiritual rites. It is indigenous to Central and Southeast Asia. Different kinds of Cannabis exist, it is consumed for its psychological and psychoactive effects, as it gives heightened mood, euphoria or relaxation and increase in appetite (National Health Institute, 2013), some negative side effects include dry mouth, eye reddening, paranoia, impaired motor skills, and anxiety. Cannabis is produced in every country in the world; this makes it the most produced and consumed illegal drug. Because of its localized nature and small-scale production it is often consumed in the country of production, which makes estimation of the market particularly difficult (UNOCD 2013).

The second drug class are amphetamine type stimulants (ATS) , these are synthetic drugs created and processed using chemical ingredients. ATS can take various forms –liquid, powder, tablets and crystal- and therefore can be taken in several different ways –injected, snorted, smoked or orally. It is a potent nervous system stimulant, as they target the activity on the messages sent from brain to body and vice versa its positive effects may include experiencing energy and negative effects include panic attacks, headaches, anxiety, depressions, seizures, stroke and paranoia. Because of its nature, ATS are produced in laboratories around the world and many of them are of legal nature, however, some are manufactured by pharmaceutical companies to treat

particular disorders such as attention deficit hyperactivity disorder (ADHD). Illegal ATS (crystal meth, ecstasy, base to name a few) are manufactured in illegal and underground laboratories with no control.

Methamphetamine laboratories are reported to be located in all regions of the world, with United States being the country with a bigger rise over the past few years, according to United Nations data, the numbers of methamphetamine laboratories in said country quadrupled from 2,754 in 2010 to 11,116 in 2011 (UNOCD, 2013).

The third drug class includes cocaine. Cocaine is an extract from the leaves of the coca plant. The coca plant is native and available in a small area of South America, being the principal source countries Colombia, Peru and Bolivia (Anil, 1995). It is a stimulant, appetite suppressant and a highly addictive drug, marked more dangerous than other central nervous system (CNS) stimulants (Nutt, 2007), surpassing all the ATS drugs class. At high doses it can cause sudden cardiac death. When using it for prolonged time cocaine can cause paranoia, delusions, hallucinations and tachycardia. Compared to other drug classes, cocaine requires a longer extensive process that undergoes during its preparation; this is why it is classified as a “hard drug”. Because demand is high (United States being the lead country in the world as the consumer) prices remain high as well. (US Department of Defense, 2008)

The last drug class are Opiates. Opiates are narcotic analgesics that work suppressing the central nervous system. They can be natural, which are those found on the poppy plant and those derived from the “milk” of the poppy pod, or synthetics, which are

those manufactured in chemical laboratories with a similar chemical structure; both natural and synthetic are generally known as opioids.

The most commonly known opioids are morphine, codeine and thebaine and are usually described for pain because of their analgesic or pain relieving properties. Opium is converted to heroin (the most illegal opiate known worldwide), which is available in all regions of the world. The lead producer and cultivator is Afghanistan with Mexico and Colombia as strong competitors in the western hemisphere (World Drug Report, 2013).



1.2 Global statistics, trends and analysis overview

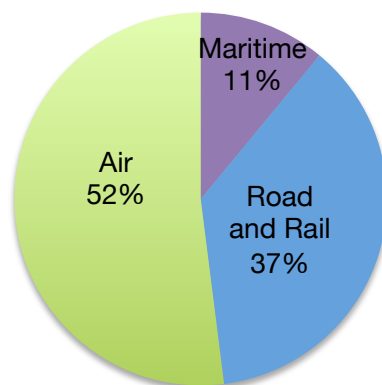
The following section examines the global situation and the latest trends in production, trafficking and consumption of illicit drugs.

While there has been an increase in the total estimated number of illicit substances in the world, it is assessed that the number of consumers with dependence disorders caused by illicit drugs has remained stable. The UNOCD states that the increase in the number of consumers echoes, in large part, the increasing world population. In 2011, the number of deaths related to illicit-drug use was estimated at 211,000; Opioids being the drug class involved in more deaths.

Currently, drug markets show a different behavior than on previous years, creating new and more complex routes. Because large quantities of illicit substances move through oceans in containers and even small boats, sea trafficking is a new particularly difficult problem for authorities. Based on reported data for 1997-2011, maritime seizures were thirty times larger than the seized quantities being trafficked by air and almost four times larger than road and rail trafficking (See Figure 1). Also, traffickers are seeking new routes to complement the old ones, particularly for smuggling heroin.

Distribution of mode of transportation of individual drug seizure cases 1997-2011

Number



Quantity

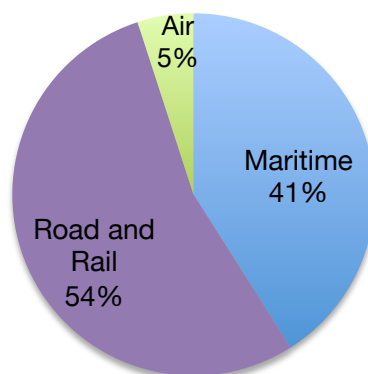


Figure 1

Data: United Nations Office on Drugs and Crime, 2013

UNODC estimates that in 2011 approximately 315 million people used an illicit substance, that is 6.9% of the adult population, aged 15-64. When it comes to production and consumption of opiates major changes occurred, data suggests that

opioid increased in parts of Asia and Africa since 2009, it reached peak levels in 2012 with a global total of over 236,000 hectares under cultivation. As for consumption (specifically heroin and opium) it remains stable, about 0.4% of the world population from 15 to 64 years old; 16.5 million people are active consumers (World Drug Report, 2013).

As for cocaine, most indicators suggest that the cocaine market as a whole has been declining, the global cultivation area reached 155,600 in 2011, unchanged from the previous year but 14% below 2007 and 30% less than 2000. Seizure quantities ranged from 776-1,051 tons in 2011 a figure virtually equal to the previous year (World Drug Report, 2012). Colombia and the United States continue to be the countries with largest cocaine seizures, nevertheless in recent years there have been signs that the cocaine market has shifted to other regions that weren't associated with said market, such as Asia, Oceania, Central and South America and the Caribbean. It is reported that the increase in cocaine use in Latin America¹ is because it is available and relatively cheap due to the proximity of the producing countries (S. America). For consumption, the latest estimations by UNOCD indicate that 20.7 million people used cocaine at least once in 2012 (0.37% of the adult population aged 15-64), cocaine use among the population of the United States declined by 40%, which is linked in part to lower production in Colombia, the intervention of the bodies responsible for law and meet the growing violence between cartels of the drug.

¹ According to UNOCD Mexico is included with North America and not in Latin America

ATS on the other hand, unlike cocaine are on the raise as a whole, it was estimated that in 2011, 53 million people had consumed some type of ATS substance. Methamphetamine continues to be the principal business of the ATS market; the seizures have increased steadily among all regions. Overall use of ‘ecstasy’ has been declining world wide, except in Europe where it seems to be increasing. Ecstasy is still associated with young people as recreational and urban nightlife style, for instance in Europe of 2 million users (2012) 1.5 were between the ages of 15-34.

The global drugs report stresses that the past years there has been a new phenomenon, a steady rise on new psychoactive substances (NPS), which are proliferating in an unprecedented rhythm. These substances are commercialized as “legal drugs” or “design drugs”, which is becoming an alarming problem as the drugs are legal and openly sold, even on Internet. It is estimated that the number of new psychoactive substances increased from 166 in 2009 to 251 in mid 2012. This new drugs include non-medical use of tranquilizers and sedatives, which are commonly used among poly-drug users (World Drug Report 2013). This NPS have become a major concern because it lacks scientific research and understanding of their adverse effects.

Cocaine and ATS are two class drugs that behave peculiarly, as they both consist in stimulants, people often use them complementary rather than excluding, in other words when there’s an increase in demand for one where the other one also has the same behavior, sometimes it even fuels it. This cannot be said for any other combination of pairs among the four major drug classes (World Drug Report 2013).

Cannabis continues to be the most illegal used drug in the world; it is also the most popular recreational drug, just after tobacco, alcohol and caffeine. Cannabis herbs is still produced, trafficked and consumed in all world regions. 180.6 million people of 15-64 years of age are estimated to consume cannabis worldwide. North America accounted for more than half of the seizures of cannabis herb, mainly in Mexico and United States, while Afghanistan and Morocco remain the principal source countries for cannabis resin. Production of this drug was estimated from 13,300 to 66,100 tons for the cannabis herb and 2,200 to 9,900 tons for the cannabis resin. The calculations were based on reported cultivation, production and seizures.



Trend in the prevalence of drug use 2009-2011

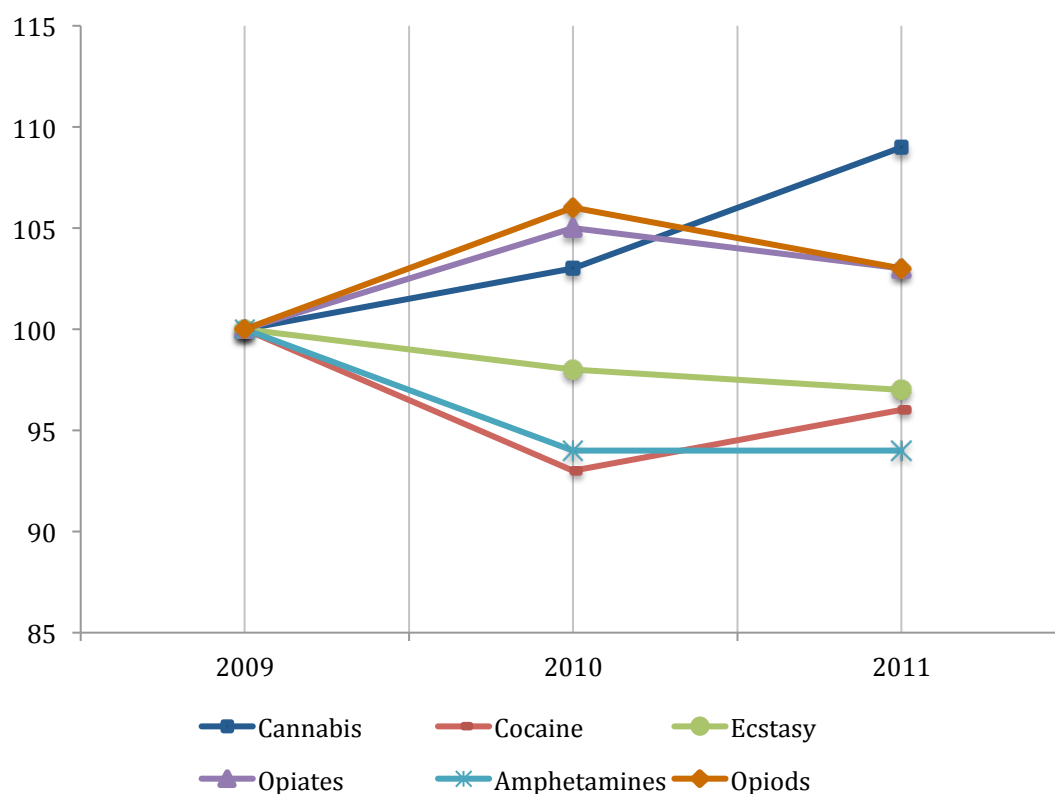


Figure 2

Data: UNOCD 2013

2. ECONOMICS OF DRUG-TRAFFICKING

In this section the economic aspect of drug trafficking will be analyzed. Supply and demand will be greatly looked at, as well as a depth insight in the drug proceeds. It will try to shed a light and reveal the way the illicit profits are transferred into legal markets and how these profits are distributed along the supply chain. This chapter contributes to pinpoint the demand aspect of the market (in major markets) as well as giving a systematic understanding on the way the whole chain works.

2.1 Market Value

Because the ultimate goal is the calculation of Honduras and Central America numbers, for the sake of this paper a focus on The Americas is made. When it comes to demand-side estimates most calculations are made on self-report information about consumption and expenditures.

The gross profits take part on the demand countries, 76% of which are industrialized. Regionally speaking the largest drug market is concentrated in North America, counting for 44% of the world's sales at the retail level.

According to the United Nations, the global illegal drug market has a turnover of approximately US\$429 billion. Of this total, the market's production level value is of \$13 billion and the wholesale value \$94 billion. Based on findings reported by demand constrain regions, it is estimated that the total retail value is of approximately

US\$322 billion. If we were to compare this value in terms of GDP the drug retail market is equivalent to 0.9% of the global, higher than the GDP of 88% of the countries in the world, and if it were a country it would be the 34th largest economy of the world. The sale of these drugs, at its wholesale level is higher than the agricultural exports of whole Latin America (US\$ 75 billion), making it 1.3% of global exports (World Bank Data 2013).

2.2 Economic Model – The Supply Chain

The planning and management of the activities of sourcing, converting and distributing the drug products incorporates coordination and collaboration with partners (local and international suppliers, third party services and customers). As any large legitimate businesses, the drug supply model includes managers, employees, and shareholders.

The suppliers are the primary and first actors on the drug market, in The Americas region for example; coca leaf producers are concentrated in the Andean Region², opium producers in Mexico, Guatemala and Colombia, ATS in North America and cannabis in every country. Processing typically occurs near cultivation sites.

The following stage of the supply chain depends on the demands location, if this is located in a country different from the production one international traffickers occupy it, if vice versa local traffickers do. International traffickers work similarly as an

² Colombia, Venezuela, Ecuador, Peru and Bolivia.

export-import company, where local traffickers purchase the drug at the processing facilities and smuggle it at transshipment locations (called transit or bridge countries) or final locations (consumer countries). Traditionally, the supply chain started in South America, Mexico was the “middle man” and USA the final consumer, however because of the war on drugs and seizures by the Mexican and USA army have intensified, the transit countries have moved to central America, particularly to Guatemala and Honduras. Traffickers’ transport the product using boats, including submersibles, and small planes. It is estimated that around 70 percent leave South America via the Pacific Ocean, 20 percent via the Atlantic Ocean and 10 percent via Venezuela (World Drug Report, 2013). Some percentage then reaches Honduras and Guatemala and is smuggled by land to Mexico.

The next link of the chain, wholesalers, is constituted by Mexican cartels, which are the only drug trafficking organizations with worldwide presence. They not only distribute the drug to the United States but also control the wholesale distribution of cocaine, heroin, imported-commercial cannabis and methamphetamine. These bodies are integrated horizontally and contain a variety of smaller criminal groups (partners), which they protect in exchange for a share of the proceeds. The only drug class that is an exception is heroin, where the integration is vertical, particularly in markets that have developed in the United States (Quiñones, 2010).

At the very end of the chain the drugs are divided into small quantities and are held by various sellers, which sell directly to the consumers and in some cases are consumers themselves. The dealers have a sophisticated delivery system, which no longer relies on street selling but has been tailored to home delivery particularly in upper-middle

class clientèle. The dynamic between wholesalers and direct sellers resembles that of a franchise, where individuals pay the drug traffic organizations for “permission” to operate, in turn for those payments, higher rank leaders guarantee protection and stable alliances with other gangs.



Figure 3

Data: Levitt et al 2000

A research conducted in the year 2000 (Levitt et. Al 2000) amongst entrepreneurial street gangs (the last link of the supply chain) in the United States (leader drug consumer country in The Americas) exposed the organizational structure of this key group. In the head of the organization lies the “Central Leadership”, this is composed of 4-6 individuals which share the responsibility of developing long-term strategies for the organization (Strategic Planning), maintaining relationship with the suppliers and associates in other regions (Public Relations Management), collecting dues (Finance Management) and recruiting new members (Human Resource Management). The next level is composed by “local gang leaders”, which act as middle managers and are responsible for a specific territory. Each gang leader has under his charge three officers, an “enforcer” whose responsibility is to ensure the safety of the group members, a “treasurer” who manages the liquid assets of the group and the “runner”

who has the task of transporting large quantities of money and drugs from-to the supplier(s). The “enforcer” is also responsible for managing the “foot soldiers”, “foot soldiers” are street level drug sellers, the lowest position within the organization, typically 16-22 year olds and usually rise within the organization.



Final retailers Organizational Structure

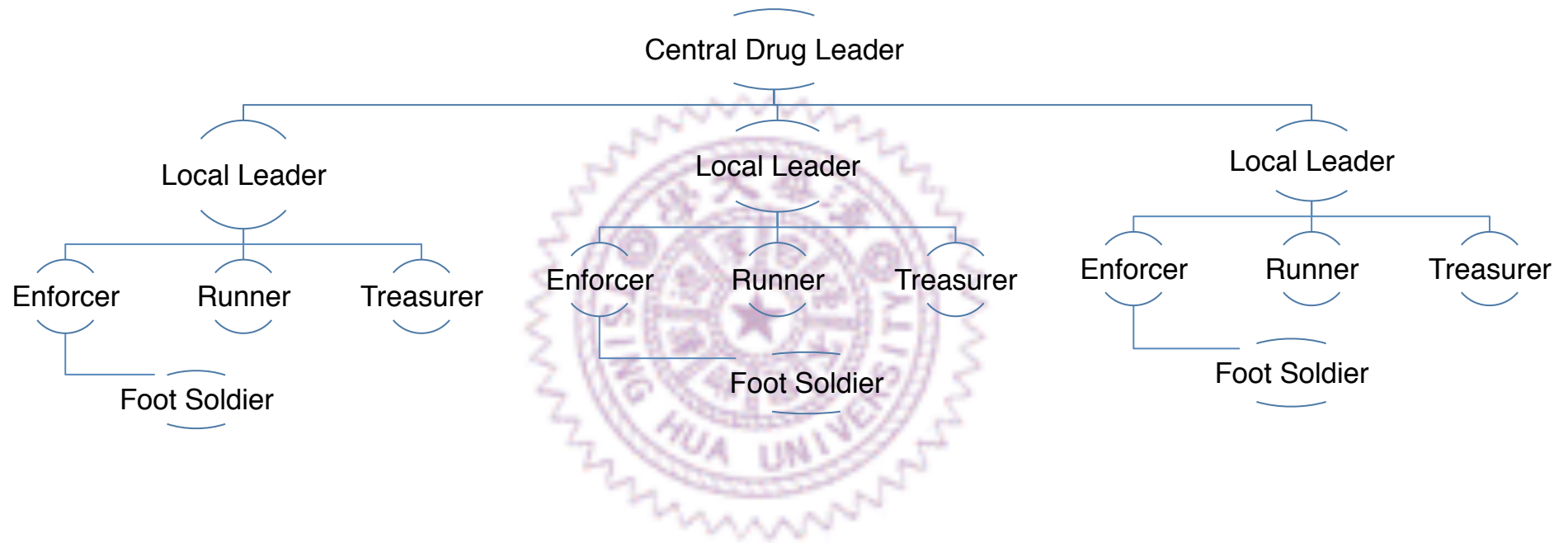


Figure 4

Data: Levitt and Venkatesh (2000)

2.3 Distribution of Illicit Drug Proceeds

A deep analysis on the final profit distribution shows a big gap and inequality along the trade chain, where the markups have a much higher magnitude than those for legal goods, for instance coffee beans cost around 5 times more in retail than in the farm gateway, while drugs costs around 170 times more. Taking the cocaine market as an example, according to 2008 data (Wilson and Stevens, 2010) farmers (the first link on the chain) received about US\$500 million, which is equal to about 1.4% of the total profits, local traffickers made US\$400 million (1%), international drug traffickers US\$4.6 billion (13%), when added together 15% of the retail value (US\$5.4 billion) is created in developing and transit countries. Meaning that the most part of the profit (US\$29.6 billion) is generated in consumer countries (in this case United States) (UNOCD, 2005).

Profit Distribution: Cocaine Market

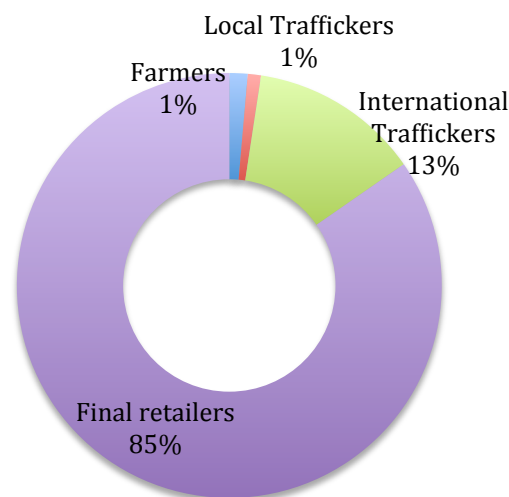


Figure 5

Data: World Drug Report 2005

Even though the heroin market has less existing data, the numbers suggest a similar distribution to the one in the cocaine market. 73% of profits accrued to final retailers 16% to international traffickers and 10% to local traffickers; while just 0.5% is given to farmers (Wilson, 2010).

Profit Distribution: Heroin Market

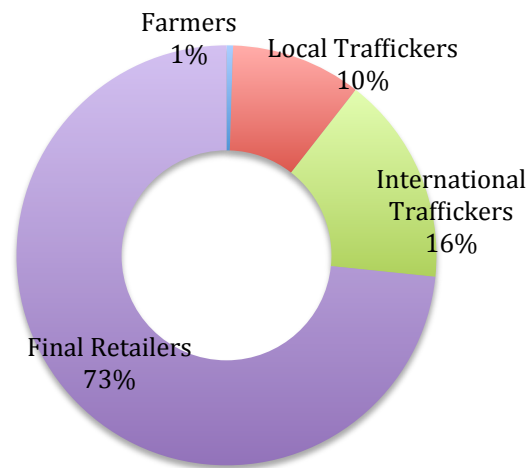


Figure 6

Data: Wilson, L., & Stevens, A. (2010).

The wholesale and retail percentage markup of the cannabis market is lower than that of heroin and cocaine, drug trafficking organizations earn between US\$1 and US\$2 billion in profits (Klemer et al, 2010). Accounting books confiscated to drug trafficking organizations provided comprehension into how the incomes are distributed in these level (Levitt et. al. 2000).

Drug trafficking organizations earnings are much higher than the legitimate labor market alternative, they have two types of employees on their payroll: internal employees and law employees, which consist in law enforcement officials, which are

bribed by these groups. In the past two decades, street gangs have become “corporatized” and have a system very similar to its legal entrepreneurial counterparts.

In a transit country the mean salary of internal employees is 1.3 times the mean salary of the formal sector wage (about 6 times the minimum wage).³ However in a consumer country⁴ street-level sellers earn roughly the minimum wage and often have a second job on the legitimate sector, usually as service employees, physical labor jobs or working in small local businesses (hence it is believed that the principal motivation to belong to this group is the possibility of rising up the corporative ladder). For transit countries, middle managers earn about twice the mean formal sector wage while for the gang leaders in the consumer country the income is between US\$4,200 and US\$10,900, for an annual wage of US\$50,000-130,000 (Levitt et. al. 2000).

Corporations costs include: cost of drugs, payments to higher levels of gangs, weapons, payments to mercenary fighters, funeral costs, payments to the family members of the deceased (typically the family of a foot soldier that is killed receives US\$5,000, which makes three years of his wages) and miscellaneous expense (Levitt et. al. 2000). Nevertheless, these earnings are highly impacted when gang wars take place; this causes prices to fall and quantity to rise so their net profits for this period are negative. Because consumers are afraid to purchase drugs when these wars are taking place, many gangs lower the prices at or below marginal cost⁵, this happens for

³ Numbers based on the Mexican market.

⁴ Numbers based on the United States market.

⁵ Foot soldier wages, payments to mercenary fighters and costs of drugs are marginal costs.

two reasons: first it is a strategic response to “punish” the rival gang for the attack and second the gangs is simply mispricing their product.

2.4 Illicit Drug Proceeds and the Financial System

Before illicit drugs proceeds reach the consumer market, many monetary transactions occur along the supply chain. The ways and variations the transactions are made range from offering farmers agricultural contributions, buying drug-processing equipment, bribing law enforcement.

Because the final earnings of drug trade have to be received in cash, most revenue earnings are spent in the consuming country, trafficked into another jurisdiction by bulk cash or laundered into the financial system (Bi-National Criminal Proceeds Study, (n.d)). Because of this many countries are imposing bigger controls in the financial scheme, which makes cash smuggling the main income distribution mechanism along the production chain. Also, in some countries (particularly Venezuela and Argentina) a parallel currency market has emerged, which makes dollar transactions very attractive and profitable for these organizations. The most frequent forms of money laundering in The Americas range from purchase and sell of real estate, luxury goods, vehicles, exchanging digital currencies, over-invoicing imports and creating service-cash-intensive businesses (such as casinos, hotels and construction) (Wright, 2006). All these activities create “gray” areas in which legal players contribute in illegal actions.

Economic proceeds from illicit drug activities are highly linked to illicit financial flows. In no place in the world this relationship is more visible than in developing countries (those with low GDP per capita), where it is very easy to find a farmer to choose to grow coca leaves instead of coffee or bananas (Haken, 2011). These cases make necessary profits to be directed to the shadow economy, where it can (as it often is) be used to fund other criminal enterprises, creating a vicious cycle in which criminal flows produce more criminal flows.

At the same time, economic illicit financial flows demoralize development, as usually the countries and the financial sector's reputation decreases, private investment does as well (Rao, 2013). Illegal profits are also widely used to increase corruption levels, by the promise of material enrichment or sometimes criminal threats. Furthermore in many developing countries these funds are used to fund political campaigns ensuring the candidates position in government and their connection for the whole electoral time.

Forms of illicit financial flows

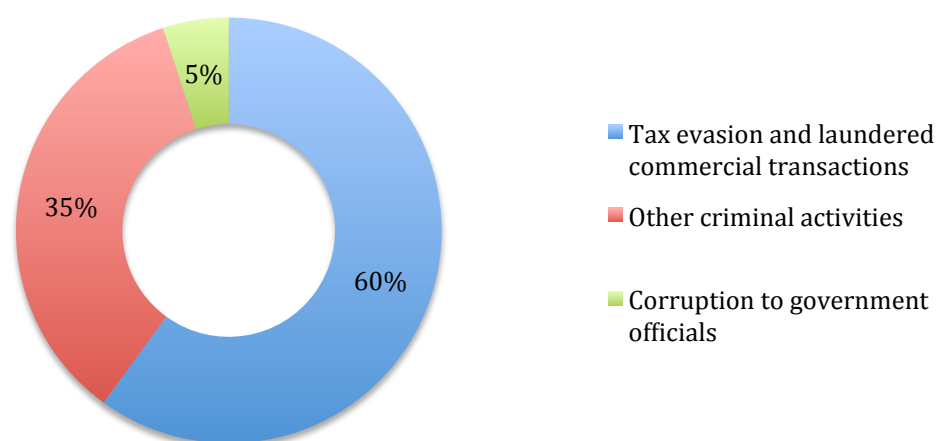


Figure 7

Data : UNECA 2013

2.5 Market's Demand

As other economic markets, the demand side of the drug market is presumed to be dependent on the market price. The market price of drugs is directly dependent on the type of drug being sold, its availability and the number of actors in the distribution chain and is often affected by uprising costs when actions such as drug confiscation and imprisonment take place.

In the drugs case, the demand can be both elastic and inelastic, depending the degree of advancement of drug usage on the individual. Generally speaking, countries or regions where the drugs are supplied (produced and distributed) are in an early stage of drug epidemic, which means that the numbers of users are of a more recreational nature (elastic demand), in this case drug fighting efforts will reduce resources of the supply side (traffickers) to bring to the market. On the other hand, in places where the drugs are essentially consumed (demand regions), the drug epidemic is more advance making the users hard-core addicts, in this case the demand is inelastic and it behaves similarly to necessity items where an increase in price overcompensates the consumption reduction and results in higher revenues even though production decreases. This happens because marginal revenue is negative when demand is inelastic, taking this into consideration the ideal societal decision should be leave the free market and do nothing

For cocaine and cannabis the demand has been calculated in -0.5, for heroin of -0.3 Cocaine (Bretteville, 2006)(Reuter, 2009) and ATS instead of being supplementary goods in recent years have follow an interesting phenomenon where they now seem to

be complementary, which means that the fuel demand for each other instead of substituting it, this singularity doesn't appear to happen on any other pairing among the other drug classes.



3. POLICY IMPACTS

3.1 The War on Drugs

Drug prohibition has been the most popular mechanism for governments around the world to fight drug usage among the population. The first formal legislation was created in the beginning of the twentieth century, when in the United States production and consumption of marijuana, cocaine and opium was outlawed. By tracking the original motivation of those laws we can discover that many of the origins of these policies rather than being concentrated on social or health issues are rooted in the morality of society, making drug usage fundamentally immoral (Holloway, 2003). Furthermore, in the United States particularly, the initial promotion of drug prohibition had strong connection with racial persecution and oppression as the usage of drugs was linked among immigrants and minority races. The Smoking Opium Exclusion Act of 1909 was, for example, to persecute Chinese immigrants, many medical records in favor of banning drugs used racially filled conclusions, like Samuel Gompers claiming that *“thousands of our American girls and boys who have acquired this habit are innocent victims of the Chinamen’s wiles”* and Harry Anslinger (drafter of the Marihuana Tax Act) that declared the primary reason to outlaw the plant is *“its effect on the degenerate races, as it causes white women to seek sexual relations with negroes and makes them think they are as good as The Third Amendment of the United States.”* Scholars have described that the origin of these laws are being used that minorities in the United States remain at a disadvantage in comparison to the white population, as a recent Human Rights Watch report stated although the drug use amongst both groups is at similar rates, minorities (particularly

black citizens) are around 6.5 times more likely to be arrested (Humans Right Watch, 2009).

Following the end of World War II, the United Nations was created to promote international law and in 1961 they introduced the Single Convention on Narcotic Drugs (SCND) being later ratified on the 1971 and 1988 UN drug treaties. With the United States as the primary sponsor of the legislation⁶, over 150 countries have adopted prohibitionism as a main policy. US President Nixon requested a modification to the SCND and in 1972 countries that failed to seize and destroy illegal substances (opium poppy, coca bush and cannabis plant) could face economic sanctions.

The war on drugs has created a lucrative black market for drugs and as the prohibition increases the price, creating greater profit margins, the power of the industry is on its peak. In 2009, the executive director of UNODC, claimed that the illegal drug money is what kept the banking industry from complete collapse, as the proceeds from this industry where the only liquid investment capital available.

In Latin America, the War on Drugs has been heavily and primarily founded by the United States, as it declared drug abuse as “public enemy number one” and promised Latin American nations to help end drug trafficking. Many actions have been made in order to “clean” Latin America from drug trafficking activities. After “Plan Colombia”, a US\$ 7 billion initiative, was created to stop the world’s top cocaine

⁶ “The War on Drugs” was a term coined by Richard Nixon, president of the United States. 1971.

producer, a specialized task force on South Florida led to a successful failure of the State as a point to import drugs, however this caused the US-Mexico border to become the primary point of drug entry, by 2001 it was estimated that around 90% of the cocaine entering the US entered through Mexico (UNOCD, 2001).

The Counter-narcotic and Counter Insurgent activities have been welcomed by many Latin American governments (Colombia, Mexico and Honduras amongst others), it is estimated that in 2012 US\$830 million was spent in the region fighting narcotics and 4,000 US troops are currently deployed in Latin America for this purpose. Only in Honduras, the US Defense Department spent US\$67.4 million on military contracts (compared to the US\$45.6 million spent in Guatemala). In 2011 US\$2 million were spent in training Honduran military personnel and annually \$US89 million are given to maintain a 600 member US unit in an Air Military Base within the country (AP, 2013). Although all this US funding has increased heavy militarization of Latin American nations, drug trafficking, drug traffickers' power and violence in the region is continuing to rise. No matter how much government and military aggression is implemented, cartels cannot afford to stop operating in the Mexican and Central American area, as it is their primary entrance to the United States, the main consumer and client. The lack of regulation is no doubt the cause of the big power and wealth of the cartels of the area, and United States as a main supporter holds as much responsibility as the governments governing these countries.

3.2 Alternatives to illegality

As previously stated the current approach on drugs –prohibitionism- has been a utter failure as it has failed it's purpose, to maximize the publics safety and security, human rights and citizens' security have deteriorated greatly since this policy has been implemented (Cussen, 2000). That is why two different approaches are proposed to this matter: '*Legalization*' with high control and regulation of supply and production of drugs and '*decriminalization*' with a health base approach.

Legalization is the process of making something legal, in this case to give legal validity to the drug use. However, as specified in previous chapters some drugs are more intense and dangerous than others, this is why for this first approach the cannabis drug should be considered. As Marijuana and Cocaine are the most consumed drugs and the primary drug exports to the United States from Latin America they are going to be safer when their production and availability are regulated. For the legalization of marijuana and the coca leaf there has to be a legal framework that governs the production, supply and use of the drug, any activity outside of the said framework will still be prohibited.

There are different ways the drugs become available to the public, the following basic models are proposed, based on current distribution.

1. Specialized Pharmacy: Where drugs will be available under licensed access and sales.
2. Licensed sales: Such as cannabis coffee shops in the Netherlands.
3. Medical prescription

For the higher risk drugs –processed cocaine and heroine for example- a decriminalization approach is proposed. Decriminalization is different from legalization, as drug possession remains illegal, but violating the law is considered ‘an exclusively administrative violation’, it is not criminalized.

Studies suggest that the pretax price of drugs will drop as much as 96-98 percent if prohibition ends (Room, 2013), which can give governments an advantage to tax the drugs and use the money for addict rehabilitation and public service announcements. Legalization and decriminalization of drugs will reduce crime rates eliminating theft and murder associated with high drug prices, reducing gang wars and street violence, improve life quality and save the taxpayer money (as the millions spent on drug enforcement can be spent in more realistic causes). At the same time it will strengthen constitutional rights and civil liberty, encourage free trade, which in free market economies benefits everyone who participates in it.

As several studies have shown legality condones the use of harmful substances (Greenwald, 2009). Consenting adults should have the right to choose what substances they want to consume –as with tobacco and alcohol- and they should be able to make the decision with the knowledge in what risks they are likely to take. When substances are made legal the potency effect is reduced, as seen with alcohol during its 1920’s prohibition people sought harder alcohol (like vodka) rather than weak one (beer, wine) because it has greater value (more impact) per volume. In the time alcohol was highly adulterated and many cheap versions were available, as with

drugs it's legalization will assure that the market will have high quality substance reducing the health risks associated with low quality substances.

A simple substance is never an excuse for violent acts, as with alcohol if someone is pursuing violent behavior while on the influence that person should still be penalized, but in this case the crime will be illegal, not the drug.



3.3 Impacts of Legalization

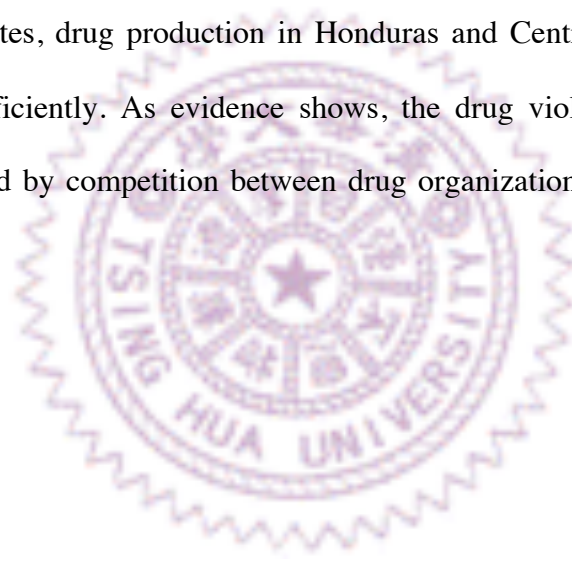
One of the first countries to decriminalize drug consumption and possession was Portugal. Since 2001 the nation's drug treatment has been shown to improve, only in the first four years the number of heroin users declined by 28 percent, there was a significant decrease in youth use of cocaine, LSD, cannabis and methamphetamines. Compared to other countries, where criminalization still occurs, cocaine usage is 6 times lower in Portugal, which suggests that legal prosecution has little impact on the public's usage (Greenwald, 2009).

In the United States, the states of Colorado and Washington have legalized cannabis usage for pleasure earlier this year (2014). Although it is very early for detailed data on the effects it has had so far, it is predicted that this legalization can make Mexican drug trafficking organizations lose 20-25 percent of their drug export income to these states (Room, 2013). As the drug's supply curve is sloping upward – the wage they will have to pay an additional worker will increase with the size of the workforce – then the wages paid to traffickers will decline.

There seems to be an important shift from prohibition to decriminalization going on in Latin America, specifically in nations like Mexico, Brazil, Ecuador, Bolivia and Argentina where possession of a small amount of drug for personal use has been decriminalized. However, it has been Uruguay the first country in the region to legalize marijuana. Currently people are able to buy a maximum of 1.4 ounces per month from licensed pharmacies, as long as they are Uruguayan residents and over the age of 18 as well as registered on a national database that will monitor their

purchase. This discourages the illegal traders from other countries to go to Uruguay and purchase large amounts of the drug and resell it. At the same time, Uruguay is the first country in the world to legalize the whole trade, from growing the plant to buying and selling the leaves. Uruguay claims that the process is a social and political experiment that can shift the game in the drug trafficking business.

The impact of potential legalization in a transit country like Honduras could be positive. Since retail prices could fall significantly and drugs can be transported without fear of confiscation. Although drugs will still need to be introduced illegally into the United States, drug production in Honduras and Central America could be organized more efficiently. As evidence shows, the drug violence that affects the country is generated by competition between drug organizations, especially those in Mexico.



4. IMPLICATIONS OF THE DRUG INDUSTRY IN HONDURAS

4.1 Scope of the Industry

Honduras is a nation located right in the middle of Central America, with an area of 112,492km² and a population of more than 8 million (INE, 2010). It is also one of the poorest countries in the western hemisphere, ranked the poorest estate in the region on a per capita basis⁷ and in the past years it has been declared one of the most violent not-at-war countries. This is in part because it plays a big role as a transit-country for the transnational drug trade as well as its macroeconomic changes, corruption, political instability and its endemic poverty.

The Drug trafficking industry started to have visibility in the country in the 70s (Landaverde, 2004), when it was first discovered that Honduras was a transit country for cocaine being produce in South America and later transported to the United States. Most of the population ignored the fact that this industry existed in the country, until in the late 1977 when a couple⁸ was abducted and then murdered. According to police records, they were drug traffickers, specializing in cocaine transport and had strong links with arms and emerald trafficking. They also were business partners with Juan Ramón Matta Ballesteros, the biggest drug lord that has existed in Honduran history.

⁷ Inter-American Development Bank (2009)

⁸ Mario and Mary Ferrari.

Previous to him most of the traffickers in Central America had been “subordinates” of other Mexican and Colombian drug lords, however he was different. DEA classified him as “class I DEA violator”⁹, the same classification given to one the biggest drug lords of South America, Pablo Escobar, which made him one of the 10 most important world traffickers. The popular media refer to him as “boss of bosses of Mexico’s cocaine industry” and at the peak of his career Newsweek reported that his organization supplied “perhaps one third of the cocaine consumed in the United States.” Matta played a big role in creating a bridge between South and North America and his business generated cooperative ventures among the leading drug groups of both areas, acting as a key connector between producers in Colombia and traffickers in Mexico while creating a big network of collaborators, associates and acquaintances to assist him. Some of which, later became part of the Cartel of Medellin in Colombia and the Cartel of Guadalajara in Mexico, groups which are still going strong in the drug industry. Matta’s social and political influence started to become so big that at some time he started to gain fame of being a philanthropist and “benefactor of the poor” as he was known to give large amount of money to the poor who gathered outside his home in the Honduran capital of Tegucigalpa. His money-laundering investments made great contributions to agriculture and the livestock industry giving jobs to more than five thousand people and by doing so he promoted a popular image of a kind and legitimate business man, who had humble and poor origins and was constantly harassed by the government and US authorities; this earned him the respect, acceptance and support of the Honduran society. At one point he offered to pay the total amount of Honduras’ external debt, but José Azcona Hoyo, the president at the time, refused.

⁹ See “Matta desafía al tribunal en EUA”, *Cocaine Politics*, 10

After some time he was accused for the murder of the couple and for participating in illicit drug activities. Although he had been imprisoned in Mexico, Colombia and USA before (Mejía 1997), places which he had successfully escaped, in 1988 Matta was finally captured by US agents of the Drug Enforcement Administration office and later sent to Washington where he is sentenced to life imprisonment. In Honduras this caused high controversy amongst the population, which even went to the streets in a “patriotic” demonstration protesting for his “kidnapping”.

However, as history has shown, that by “bringing down” the head of the organization doesn't guarantee that the organization will fall. As a matter of fact, from the 1970s to the 1980s, Honduras found itself stuck between the civil wars of the neighboring countries, at one time it was a *“hostile volatile mixture of Nicaraguan “Contras”, Salvadoran rebels, Sandinista spies, United States intelligence agents, mercenaries and drug traffickers.”*¹⁰

In that time was when Central America was positioned as a key link in the drug trafficking chain of the western continent, as Honduras is positioned right in the middle of it, it makes for a perfect spot for transshipment activities. The drug lords know that it is less risky to send the drug through a transit point than directly from Colombia or other South American countries to United States. Besides, its key position with Guatemala, Nicaragua and El Salvador as neighbors and the Pacific and Atlantic Ocean in the south and north border, Honduras is the second largest country in the area (after Nicaragua) and the least densely populated one, possessing one of

¹⁰ International observer, 1983.

the most mountainous terrains and having along both its coasts various deep water ports and a large and unguarded jungle. The country also has various prominent rivers that connect the inland with the coast and the various islands located in the northern part. This makes the most remotes part of Honduras¹¹ very inaccessible, filled with coast wetlands, swamps and lagoons, some areas are just accessed by boat or light plane, these areas have very few roads and as it is very costly to maintain the main ones, most of them are left unguarded and with few transit, which is a perfect scenario for farms, ranches and small communities to construct drug facilities, such as airstrips. It is estimated that there are about 200 clandestine airstrips, some of them paved and lighted, which given the factors stated previously, are not supervised and lack radar coverage. About forty miles offshore, in the northern coast lies the most important archipelago of Central America –the Bay Islands- and about more than five dozen cays, which attract more than 60,000 tourists a year. The tourist trade makes a convenient passing for those motorboats and light planes to transport fuel, spare parts and supplies needed for the trade

By the 90s decade, Honduras was already part of strong drug cartels, which have repeatedly exploited the weaknesses of Honduran society. After it became notorious that the country was a key player in the drug traffic of The Americas, United States and the CICAD-OEA¹² started pressuring the authorities for them to declare the war on drugs and its consequences. In the beginning of the 2000s three-congress deputies where captured smuggling drugs, which made pressure from outside the country to grow and United States' agencies to get directly involved with the matter. The US

¹¹ One-fifth of the country's territory

¹² Inter-American Drug Abuse Control Commission

ambassador at the time gave a public 30-day ultimatum to the authorities to step up in the drug trafficking battle. It is when, in 2003, Honduras started seizing more drugs and with the help and funding of the United States government created a severe anti-drug policy.

Evolution of the Industry

As an underdeveloped and in high debt country, Honduras is very vulnerable to the drug trafficking industry. In terms of financial assets, 60% of the population live under the poverty line (Worldbank, 2010), most of which are plagued with malnutrition, illiteracy and poor health care. The country has an unusual large youth population¹³ and as rural areas lack modern facilities and infrastructure gradually more people are migrating to the cities, causing the urban areas to be filled with multiplying slums and widespread homelessness. Honduras also ranked the highest population growth in Latin America¹⁴ and most of the population survives on remittances sent from relatives living abroad¹⁵. With 4.5% of the workforce unemployed, one-third underemployed and with a minimum wage of 250 dollars and the basic basket of food costing more than 350 dollars, Honduras is a paradise for drug trafficking activities. This economic convulsion expands the pool of the recruiting drug spheres; families desperate for economic income cannot afford to turn their backs on the business and charge top dollar for their services.

¹³ In 2006 41 percent of the population were under fifteen years of age.

¹⁴ From 2.7 million in 1974 to 8 million in 2010 (INE 2010)

¹⁵ \$800 million sent in 2003 growing to \$2 billion in 2006. (INCSR 2006)

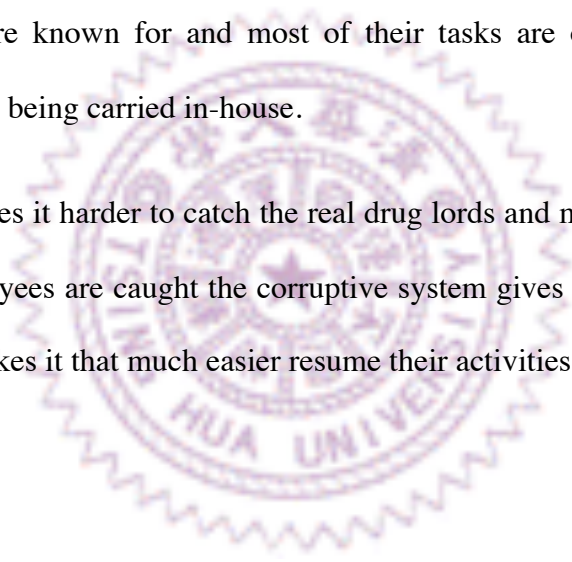
In the past few years, the industry has created a diverse amount of shops, fishing boats, supermarkets, housing developments, bars, restaurants, nightclubs, farms, and many other entrepreneur activities. As it was becoming harder to launder money, the drug lords started paying its employees not only with cash but also with drugs. Which made the consumption in the country to rise creating a secondary market –especially for crack cocaine-. The industry in the country has evolved from being solely a transit area to a consuming spot and now it is estimated that money laundering creates a high percentage of local businesses. Also, as the second most corrupt country in Central America and the third in Latin America, Honduras is filled with “narco-politicians”, which, allegedly are part of drug cartels and are funded by them to run for public office. Not only this is a big problem in the judiciary, the police and the arm forces but in a Wikileaks cable of 2001 it was revealed that the richest man in the country, owner of a big percentage of the private sector is a cocaine importer, and even though the United States was aware of this, it continued to support him with US military and police assistance. It is highly suspected that the drug lords establish strong bonds with lawyers, judges, officers and employees of the judiciary system as well as with high-ranking politicians.

The organizational structure of the industry in Honduras operates a bit differently than in other parts, as it is a bridge state, the distributors do not know who is the supplier of the drugs, nobody in the organization knows or has any contact with the chief, except for the “CFO”, in this case the money launderer. Also, the hit men who are in charge of the security of the organization don't know the producers. The weakest link is the financial “branch” and only because it's the most obvious one as they have to pass some legal process to establish a business and in this way launder the money. The

biggest sign in this is the number of people between the ages of 20 and 25 which have become millionaires and massive fortunes are forged in a very little amount of time, most of which cannot be justified. There is evidence of many of these people working for drug traffickers, but their relationships are some of subordination and autonomy in the execution of work.

It is also known that these organizations are composed of less members than those on bigger countries like Mexico and Colombia, and move smaller quantities per year. Usually they are less vertically integrated, lacking the strong hierarchy that stronger and older cartels are known for and most of their tasks are outsourced to “street soldiers” rather than being carried in-house.

All this system makes it harder to catch the real drug lords and most of the time when the low level employees are caught the corruptive system gives them little to no time in prison, which makes it that much easier resume their activities.



4.2 Honduran Capacity on Fighting Drug Traffic

The position of the Honduran government regarding drug trafficking is a no admittance policy of any drug (including all the drug classes discussed in previous chapters). About the usage and traffic of drugs and narcotic substances, the constitution in its fourth chapter, article 7-9 “prohibits through the national territory, planting, cultivation, production, gathering, harvesting and exploitation of drug, plants that are considered narcotic or its derivate...” as well as “Production, manufacture, extraction, synthesis and fractionation of drugs is prohibited.” It also states that the penalty for planting, cultivation and harvesting is of 9-12 years in prison and a fine of US\$260.00¹⁶ to US\$1,300.00, if a person produces and manufactures drug it will be subjected to 15-20 years in prison and a fine of US\$2,617.00 to US\$5,235.00. For the drug traffickers and people who provide financing to these activities the term to serve in prison is of 15-20 years and a fine of US\$52,356.00 to US\$26,1780.00.

The responsibility of enforcing the law falls into three different entities, Honduran National Police, the Armed Forces and the Judiciary. The National Police is under direct responsibility of the security ministry, within the police there are three principal divisions, the Preventive National Police, which operates in the cities to prevent crime and guarantee citizens security, the Municipal Police, which operates within each of the 298 municipalities, they respond to the central administration but are control by local authorities and the DNIC-National Entity of Criminal Investigation, which is in charge of investigation along the country. The Honduran police force is one of the

¹⁶ The values have been converted from local currency (Lempira) to US dollars, using the present exchange rate of US\$1.00=L. 19.10

most corrupt in the region, besides asking for bribes, giving information to criminal groups and allowing uncontrolled entry of drug, it has been reported that various police man have participated directly and even leaded violent criminal operations regarding the drug industry (La Prensa, 2013). Honduras has the lowest confidence index of the region (LAPOP 2012), with a score of 28.7% in 2012. It is estimated (El Heraldo, 2012) that 13,500 elements constitute the police and security forces.

The Honduran Armed Forces is made up by 15,112 members (2009) and according to the Constitution it has the duty to combat drug and arm trafficking and related offenses including terrorism. The government has made a habit of using the armed forces to take on police responsibilities. Finally the Judiciary system is independent, according to the constitution, however in practice is dependent of the Executive Branch and National Congress. The highest court is the Supreme Court, conformed by 15 judges elected by the national Congress for a period of 7 years. There is no constitutional court, so the Supreme Court shelters in place of the constitutional chamber, having final appellate jurisdiction. The Public Ministry (MP) is an independent body responsible for processing crime, defending the interests of Honduran society and ensuring that the laws and the constitution are properly protected and respected. The prosecution office is under this ministry.

Although the Central American region has been known for having laid back standards in crime and drug fighting, Honduran organizations procedures and officials have been exceptionally incompetent in fighting drug related organized crime. The police has been plagued by scandals in which they engage in extra-judicial killings, performing “social cleansing” campaigns and it is branded as been poorly train,

motivated and under-equipped. Many times corruption has been institutionalized (La Prensa 2008) and unlike other countries where judges are experienced, senior and high respected, in the Honduran system such culture is lacking as most of them are placed by relationships and often lack experience and public status. In 2000, Luis Morena, Latin American director of Transparency International declared Honduras “*in a state of emergency*”, ranking the country in the 94th position of 99 countries measured in the annual corruption index. All the previously stated condenses a virtual impunity, which gives the political, military and economic elites encouragement to participate in the drug industry.



4.3 Honduras as a Key Player in the Drug Trafficking Scene

Every month, more than 22 million people in the United States consume some type of illegal drug. Such market demands big quantity of supply, such supply makes its way to Central American countries, especially Honduras, El Salvador, Guatemala and Panamá. 90% of the drug that is produced in South America goes through Central America before reaching its final market, the United States (Ventura, 2014).



Figure 8

There are two types of drug traffic organizations in Central America: Management and Carriers (Ventura, 2014). Mexican organizations are in charge of the management and they obtain the goods from the origin countries, Peruvian, Colombian and Bolivian groups. Cartels form part of this organization and are the ones with the responsibility of managing the merchandise and traffic within Central America; in the

past years another important group has joined this responsibilities, the so-called *maras* or gangs.

The second type of organization, the carriers are the ones that, given their experience with theft and smuggling, have prior knowledge of traffic routes and the necessary contacts in government circles. The mayor responsibility of this group is to transfer drugs from South America to Mexico. On a smaller scale, their responsibilities include local distribution and to provide raw material for synthetic drugs and poppy for heroine productive.

This section is dedicated to divulge the traffickers and organizations that are active in Honduras and which routes are used for the business.

Drug Trafficking Routes and Logistics

Honduras is the most popular entrance point for cocaine heading north to Guatemala. Direct flows to Honduras cocaine grew significantly after 2006 and increased dramatically after the coup in 2009¹⁷. Air trafficking starting in Venezuela and Colombia grew dramatically. By the beginning of this year it was estimated that of the 80,000 kilos of cocaine that are flown to the United States, 65,000 make a stop in Honduras. Only in 2011 between 25 and 30 tons of cocaine entered Honduras by air and sea, this makes up to one-third of the world's cocaine supply (Miroff, 2011)

¹⁷ After the coup many countries, included United States, stopped rendering financial aid to the country, this included aid fighting drug trafficking which might be a strong reason why the flows grew dramatically.

Because we cannot talk about Honduras without taking into consideration its neighboring countries, which are also part of the illegal drug trafficking network, it is worth noting that these countries, Honduras, Guatemala and Nicaragua share similar geographical characteristics and the organizations that smuggle drug among these territories also share the same methodology: they use three main routes of transportation (land, air and sea) but no matter what method they use each cargo is no bigger than 100 kilograms.



Figure 9

Drug Trafficking Logistics: Central America

Serie **Centroamérica, el camino de la droga** mapa 2

Legends translated to English

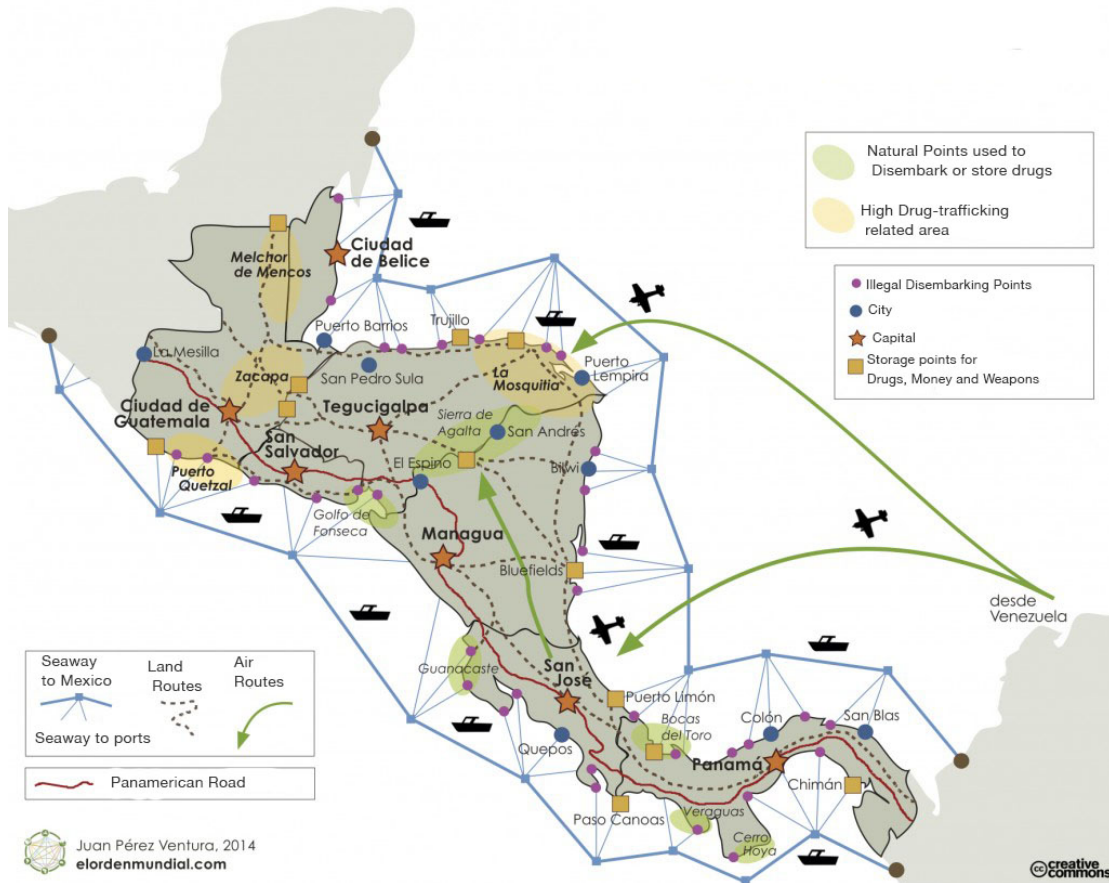


Figure 10

One of the most common ways to cross the territory is using back roads or paths through the jungle. It is very difficult to detect a drug gang in the brushwood, which are usually only accompanied by a pair of mules to carry drugs.

A well-known route is to bring small quantities of drugs from Panama to Costa Rica through the international crossing of the Pan-American Highway. Cocaine is usually stored in tanks for several days until a vehicle transports it across the country.

Arriving in Nicaragua, traffickers prefer to avoid border control and divert the load on foot or riding a mule through remote areas of the border. Once across the border, the load is carried to the shore of the Great Lake Nicaragua, where it is taken in small vessels to the northern shore of the lake. There, they are discharged back into land vehicles and taken to the border it shares with Honduras. From Honduras land routes from La Mosquitia (shown in map, Figure 11) usually go to the city of San Pedro Sula and later to Guatemala where it enters from the department of Petén. In this border area between Honduras and Guatemala routes are confusing and diverse, which makes it an area of high degree of violence and conflict.

Besides land routes, there is an important percentage of drugs that is carried through small planes flying over the sky of Central America. Drug traffickers take advantage of the gaps that exist in surveillance radars in the region. As admitted by Honduran and Guatemalan authorities, Central American governments have insufficient logistical, technical and legal resources to avoid air traffic of such small devices. For example, so far in Honduras, when a plane is seen illegally entering its airspace, authorities could only ask the aircraft to land. If they did not comply, all they could do is accompany it to the border. When leaving the Honduran territory, the aircraft was in the hands of the neighboring country. This situation has changed and from this year the government of Honduras allows the army to intercept illegal flights.

Most of the aircrafts come from Colombia, Peru and Venezuela and often land on makeshift tracks in jungle regions of Honduras or Guatemala. Each of these clandestine airstrips, have a width of between 80 and 100 meters and are prepared to receive aircrafts that can carry up to 300 kilograms of drugs per trip. And, although is

necessary to use heavy machinery to enable an airstrip, the investment is recovered quickly. The owner of a field can earn up to US\$25,000 for each successful landing or loading deposited on their land. In 2013, the government of Honduras acknowledged that there were at least 200 tracks only in the region near the Atlantic Ocean. The main landing areas of the drug-crafts are La Mosquitia in Honduras, Peten in Guatemala and the Caribbean region of Costa Rica.

The third and most modern used route is the ocean and other bodies of water. Honduras has a long story of maritime trafficking, as it is a country that has had a fishing and banana industry for a longer time than its neighbors. 90% of the Honduran fishing fleet is located in the Bay Islands and its adjacent regions and Honduras has direct maritime links with the United States and share sea routes with Guatemala and Nicaragua. The main characteristic of sea transport is that it moves in short distances and the vessels remain very close to the coast. The most commonly used illegal sea traffic is using speedboats loaded with small amounts of drugs, which perform several short trips at high speed. This method is very useful when traffickers want to avoid a road or even a whole country. A second method, using self-propelled semi-submersible was first detected in 1993. It started being simple submerged trailers for other ships, which easily could flee if they should be intercepted by the authorities, but they have evolved considerably since then. Now they are small but self-sufficient submarines, which do not depend on a boat trailer. In addition, they have come to detect real submarines. At least four submarines were detected near Honduras in seizures performed in 2012 and two of them reached around 14,000 kilos of cocaine.

In Honduras, the main corridors used by drug trafficking are the Atlantic Ocean Corridor, made by the departments of Gracias a Dios, Atlántida, Colón, Cortés and Bay Islands and the Pacific Corridor made by the departments of Francisco Morazán, Olancho, Comayagua and La Paz. (Landaverde, 2004) Within these corridors the main strategic points of drug trafficking are docks, free ports, hotels and restaurants in tourist areas, airports and customs as well as large coffee, crops and livestock farms as they are spaces that can act as drug warehouses as well as fueling and money distribution point for members of the organization and landing aircraft spaces.

Main Drug Trafficking Corridors: Honduras

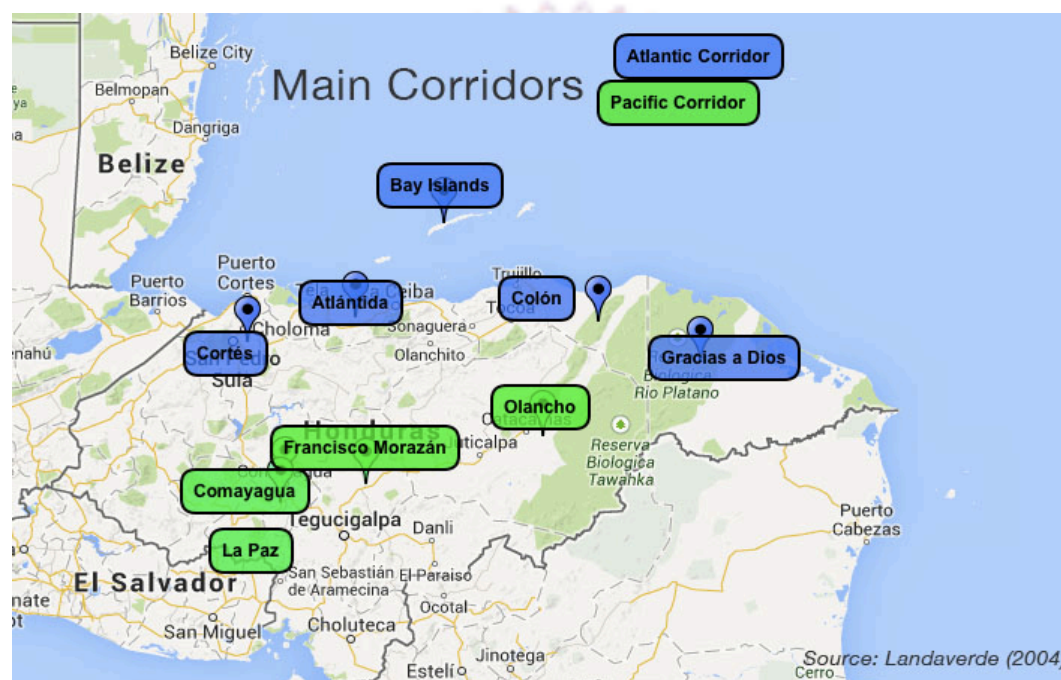


Figure 11

Data: Landaverde (2004)

Authorities have also revealed the main six cocaine entry points: Laguna Brus on La Mosquitia, the airports of La Ceiba and San Pedro Sula, Armenia airstrip (outside San Pedro Sula), the Gulf of Fonseca and a runway near Choloma which belongs to the company “Centroamericana Agropecuaria” (La Prensa,1987).

Main Cocaine Entry Points: Honduras



Figure 12

Drug Trafficking Organizations

All countries in Central America are considered transit countries, however, Panama, Costa Rica and Nicaragua do not serve as strategic points, there are merely bridges connecting Colombia with Honduras and Guatemala. As the War on Drugs has intensify greatly in Mexico, two of the main cartels of that country, The Pacific Cartel and The Zetas have moved to Central America 90% of its cocaine trafficking operations and thus also their struggle for control of spaces.

Drug Cartel Influence: Central America

Serie **Centroamérica, el camino de la droga** mapa 4

Legend translated to English

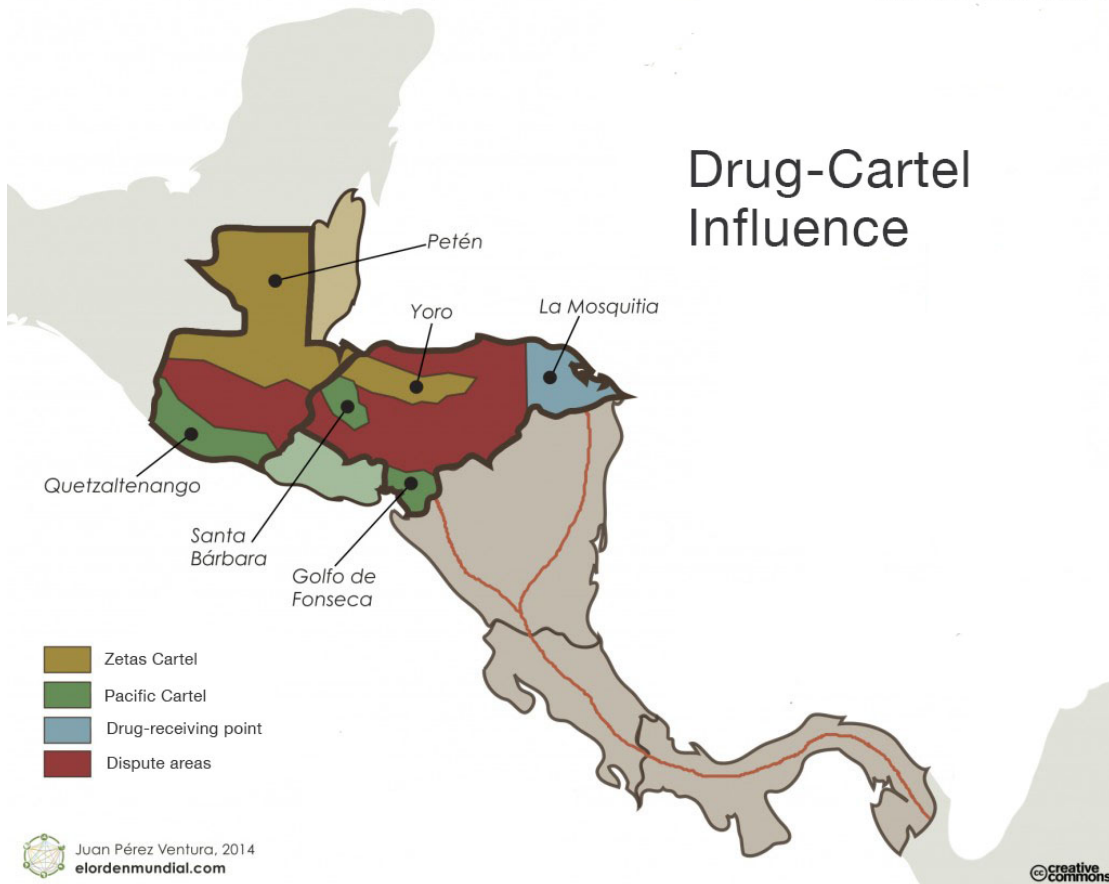


Figure 13

In Honduras, Mexican drug trafficking organizations have participated in the industry for more than 15 years. However, in the last five years (after the Honduran coup) they have started expanding their power in local Honduran organizations. Nevertheless, part of the drug trafficking that takes place in Honduras is coordinated by a group of Honduran carriers working relatively independently of the cartels. Every country that is involved as a deposit or transit country, sooner or later is home of mini-regional and local cartels or local carrier organizations that are involved in competition with each other for control of territory or admittance in distributing sources of the larger cartels.

Within the country there are two organizations that can be considered mini-cartels, The Valles and The Cachiros¹⁸ and other two that serve as outsourcing companies, Mara Salvatrucha and Mara 18, which provide services to the bigger cartels and sometimes to the mini-local cartels.

The Valles is a minicartel that operates in the department of Copan, which was said was a hiding place of the biggest Mexican drug lord, Joaquín Guzmán Loera, aka “El Chapo”. He was the most wanted drug trafficker in the western hemisphere and the leader of the Cartel of Sinaloa, one of the strongest in The Americas. The main leaders of the cartel are two brothers, Luis Alonso Valle and Arnulfo Miguel Valle, which have created one of the most influential and organized groups that control the region. Within their organization they provide jobs to a relative small amount on people, most of which maintain a low-key profile. The brothers and their family live in the municipality of La Entrada, located about 30 kilometers of the border with Guatemala, however their main base operation point is a small place in the middle of nowhere called El Espiritu. It is in that base where the group created a center for storage and preparation of cocaine for land transport to Guatemala, El Salvador and other countries. Although, there is no official estimate of the value of the organization it is known that they move more than 270 kilos of cocaine a month and earn more than US\$ 800,000 for a single shipment. Besides drug traffic, the Valles organization is involved in the real state business and own many hotels and other properties in the department of Copan and other smaller boarding municipalities.

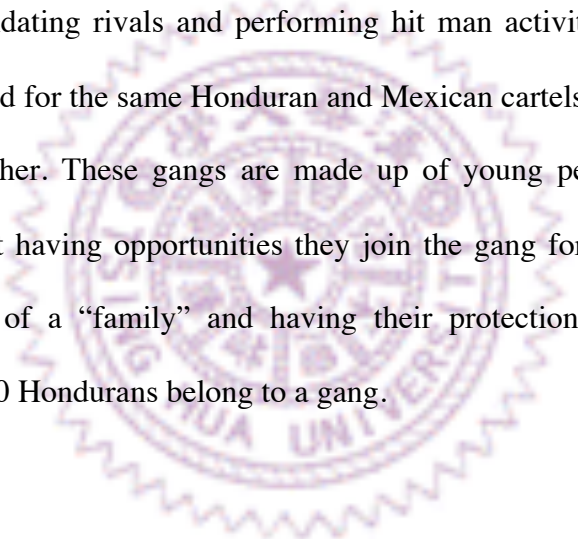
¹⁸ The detailed information of both groups was taken from an investigation carried by Insight Crime, 2014.

The second mini cartel is 'The Cachiros', one of the largest transport groups in Honduras, with a net gain of nearly one billion dollars. The group consists of a family of former cattle rustlers. The organization has become a key player by moving cocaine for Colombian and Mexican organizations. It operates in the department of Colón, on the northeast coast. Its territory extends from the departments of Gracias a Dios and Olancho all the way to the city of San Pedro Sula. They also have operations in Nicaragua. It is believed that this mini-cartel buys drugs from Colombian cartels, possibly in Nicaragua and transport the cocaine to the Cartel of Sinaloa and other Mexican organizations. This organization is a very closed one, managed by family members; they only hire local employees and maintain very little contact with them in order to minimize their risk in case of them being compromised. These employees move the product from La Mosquitia to Colon where the shipments are divided in smaller ones and in that way are smuggled into the country all the way to Guatemala. They also hire outsourcing groups (gangs), which move the product in backpacks by motorcycle transport in small- secondary roads.

The two organizations that act as outsourcing companies are the two main gangs of Honduras, the M-18 and the Mara Salvatrucha or M-18. Both organizations have similar origins as both were founded in the U.S. in the eighties. As a result of the civil wars in El Salvador, Nicaragua and Guatemala, massive amounts of refugees moved to the United States and started creating gang-like groups composed mostly by illegal migrants from these countries. During the 90s the illegal immigration of Central Americans intensified and many of these joined the gangs in the United States for protection, as they didn't speak the local language. In the early 2000s the US policy of

deportation became stronger and from 2000-2004 about 20,000 criminals were deported to the previously mentioned countries. With no job they continued the same criminal activities that they started in the United States.

Both gangs are not well organized as they don't have a recognized leader, however they operate in small cells, which have their own hierarchy and leaders, some cells are transnational and others are in constant war against each other. These gangs have started to have relation with the big Mexican cartels, like the Cartel of Sinaloa and the Zetas as well as the Honduran mini-cartels. They work as outsourced street soldiers selling drugs, intimidating rivals and performing hit man activities. Although both groups work with and for the same Honduran and Mexican cartels they are in constant war against each other. These gangs are made up of young people, which by not finding jobs and not having opportunities they join the gang for economic profit as well as being part of a “family” and having their protection. In 2010 ONUDD estimated that 36,000 Hondurans belong to a gang.



4.4 Economic Consequences of Drug Trafficking in Honduras

As previously stated the drug trafficking industry is one of the most lucrative ones in the market, and Honduras is an underdeveloped country with 60% of the population living under the poverty line and 46% live in extreme, indigent poverty and a 55.3 Gini index¹⁹²⁰ it is no surprise that the industry can blossom very quickly. The drug trafficking industry provides employment that cannot be found elsewhere, salaries that are impossible to match as well as creating a consumption and investment market. This section attempts to shed a light and provide quantifiable data in the economic impacts of the industry in Honduras. The data provided will show the value of the industry in the country, total drug-related violence, and the costs generated by that violence, and the revenue from extortion and threats.

For many families in Honduras working for a drug trafficking organization is the only way to survive, most of them get involved with the industry little by little, transporting small quantities as “favors” in change for “food money”, but later they realize that the 900,000 kilos of cocaine that pass every year through Central America can leave them big economic benefits. Figure 14 shows the value of cocaine in the region, in Honduras; for example, cocaine trafficking has a value equivalent to 13% of its gross domestic product, twice the budget that Central America has to combat drug trafficking, in other words there are areas of the country where drug dealers handle more money than the government itself.

¹⁹ Index that represents the income distribution of a nation's residents, measuring the inequality among the population.

²⁰ It is estimated that 215 millionaires live in Honduras

Value of Cocaine: Central America

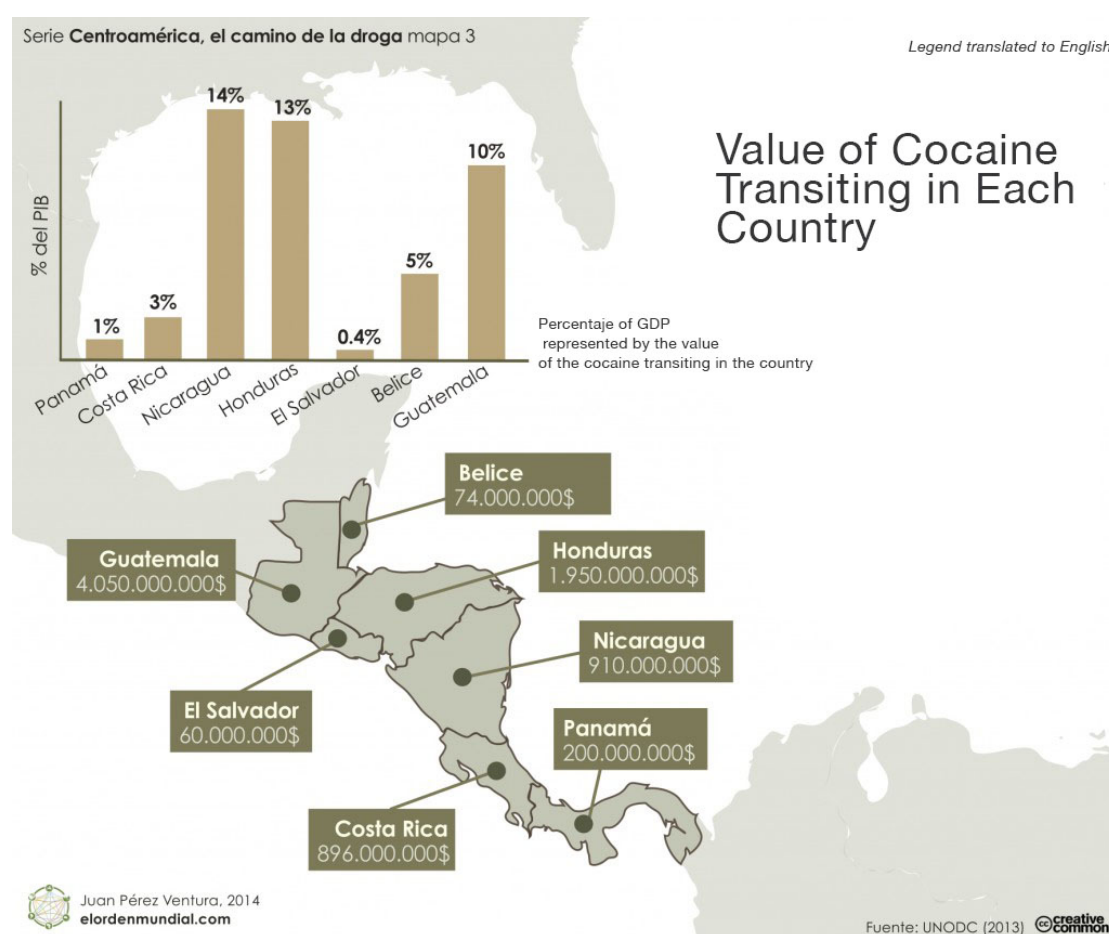


Figure 14

Without a doubt violence is the main consequence of drug trafficking in a country and with this industry proliferating in the country there is no doubt that Honduras is in the middle of a wave violence. In June 2013 a report by NPR stated that 20 people being killed each day, which made it the country with the highest murder rate in the world with a homicide rate of 85.5 per 100,000 inhabitants (IUDPAS, 2013). In May, 2014 Fredy Diaz, Chief of the military declared that 90% of those murders were related to the drug trafficking industry. The total number of registered homicides between January of 2008 and December 2013 was of 37,010 of which 80.5% affected population between 15 and 44 years old (IUDPAS, 2013) (See Table 1 and Figure 15). The most violent departments, Atlántida, Colón, Copán, Cortés, Francisco

Morazán, Yoro, Ocotepeque and Olancho, are also those in which drug cartels have started to expand their presence and that are considered drug entry and exit points (except for Francisco Morazán)²¹ with a total of 29,980 deaths²².

Table 1

Number of Homicides in Honduras 2008-2013

	Total Homicides	Between 15 and 44 years old	Percentage
2008	4,473	3,596	80.40%
2009	5,265	4,259	80.90%
2010	6,239	5,029	80.60%
2011	7,104	5,771	81.20%
2012	7,172	5,801	80.90%
2013	6,757	5,325	78.80%
Total	37,010	29,781	80.47%

Data: Observatorio de la Violencia – Honduras

Total Homicides 2008-2013

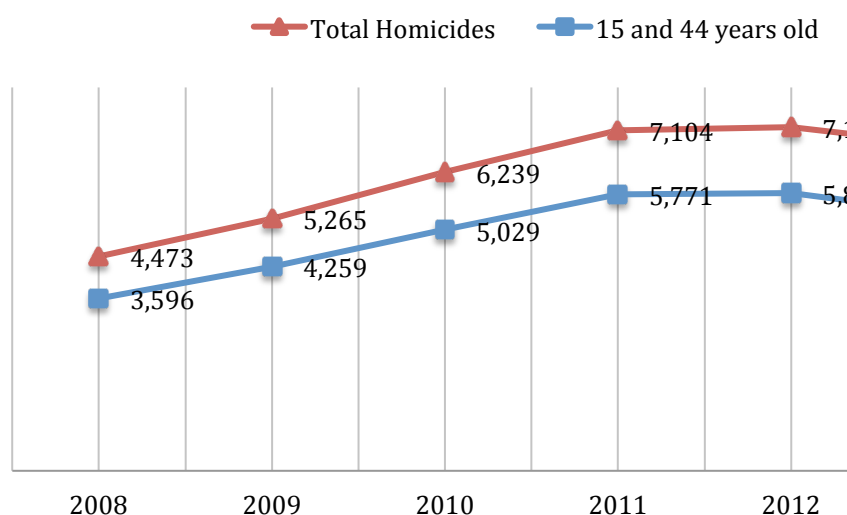


Figure 15

Data: Observatorio de la Violencia – Honduras

²¹ Department in which the capital of the country, Tegucigalpa, is located.

²² Calculated by author.

Total Homicides for Selected Departments: 2008-2013

	2,008	2,009	2,010	2,011	2,012	2,013	Total
Atlántida	427	425	537	545	618	492	3,046
Colón	192	242	260	275	307	260	1,536
Copán	246	283	311	395	421	238	1,894
Cortés	1,371	1,701	1,772	2,127	2,044	2,253	11,268
Francisco Morazán	742	893	1,193	1,171	1,280	1,171	6,450
Gracias a Dios	6	4	10	16	16	54	106
Ocotepeque	70	101	97	138	131	114	651
Olancho	251	267	401	491	364	305	2,079
Yoro	353	435	474	534	544	612	2,952
Total	3,658	4,353	5,055	5,692	5,725	5,499	29,982

Source: Observatorio de la Violencia - Honduras

Table 2



Total Homicides for Selected Departments: 2008-2013

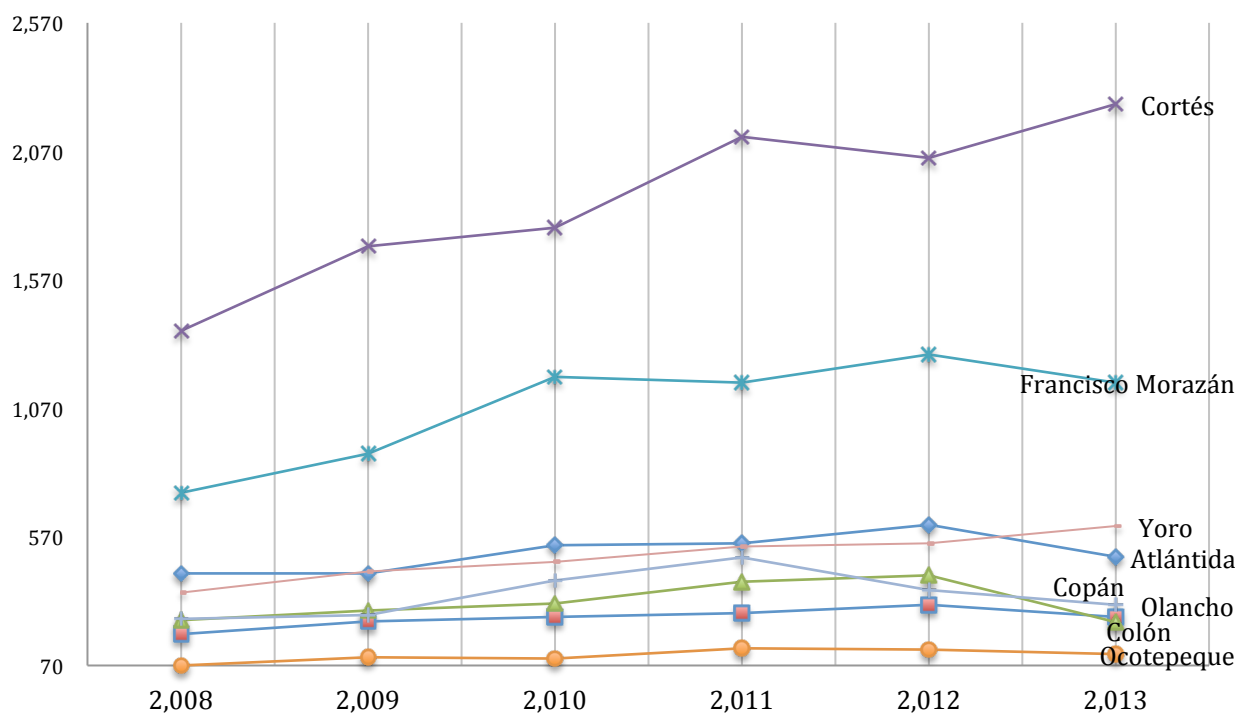


Figure 16

Source: Observatorio de la Violencia - Honduras

Figure 16 shows the total number of homicides for the previously mentioned departments based on data from the National Violence Observatory -UNAH²³. The geographic dispersion of drug-trafficking related violence can be clearly observed in these graphics. In Honduras, organized crime groups make an estimate of \$62.6 million a year from extortion and threats to businesses. Solely, in 2012 17,500 small businesses had to shut down because of the extortion payments, it was estimated that vendors pay about US\$15 per week to gang and drug traffic members, generating US\$10 million per year. (Cawley, 2013) Because of all this violence, over 700 legal and 300 illegal private security companies operate in Honduras, which employ over 70,000 security guards (Novoa, 2013).

All this violence generates various opportunity costs that are impossible to quantify, such as going out at night reducing the amount of money spent on local businesses and therefore the economy and refusal to use public transportation, which limits access to educational and productive activities. However, it also generates quantifiable direct costs which include migration, every day 277 people (most of them between the ages of 18 and 35) leave the country looking for better opportunities (EFE, 2013). Other direct costs include health, institutional, private security and material costs.

A study conducted by the World Bank concluded that the economic costs in Honduras related to violence and organized crime was off 9.6% of its Gross Domestic Product, which is worth US\$885 million. The health costs are 3.9% of its GDP (US\$360 million), institutional costs of 2.6% of the GDP (US\$ 230 million), private security costs of 1.9% of its GDP (US\$ 176) and material costs of 1.2% of the GDP (US\$110).

²³ Data gathered between 2008-2013

Honduras: Economic Costs Related to Violence and Crime

	Millions of Dollars	% of GDP
Health Costs	360	3.9%
Medical Care	24	0.3%
Production loss	114	1.2%
Emotional Damage	222	2.4%
Institutional Costs	239	2.6%
Public Safety	145	1.6%
Administration of Justice	95	1.0%
Private Security Costs	176	1.9%
Home	44	0.5%
Business	132	1.4%
Material Costs	110	1.2%
TOTAL	885	9.6%

Data: Acevedo, 2008

Figure 17

Of course, not all violence is related to drug trafficking, assuming that 90% of the crimes are related to the industry, the total cost of drug traffic is approximately of US\$796.5 million annually.

5. RECOMMENDATIONS

Given all the data analyzed in this paper it is noted that the illegality approach is failing in Honduras and in the rest of the region. The long war on drugs has failed and left a big array of violence, corruption and migration in the country, it is imperative to move the focus on more important issues like security and education. With the legality of marihuana in Colorado and Washington, some drug cartels in Sinaloa have reported that the price of their drug has lowered from US\$100 per kilo to only US\$25 (O'Hara, 2014). As Honduras is mainly a transit country and the drug that is produced in it is not significant to the industry, it is recommended by economic experts that the Honduran government legalizes production of cannabis within the country and regulates transit of other drugs such as heroine and cocaine. This recommendation is strongly backed up by presenting the consequence the regulation and legalization has had in other countries (i.e. Uruguay, Portugal) as well as analyzing the negative effects the industry has brought into the country.

According to numerous reports and recommendations by experts in the area, if the money used to fighting drug trafficking could be used for creating social awareness campaigns as well as an economic frame in which the legalized drugs and the regulated transit drugs could generate income taxes to the country, the numbers of violence will decrease significantly as Honduras will no longer be a tempting territory for Mexican drug cartels. It is predicted that if Honduras starts this policy, other countries in the region might follow and in that way Central America won't have to wait to the United States to legalize drugs.

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