

LAW REFORM, DRUGS AND CRIME PREVENTION COMMITTEE
**Inquiry into the supply and use of methamphetamines, particularly ice,
in Victoria**

Canberra — 10 February 2014

Members

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Ms J. Lind, Executive Director, Australian Crime Commission.

Mr S. Neilson, Head of Determination, Australian Crime Commission.

The CHAIR — Good morning. I am pleased to declare the hearing for the committee's inquiry into the supply and use of methamphetamines in Victoria open. I welcome Judith Lind and Shane Neilson to this hearing, which is being held in the offices of the Australian Institute of Criminology in Canberra. We have allocated time for you until 10.15 this morning. I appreciate we are starting early so we are able to extend the time if need be. We are joined by Ms Judith Lind, executive director, and Mr Shane Neilson, head of determination, from the Australian Crime Commission.

I will now read you an opening statement in relation to the evidence you will give at the hearing this morning. All evidence taken at this hearing is protected by parliamentary privilege in accordance with reciprocal provisions and defamation statutes in Australian jurisdictions, as if you were giving evidence in Victoria and as provided by the Victorian Defamation Act 2005 section 27, the Constitution Act 1975 and the Parliamentary Committees Act 2003. Any comments you make outside the hearing may not be afforded such privilege.

I understand you have received the guide for giving evidence to parliamentary committees. Any reporting of this proceedings enjoys qualified privilege for fair and accurate reporting, as if the proceedings were in Victoria. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript in the next few weeks.

I understand Sandy has given you some background in relation to the work we are doing on this inquiry, and I suspect some questions have probably been given to you for response. Judy, I understand you will be making some opening statements.

Ms LIND — Yes.

The CHAIR — Then perhaps the committee can raise a number of questions with you both as a result of your statements. Thank you very much again for your time this morning.

Ms LIND — Thank you very much on behalf of the Australian Crime Commission. We are pleased to have the opportunity to sit before you this morning. We have an unclassified submission to table for you. We have addressed both the terms of reference and the specific questions that were provided to us by Sandy. What we thought we would do is give a brief overview of our key findings and messages in relation to the methylamphetamine market. We have a few slides to show you along the way, and then we are very happy for you to open it up to questions.

Overheads shown.

Ms LIND — I think if I just start by saying that, in terms of our overall assessment, the methylamphetamine market is expanding; it is evolving quickly, and it is growing in its diversity. We believe that both supply and demand-side drivers are responsible for the expansion of the market, including the ice market. In 2012, we assessed the methylamphetamine market. The risk of that market was very high; it was the highest rated risk of all the illicit drug markets impacting on Australia. In our most recent work to date, we can confirm that the risk rating of 'very high' remains accurate.

It is probably important to understand that the issues that are being faced in Victoria are not Victoria's issues alone but indeed appear to replicate national and global trends, and I will go through some of that data in a moment. The ice problem is a growing one for Australia; there does not seem to be any doubt in relation to that. The increasing use of this form of methylamphetamine — and generally in a higher purity than we have seen before — is demonstrated by both higher seizure and arrest data and also ambulance presentations. There are very serious associated wide-ranging harms from abuse of ice. The fact that crystal methylamphetamine is smoked, as opposed to being injected, removes one of the psychological barriers imposed by injecting drug use. Ice can create an intense and rapid high generated by this method of administration, and it creates corresponding severe and adverse reactions when the effect wears off.

The risk posed to disadvantaged groups by crystal methylamphetamine is of great concern, and the violence and other criminal activity that is directly linked to its use adds to the concerning picture in relation to harms both in relation to users, their families and the broader community. On the

supply side of the equation, we are seeing an increasing trend towards the importation of high purity ice and precursor chemicals. There is an increased presence of sophisticated transnational crime groups into this market, more diversity and an increase in the sophistication of some of the domestic manufacture of the drug. All of that paints a pretty concerning picture of an issue for Australia.

Just before we move on, I thought I would give you a really quick overview of the Australian Crime Commission; and one of your questions was: 'What work do we actually do and how do we operate?'. The Australian Crime Commission is commonwealth funded. It is Australia's national criminal intelligence agency with a focus on trying to reduce the threat and harm posed by serious and organised crime. We have been in existence since 2003. We have a board of management, or I should say a board which oversees the strategic direction of the commission. The board is chaired by the Australian Federal Police and comprises every Australian jurisdiction police commissioner, the head of the tax office, the head of ASIO, the head of ASIC and the head of customs; so it is a pretty powerful mechanism in terms of joining up both commonwealth and state jurisdictions to deal with issues.

Our strategic plan focuses on discovering, understanding and responding. 'Discover' means our capabilities focus on trying to understand what is happening across all the illicit markets and any area of activity where serious and organised crime has or is likely to have a foothold. Discovery is also about discovering who is operating, who the crooks are, who the organised crime groups are and who is impacting Australia. 'Understand' just means that we have a role as a criminal intelligence agency in bringing that knowledge together and in making some intelligence assessments and judgements. We are always operating with an incomplete picture of what is actually going on. That is fundamental to any sort of illicit drug market. So when we use the terms 'we judge' and 'we assess' — that is intelligence speak for saying that is how we have brought the data together, this is how we have understood that data and this is what we assess the situation to be.

In relation to our response capabilities, we have traditional law enforcement police response capabilities in terms of investigations, disruptions, seizures and arrests; but we also play a very large role through the production of our intelligence products in informing other stakeholders, trying to identify where there are vulnerabilities which organised crime can exploit, communicating that to policy and other agencies, and really trying to focus on reducing harm and preventing organised crime into the future. That is really what our business model is.

We are a partnership-based agency, so on any day of the week we are collaborating with state and territory law enforcement and with our commonwealth partners both on the investigative side of things and in terms of driving forward prevention outcomes. We operate under things called 'determinations'. Determinations are authorised by our board, and they allow the commission to use our coercive powers under our Act. Those coercive powers enable us to call witnesses before us in a private hearing setting where those witnesses' evidence is protected under a range of protections. We have a determination called the 'high risk and emerging drugs determination'. That is a special operation, so it is focused on intelligence probes. We have access to coercive powers, and that is the mechanism by which we monitor what is actually going on across all the illicit drug markets. Shane is the head of the high risk and emerging drugs determination, and he is probably the closest thing to an expert in illicit drug markets — certainly that you have before you at this table.

We commenced the high risk and emerging drugs determination back in 2011. That goes through to 2016. There are number of formal reporting processes to the board, and then they will make a decision in 2016 as to whether we continue that work and what the focus should be. We pick up a lot of knowledge about the methylamphetamine market from that determination, but we also have other work including our special investigation work. Eligo is an example of that, and I will give you examples of some Eligo outcomes. We also have a determination called our 'high risk criminal groups'. That is the determination where we really focus in — where we have identified organised crime groups. We have made a decision that we want to try and tackle them in some manner, and we use that determination to go forth with that work. Again that is normally done on a

task force basis, or as a joint operation with state and territory police or commonwealth departments.

Under Eligo we have focused very much on trying to understand and follow criminal wealth and illicit money flows, so that is a third element of our work. That is an area where we got intelligence about movements of money that appears to be criminal money. We use our investigative capabilities to essentially follow that money, and by doing so we then identify groups sometimes unknown to us. We identify the underlying criminal behaviour associated with those money flows, and we also tackle and address the actual money flows in terms of seizure of cash and other mechanisms to disrupt criminal flow. We have a number of elements to our work which give us some insight into the methylamphetamine market and enable us to disrupt organised crime groups. That is a bit of an overview of the commission.

I will focus quickly on the international context. — We said earlier that the problems being faced within Victoria are not unique to Victoria; and they are not new. I think the commonwealth Parliament did an ice review back in 2006, so nearly seven or eight years on the issue has re-emerged.

Recent reports from the United Nations Office on Drugs and Crime (UNODC) have noted that there are clear signs that the global and regional markets for amphetamine-type stimulants, and particularly crystal methylamphetamine, are expanding with increases in seizures and reported use, a spreading manufacture base and the development of new markets. To give you an example, the weight of global seizures has increased to 123 tonnes, which is double the amount that had occurred five years earlier.

We know that drug trafficking syndicates from Africa and Iran and others with links to China and Hong Kong are trafficking methylamphetamine into and through South-East Asia, and Indian drug trafficking networks are smuggling precursor chemicals to drug manufacturing locations in the region. Both India and China have large and growing legitimate chemical industries. Those countries are also being used by organised crime groups to divert chemicals from the legitimate industries for use in the production of methylamphetamine and for trafficking into global markets. The rate of seizures and use in both Asia and South-East Asia are also more pronounced, with some recent reporting showing that Thailand in particular has had fairly rapid increases in the use of the drug within that country.

To demonstrate the global growth I thought I would show you a few slides about some recent border detections from Australia and where they have come from. This is based on our latest *Illicit Drug Data Report*. I should have said upfront that one of our intelligence products is this unclassified report, which is produced every year. The next version is due out in about April or May, so these figures relate to the 2011-12 financial year. These are all seizures of methylamphetamine at the Australian border by customs and AFP. Our data systems only record the last port of embarkation, so we cannot always backtrack to the original source country where production occurred. They have got nearly 130 kilograms, it has come in a liquid form and by sea cargo, and this was shipped directly from Mexico into Melbourne.

Mr SOUTHWICK — When was that?

Ms LIND — This is in the reporting period 2011–12. We had a smaller shipment of crystal meth of 27 kilograms that came from Canada to Sydney. It came by air too, which is really quite unusual for a weight that high. We have quite a lot of intelligence about Canadian transnational organised crime groups impacting and operating in the Australian context. Another example is 51 kilograms of crystal ice. Again this is a combination of two shipments — one by air and one by sea — directly from Hong Kong into Sydney and Melbourne. We have another example of a smaller amount, again of ice from South Africa, and that was 15 kilograms by air directly into Sydney.

I think those shipments alone accounted for approximately 65 per cent of the total weight of seizures that occurred in that year. To put that all together, that is showing you where some of the key sourced detections have come from. In terms of the prominent embarkation points, by number

they were India, Hong Kong and China, and then we had that large sea cargo detection, so Mexico became the prominent embarkation by weight. That gives you an example of the diversity in terms of the volumes, their transshipment routes, who is behind it and the form in which it is coming into the country.

The CHAIR — What processing needs to happen in relation to the liquid methylamphetamine from Mexico that comes in what looks like drink containers? What happens from there?

Ms LIND — They get produced into powder forms, as I understand Shane?

Mr NEILSON — Indeed. It is almost like cocaine embedded in a liquid. Chemicals are added, it is dried and it is reconstructed into a powder or crystal form depending on the original substance.

The CHAIR — A kilo of liquid would produce what in a powder form? What is the extension of the product from that form?

Mr NEILSON — I would have to take that question on notice, but I think it is pretty close to one to one. There is not much loss there. It just depends on what is put in.

Ms LIND — One of the broad messages about organised crime is that it is continually evolving. They get smart, they work out what has worked in terms of concealment methodology and what has not worked. I think we had another large shipment that came in in the tyres of trucks. There is really no end to the ingenuity of these groups in getting their product into the market.

Mr SOUTHWICK — And these are all detected via intelligence gathering? There is no very-hard-to-scan or catch-it customs event?

Ms LIND — These would have all been intelligence-led seizures. I should say that for that reporting year the border seizures, both in weight and number, were the highest recorded in a 10-year period.

If we go on to what has been happening in the national picture, these figures here show a 10-year chart of national ATS seizures, which means seizures of methylamphetamines within the Australian border by weight and number. As you can see, the number of seizures for the last three years is growing up, and grew up quite significantly between 2010–11 and 2011–12. The volume is little more all over the shop, but still between 2010–11 and 2011–12 the weights still accounted for a 56 per cent increase, from just over 1000 kilograms to 1572 kilograms. The graph probably does not give you quite the extent of that growth.

Mr SOUTHWICK — And we can safely say that even though we might be getting better in detection there is more activity.

Ms LIND — Yes.

Mr SOUTHWICK — The seizure is predominately because of more activity, not because we are detecting better or there is better intelligence gathering.

Ms LIND — We are certainly detecting better but our assessment is that the supply market is growing, and that is being driven partly by user demand but also supply-based demand. They are getting more product into Australia or producing more and they are finding a market and demand for that and that is reinforcing the supply chain and the growth.

In terms of the Victorian context — we have pulled out our Victorian data — again, it is a fairly similar pattern, following the general trend line of increases in the number of seizures and very significant increases in weight. It is not included in these statistics because it will be reported in a later period, but there was recently a seizure in Melbourne of more than 200 kilograms of methylamphetamine in crystalline form that was concealed in the tyres of trucks. We think that is worth about \$200 million — there is significant criminal profit in this market.

Mr SCHEFFER — In that 2006–07 spike was that because of a high number of smaller seizures or one or two big events?

Mr NEILSON — That was one or two very big events but also there was a spike in numbers, so for whatever reason it was both in that particular year.

Ms LIND — What does all that mean? Our assessment is that we believe the domestic methylamphetamine market traditionally has been largely supplied by domestic production, and we will get onto some clandestine lab data in a moment. However, we have seen increases in the importations of methylamphetamine. It is not clear what has driven it. We know that the Australian illicit drug market uses a high price for their illicit drugs, which is much higher than can be got from other markets, including the North American market. Clearly it is a profitable drawcard for organised crime. Where you have an increase in the demand side of the equation again that is reinforcing increases in importations.

We think the tightening of the domestic controls over precursor chemicals over the past several years — and there has been significant work in terms of tightening up diversion of chemicals from the licit to the illicit market — could be contributing to the growth in attempted importations of both finished product and precursors.

Mr SOUTHWICK — Just before you continue, in terms of the ATS, are we talking about all types of amphetamine, including speed and the like, or are we largely talking about ice?

Ms LIND — These statistics do not differentiate between the type of ATS. We do not have that data. Just relying on our intelligence assessment, we believe ice is the major type of drug where demand is growing most strongly, as most recently shown.

Mr NEILSON — What happens is the majority of methylamphetamine is sold as speed — so powder — but an increasing minority is ice, the crystalline form. That is where the demand is growing rapidly. Organised crime groups are understanding this, so in a number of cases what they are trying to do is to let what would traditionally be powder forms of methylamphetamine appear to be crystalline. They are trying to increase their profit that way because of the increase in popularity of ice. That is the picture of the domestic market.

Mr SCHEFFER — If it is a crystalline form of methamphetamine, should we worry about whether it is ice or not? Is that a category that is useful? When you say you do not measure it, does it matter whether it is measured?

Ms LIND — I think it does. That goes back to the particular harms, because of the way it is ingested, because of the unique health harm impacts and just the overall effect that ingesting it in that form has. Medical professionals can probably give you more information about that.

Mr NEILSON — It is the fact that it can be smoked that is the big selling point with ice. With a little difficulty you can still inject it, but most of the drug that is injected is speed — the powder form or put into tablets. Ice, however, can be smoked, so you get rid of that whole stigma. It is a big barrier to self-inject a substance if you have not done it before, but if you can smoke it, the barrier is less. There is an issue there.

Ms LIND — Just to summarise that, we believe importations, particularly of ice, are creating changes in the proportion of domestic production versus importation. We still believe domestic production probably trumps importation, but increases in importation are probably growing at a faster rate than domestic production. The total supply chain is growing. That is how we are seeing the situation.

In terms of clandestine laboratories, again this is 10-year data showing detections of clan labs. Victoria had 99 of the 809. The 809 was a record number of clan labs detected in the last 10 years. Victoria does not have a large proportion — it has about 12 per cent of the national total — but when you look at the Victorian trend line, apart from 2009–10, where 113 were seized, the last reporting year again shows increases in the number of clandestine labs detected. Most recently out of our Eligo work in October 2013 we detected a commercial-size methylamphetamine laboratory in Sunshine in Melbourne. That came from our following-the-money work.

Queensland has always traditionally had a lot of small user-based clan labs. That trend line has been pretty apparent for quite a while now. We have only just, over the last two years, tried to get better data from state and territory police about the production size of the laboratories. It is actually quite a difficult thing to capture, but we are trying to get a handle on whether these are small labs or commercial size labs — what are they?

In terms of the production methodologies — and we do not have our chemist here, so please do not ask me about the methods of production — again that just shows which methods are being used in some of those labs. Do you have anything further to add to that, Shane?

Mr NELSON — Probably the main thing to look at there is — and I guess we will get into this very soon — hypophosphorous is the sort of process where you are using pseudoephedrine and ephedrine. That is why there are controls of chemists, for example, on the sales of pseudoephedrine. You can see traditionally that has been the lion's share of the labs around the country. The one to watch, even though it is small in number in this table, is P2P on the right there. That is where the more recent labs are going. That process used to exist about 15 years ago in Australia. It is coming back now. It is also a process that is popular in Mexico. We think Mexican groups in the future will play a more prominent role in the Australian amphetamine market.

Ms LIND — Production methods are certainly diversifying, and as Shane said, that is partly because of the strong controls now on the diversion of pseudoephedrine and ephedrine. We have recently commenced — and the AFP might talk about this — some new forensic testing of samples that are seized within Australia. Drugs have always been sampled forensically when seized at the border, but this is a relatively recent project. I think they are up to about 1300 samples, and part of the testing has revealed what is known as the Mexican synthesis signature for methylamphetamine. We cannot say it categorically, although that previous chart, in terms of the direct importation from Mexico to Australia, is pretty good evidence that we are getting Mexican-produced methylamphetamine into Australia.

I think the UNODC is now reporting that Mexican production of methylamphetamine is the highest ever. The involvement of Mexican organised crime groups in Australia is obviously of concern, and we are closely monitoring what transnational crime groups are involved in the trafficking and distribution of the drug into Australia.

In terms of where they are located — and this is important because it comes down to harm impact of production — over 70 per cent are in residential premises. These labs are really dangerous; you have dangerous chemicals and inexperienced cooks. They can blow up. They are dangerous to anyone who comes into contact with them. There are clan lab remediation guidelines now in place in Australia. There have been a number of instances where young children have been present in residential premises producing clandestine labs. That paints a pretty concerning picture.

The CHAIR — Have rural lab detections gone up? Part of the impetus of our inquiry was seeing an increase in regional Victoria activity — that is, supply and use.

Ms LIND — We will take that on notice. Clearly it is a small proportion to start with.

The CHAIR — It is only small.

Ms LIND — We can take that on notice because we will have previous data on the proportions of that. Certainly our intelligence, as you would know as a committee, is that the demand from users in rural areas is increasing. That is obviously one of the drivers of your deliberations here.

In terms of one of your questions about how it gets to and from Victoria — so in terms of cross-jurisdictional trafficking — our seizure data, investigations and intelligence holding indicate that methylamphetamine and ice is trafficked from Victoria to other states and territories and from other states into Victoria. It is obviously trafficked via motor vehicle, commercial and light aircraft, air freight and, in the case of Tasmania, by ferry. We have got some interstate-based targets — targets as in organised crime groups — that we know about as being recorded as being involved in methamphetamine supply that impacts on the Victorian market, whether that is in relation to importing, manufacturing or trafficking of the drug or its precursors.

We also know that Victoria is a source of methamphetamine distributed in other jurisdictions. The majority of targets recorded as being involved in the Victorian methamphetamine market are involved in multiple criminal activities, including multiple illicit drug markets.

I do not know how useful that is to you. We do not have any more detailed data in terms of what the internal distribution routes look like, but we know that there is clearly across Australia distribution and trafficking to service and supply all the markets.

The CHAIR — Have you been doing any investigation in potentially organised crimes in unions where they are facilitating supply through their workplaces? I only say that because obviously, one, there has been a flagged royal commission into organised crime in construction. Also, we have been dealing with some evidence that suggests there has been quite a lot of distribution and use within the workplace, which is union controlled.

Ms LIND — Yes.

The CHAIR — This might be a long bow, but has there been some work done — or is there likely to be work done — in relation to what, if any, activity the unions are doing in that space in their workplaces?

Ms LIND — I think the best way I can answer that is that via our task force focusing on some of the outlaw motorcycle gangs — task force Attero and the Rebels — we know that outlaw motorcycle gangs are part of the distribution and production network. We also know that outlaw motorcycle gangs have involvement in some parts of the building and construction industry, and other industries. I think that is as far as I can go with that question. Shane, do you want to add anything further?

Mr NEILSON — I know of no specific investigation into that specific link, and I think I would know if we had done that.

Ms LIND — So that is the supply side. If we now just focus on who is involved, we have a large number of individuals and groups involved in the Australian market. In our view there was no one criminal syndicate type of crime group or ethnicity-based group that is dominant in the market, either in Victoria or more broadly.

As I said before, we know that outlaw motorcycle gangs and family groups are present in this market. Ethnic groups and entrepreneurial individuals working alone or in partnership are represented. The market is sufficiently diverse and profitable to support a large number of competing and sometimes collaborating suppliers at different levels of sophistication.

Regarding the presence of transnational crime groups, in some of the reporting that we do looking at who was involved or who is impacting on Australia across all forms of criminality we have now quite a predominant focus of offshore-based transnational crime groups. That is not particularly remarkable when you look at the illicit drug markets, because most of the illicit drugs have to be imported in either precursor or final form into Australia, so that necessitates involvement of offshore entities. Some of our broader assessments are that both globalisation and use of technology are very critical enablers globally for organised crime networks to be joining up, forming networks, forming distribution paths, enabling finance, enabling access to precursors et cetera to support their endeavours.

Mr SOUTHWICK — A lot of that product that is being brought in — the precursor — would be considered legal?

Ms LIND — No.

Mr SOUTHWICK — All of the stuff is illegal, so even the pseudoephedrine side that was being brought in?

Mr NEILSON — Pseudoephedrine is legal. In some cases the ephedrine is legal. In many cases now, and in increasing cases, the intent behind the importation is illegal.

Mr SOUTHWICK — The intent is illegal?

Mr NEILSON — Yes.

Mr SOUTHWICK — But then is there another onus to prove that the reason for bringing it in is for illegal activity? Is the organised crime, if you like, a cover being used to try to bring this in for legal purpose, but obviously — —

Mr NEILSON — Sometimes, not always. Sometimes it comes in in significant quantity. For example, drug companies — as you would imagine — and chemical companies are bringing in tonnes and tonnes of some of these chemicals quite lawfully, and then it is diverted domestically. That is half the problem.

The other problem is where substances are brought in by organised crime in the same way that you bring in cocaine, for example; the whole intention is illegal. They are the two scenarios.

Mr SOUTHWICK — So we can confiscate as soon as we get big shipments of ephedrine or pseudoephedrine, even though they are not illegal in their form, but as long as the intent — —

Mr NEILSON — Yes.

Mr SOUTHWICK — I am unclear in terms of what the powers are for confiscation.

Mr NEILSON — Sure. There are controls around things like pseudoephedrine and ephedrine, because they are border-controlled precursors. Unless you have got a permit to import, then prima facie you have committed a criminal offence.

Mr SOUTHWICK — Right.

Mr NEILSON — If you speak to the AFP and customs, they will probably be able to give you chapter and verse on particular provisions in the criminal code and the prohibited import regulations, but that is essentially the picture. There is a level of legal importation, and there is a level of illegal importation. It comes down to what is licensed and what is not.

Ms LIND — Part of our ongoing work that Shane is doing under his determination is diversion from the legitimate chemical industry in Australia — the diversion of chemicals that can be used for the production of methamphetamine. We have got an ongoing relationship with the industry. Shane has got a specific project going at the moment where we are drawing data from the chemical industry to try to work out whether it is being diverted and whether that diversion is supporting illicit production. It is quite difficult, because the range of products and chemicals that can be used is really diverse, and it certainly is not ever always going to be apparent to the chemical suppliers that they are supplying for illicit purposes.

Mr SCHEFFER — When we spoke to Professor Savona he suggested in this space that we perhaps talk to pharmaceutical companies, which we have to talk about later. You use the word 'diverted', which is a very soft term. On one level it could be 'stolen', or there could be corrupt elements inside pharmaceutical companies that are part of the criminal space. Are you prepared to go further in what you are saying about what some of the characters inside the pharmaceutical companies might be up to?

Mr NEILSON — There is a whole continuum there. As a starting point I think it is important to understand that large amounts of these substances are moving around the country at any given time; there has to be, for the legitimate pharmaceutical industry to work. Sometimes amounts that would be enormously helpful to organised crime groups simply go missing from storage depots and are written off by pharmaceutical companies, for example.

Mr SCHEFFER — Just written off?

Mr NEILSON — Indeed.

Mr SCHEFFER — How can that be?

Mr NEILSON — In the same ways as, for example, there is a storm and stock is destroyed on a truck or — —

Mr SCHEFFER — Yes, but this is an auditing question. If that is an explanation, that is fine, but if it just goes missing, given what we are talking about — about this drug and all the efforts that are being put into it — that seems like a fairly casual response.

Mr NEILSON — Yes. I cannot really comment on that, but I suspect it is a business decision that may well be made by some of the companies if stuff goes missing. In some cases it is probably not worth it for them.

Mr SCHEFFER — A substance of that importance?

Mr NEILSON — There have been examples of that occurring. I am not sure of the actual decision.

Mr SCHEFFER — No. I understand. I am not trying to box you in.

Mr NEILSON — I am just trying to give you an idea of what might happen.

Mr SCHEFFER — I am a bit dismayed, that is all, at a response like that.

Mr NEILSON — It might be useful to perhaps inquire further into the extent of this occurrence. Going down that continuum, what we are finding is that industry has a code — a voluntary code — in which chemicals that are known to assist illicit drug production are listed. What they are required to do, if someone is not an account-carrying customer — that is, another business buying from them — is get that person to make an end-user declaration, as it is called. That is meant to be shared with local drug squads around the country.

What happens in some cases with that is that organised crime groups have no great difficulty in establishing a corporate front. Then they can buy chemicals, quite lawfully, without there being an end-user declaration, when of course the actual intention is to create illicit drugs. On the other hand there are also — and we are finding this increasingly in our engagement with industry — a lot of cash sales with substances which industry does not at present know are implicated in illicit drug production.

I mentioned earlier the P2P methods, which use a whole lot of different drug manufacturing techniques and require different chemicals. The challenge for Project Alberta, which is our project into this diversion, is to work with industry and say to them, 'Look, we understand that you have a commercial imperative here, but just be aware that there is a level of diversion, and the last thing your company wants when the police raid a lab is to have your trademark plastered all over chemical drums that are making amphetamine'. And industry has been very cooperative with us. They have actually been giving us lists of their sales, and we are going through and working out if, say, someone is a perfume manufacturer whether that is a legitimate use for this chemical — and yes, it may well be, and that is fine. If it is not though, if it is Joe Blow from a corner shop who is picking up kilos and kilos of a particular substance, that is where our interest is triggered, and we will refer that off. Either we will do it ourselves or give it to a state drug squad, saying, 'You need to look here at this diversion'.

Mr SCHEFFER — Is that documented on the public record?

Mr NEILSON — There was a summary of that in our annual report. In our submission we talk about what we are doing with industry.

Ms LIND — The commonwealth also has a number of groups: there is a precursor advisory group and associated groups that hang off that in terms of trying to drive industry self-regulation.

Mr SCHEFFER — Okay. You are saying — just to wind up, then I will stop all this — it is basically self-regulated? That private businesses and pharmaceutical companies basically self-regulate, and that they are in a conversation with you?

Mr NEILSON — There is a part of that. The commonwealth Attorney-General's department has a national precursor framework. They have produced this voluntary code with industry, and that code has been in place for some years now, so there is a form of regulation on the industry. The challenge for the ACC at the moment is to advise the Attorney-General's department about whether the code remains relevant to the ongoing manufacturing techniques.

Mr SOUTHWICK — I have two questions. Firstly, how significant is the problem of the local manufacture compared to the importation, in terms of broad numbers? Would you say that two-thirds are imported versus one-third local? And, in terms of clandestine labs, we have always been sold the picture that they are dirty, very basic-type operations. Has there been discovery of any of these sorts of labs that are more sophisticated and have proper operation in terms of how they are managed? Potentially that leads back to the previous question of bringing in this product properly done, as manufacturing of any type of product might be.

Ms LIND — The recent Eligo detection was of what we would say was a commercial-standard lab in Victoria. That is probably the most recent. There is still a bit of a data gap. You will remember I said we are trying to capture the first-time production volume as a better indicator of the size and who is actually involved, which is not coming through the other statistics. Remember we still have Queensland at 380 out of 800, which quite frankly does not make a lot of sense because historically Queensland has involved the small, user-based labs. If we are saying we have an expanding supply market and increases in use, it cannot be supplied by small, user-based labs. And that detection out of Eligo is one example of a commercial-scale laboratory.

In terms of your first question, again this is an assessment — I mean, we do not know the total size of the market. We still think domestic production is probably 50 to 60 per cent, but with importation growing quite quickly. Customs might talk to you a little bit about Contac NT, which is a pseudoephedrine-based product.

Mr NEILSON — Yes, it is pseudoephedrine.

Ms LIND — There have been massive attempted importations of Contac NT from China, both in terms of direct source to users and via major shipments.

Getting back to providing more information about who is involved: you asked us to what extent outlaw motorcycle gangs are involved in the production of methamphetamine and ice in Victoria. We know that members of a number of different outlaw motorcycle gangs have been linked to methamphetamine importation, manufacture and distribution in Victoria and throughout Australia. We believe this involvement extends from Melbourne to rural areas, and in some cases members of the outlaw motorcycle gangs are representing some of the local organised crime networks and creating supply chains into some of the rural areas.

Law enforcement has had a very significant focus on outlaw motorcycle gangs. We have had a national task force called Attero, which has been trying to really focus in on, address and tackle outlaw motorcycle gang behaviour, though that is certainly not the exclusive group operating in this particular market.

The CHAIR — Can I ask how effective you think the Queensland legislation is in respect to bikie gangs generally and the outlawing specifically? What is the effectiveness of that?

Ms LIND — You can ask, but we cannot comment on policy issues. I think it is too early. They are clearly trying to take a much more visible policing strategy for public safety reasons.

The CHAIR — Has it perhaps just driven the market down south?

Ms LIND — I would not like to comment, and I do not think we can assess what the long-term impact will be. Disruption and displacement is always a potential negative impact of any major law enforcement effort in certain areas in terms of displacing activity or groups to other areas, whether nationally or offshore. All I can say, representing law enforcement, is that we continue to be focused nationally on joined-up responses to try to address outlaw motorcycle gangs, and at the commission in particular we focus on trying to disrupt the underlying profit motive by focusing on

disruption and seizure of cash and criminal wealth as an effective strategy. If you just focus on the supply chain, you could take one group of suppliers out of the market and another group would pop up. Our effort is in trying to focus on sustained disruption of criminal wealth and criminal profit.

Mr SOUTHWICK — Just on that, there has been a lot of media surrounding outlaw motorcycle gangs having links with international operations, and in exchange purchasing casinos overseas and what have you as part of the supply. Have you seen evidence around that, whether it be chapter links with other operations offshore or other things?

Ms LIND — There is certainly evidence of Australian outlaw motorcycle gangs having links into South-East Asia and Thailand. We have evidence of links between Australian outlaw motorcycle gangs and operations in Canada. Most recently, and again this is still an unresolved picture, we are trying to understand what the links are between Australia and the Mongols, which is an American-based group of outlaw motorcycle gangs, and the drivers for them in coming into Australia. Australian outlaw motorcycle gangs are certainly diverse and are growing and evolving in terms of their international reach and international connections.

Another specific question you had was: what was the nature of the involvement of organised crime groups in Victoria? Again from what we know about recorded Victorian-based targets on our national criminal target list, most are recorded in our intelligence holdings as being involved in multiple aspects of the market. In descending order of involvement are distribution, manufacture, importation — that is all for methylamphetamine — and then precursor importation and precursor distribution. That paints a picture of the targets that reside and operate in and from Victoria. They are a pretty diverse bunch in terms of having involvement in all aspects of that supply chain.

The CHAIR — Do you have some data on that, because our inquiry so far has been struggling to identify, particularly in regional areas, outlaw motorcycle gangs that are actually involved in manufacture and distribution. There are certainly debt collection activities that have been identified as some of their key priority areas, but, I have to say, even by the Victorian police themselves, there has been some reluctance to identify them specifically as a cohort that is actively engaged in supply and distribution.

Ms LIND — Where that comes from are national processes where all state and territory police tell us who their known organised crime groups, entities and individuals are. There is a formal threat assessment that underpins that reporting. It is intelligence-based reporting. They say, ‘We know X, Y and Z here’. They give us a range of intelligence in relation to what they are involved in, their associates, what their capabilities are and what markets we think they are involved with. We do that as an ongoing intelligence collection process, and we produce a classified report every year, which is called the *National Criminal Target Report*. That report analyses the data we have got from law enforcement. The total number of targets on that report is also classified — I cannot disclose that to you, which is probably not very helpful — but the findings I just gave you are based on the intelligence that is coming through for each of those reported groups. Again that is based on police intelligence.

In terms of the impact at a rural level, your Victorian police are really best placed to try to give you the picture of what they think is happening at a local level. We are drawing our conclusions across our holdings nationally. As I said, I do not want to focus too exclusively or predominately on outlaw motorcycle gangs, because there are other transnational crime groups, other ethnic-based groups and other criminal groups that are operating in this market, and we cannot give you statistics on the relative proportions of who is in what market. That comes back to a message of diversity. There is no one predominating element here in this market, we believe.

The CHAIR — We have homed in on outlaw bikie clubs because they are referenced in our inquiry, so we need to get a good picture of what their activities are.

Ms LIND — Were Victoria Police able to give you any — —

The CHAIR — They gave us some in-camera evidence and they gave us some public evidence, but the public evidence indicated it was maybe a small piece of the activity and that there is a lot happening within Indigenous communities particularly. As I said, new evidence suggests there is a little bit happening around construction sites and things.

Ms LIND — We do some intelligence work under a different head of reference in Indigenous communities, and I think our reporting is suggesting that use of methylamphetamine is increasing rapidly. I think it is about the third highest substance of abuse, based on intelligence, for Indigenous communities. The commission is very concerned about the potential increase in methylamphetamine use in Indigenous communities, particularly remote communities, again because of the health harm impacts and the other factors at play in those communities, which, with alcohol abuse, cannabis abuse et cetera, would really create a very concerning environment for personal safety within those communities.

The CHAIR — I have consumed a bit of time with a few of those questions. We have about 15 minutes, so please continue.

Ms LIND — We are working through your questions as we go, so hopefully we are covering them off. We are up to committee question 9, even though I have not been calling them, and this is about how involvement in production and supply particularly of ice has changed since 2005. Again more broadly we think the market has become more sophisticated across the board than it was in 2005. Why do we say that? We say that Australian-based organised crime groups now have far greater access to high-purity imported methylamphetamine precursors and pre-precursors. There are connections that permit the groups to engage effectively with methylamphetamine import networks from a number of different continents. Again that is a broad shift in terms of how globalised and transnational crime is operating.

There is ready access via the internet and underground literature to detailed information on alternative methylamphetamine precursor production processes. We also believe that crime groups are more diverse, flexible, innovative and better connected, both across Australian jurisdictions and globally.

To focus on a graphic around purity levels, which I think is our last slide, this is done on a state seizure basis, but from 2008–09 and then between 2010–11 and 2011–12 you can see all those purity lines going up pretty significantly. Again that is another indicator of where we are saying that you are getting high-purity importations of ice from overseas into the Australian market.

Mr SCHEFFER — When you listed Africa before — and Professor Savona had a bit of a focus on West Africa — I guess the link was that in those jurisdictions that have low law enforcement capacity and high levels of corruption, moving into the failed state kind of area, there is a lot of flexibility for marketing substances in that space. You then mentioned Iran, Hong Kong, India and China, which are a bit stronger, and then Mexico, which is problematic as well. Are you saying that in those jurisdictions they are able to produce higher quality purer substances, or might it be that in Australia they are able to now produce purer substances? I am having difficulty getting my head around how the market would work and the interconnections between total production in Australia, from the production of the precursors all the way through to the person buying it in a club or something — that connection — and then how that intersects with international organisations that you described originally as being increasingly sophisticated. Could you paint a big picture of it for us?

Ms LIND — Certainly the countries that are high on the indices of corruption and low law enforcement are part of the picture here, and West African crime groups have been recorded for many years now as being part of the transshipment of mainly cocaine from South America across into Africa and then up into the European market. Iran is a country that needs to be set alone, but there is intelligence reporting and open-source reporting that Iran is a country that is manufacturing massive amounts of finished methylamphetamine, mainly going into the European market.

Mr SCHEFFER — Given that Iran is a fairly tight state, I think, would that imply that there is an institutional blind eye or institutional support for this kind of production, and similarly in those other jurisdictions?

Ms LIND — It could, but you are getting into areas where there is pretty highly classified intelligence.

Mr SCHEFFER — Whoops! We will keep it bland.

Ms LIND — They do publish some of their own statistics around seizures in Iran to demonstrate some law enforcement effort, but I think the general view is that the nation-state is involved in the production of methylamphetamine.

Hong Kong is a transshipment route. The graphs we showed earlier on, if you remember, are the last points from which the drug has been shipped, so it does not necessarily mean it has been produced in Hong Kong, but we believe that in China and India — and there are lots of factors at play here, including large and growing legitimate chemical industries but in a context where you still have corruption — organised crime groups are being pretty savvy in terms of making connections within those countries for the purposes of diversion and/or for the purposes of illicit production that can then be exported globally.

Mr SCHEFFER — So if you are an Australian seller or producer — you are a cook — and you want to get your precursors, you go to the market, which might be a clandestine internet site, and you can decide whether you want to go to a bodgie Australian business that gets precursors diverted from a legitimate pharmaceutical company. You could do that or you might get a better price if you get something from Hong Kong. Does it sort of work like that? And then depending on whether you could get things ordered or you could — —

Mr NEILSON — Yes, pretty much what you say. Just to clarify what I said earlier too, when I was saying ‘pharmaceutical company’, I was using that in the broadest possible definition. I was not talking necessarily about the multinationals directly. At different levels of distribution there are still sizeable amounts of chemicals, down to the retail level, and at all of those levels there are vulnerabilities that organised crime can use to obtain their chemicals. It is just that domestically it is whenever you can get hold of a particular chemical and divert it that way.

Internationally you can go on the internet. These substances are advertised. You can go and engage with a Chinese company. Sometimes the company will tell you, ‘Look, it is probably a good idea if you do this or that or the other to get around Australian customs controls’. All that is part of the service, and then you import it. Both of those scenarios are valid. It is all about your connections. The more sophisticated your local connections, the more likely that you are going and talking directly to a contact in China.

Mr SOUTHWICK — Just back onto the purity side, has there been an attempt to try to market product as being almost like a branded ice — that this is more pure than others — that consumers might be more attracted to? I am thinking of the sort of *Breaking Bad* style — it was a particular thing to really penetrate the market in a mass way. The other question, which is maybe related to this, is: are we able to test product to then be able to work out the composition and track that back to where there might be more sophisticated manufacture of this product?

Ms LIND — Yes. That is the beauty of the program that is now testing for internal seizures. It is early days yet; they have only been taking samples for about the last 18 months. In fact Victorian samples are still not online on that program — I think there are some legislative issues they are going through — and Queensland is not giving samples to the forensic labs. As part of that process it is intended to be able to provide, using forensic evidence, evidence of distribution networks. They also have a tablet logo database under that particular initiative, that will enable state and territory police and law enforcement to get ready access to all the known tablets and logos.

Yes, some of the suppliers do market their goods as better product — better highs, better this, higher price — so that tablet logo is a good initiative for law enforcement, which will be able to follow where that comes from. Is it being seized in a particular state? Is it being seized in multiple

states? That of itself will be good knowledge for law enforcement to start drawing up its responses. That gets forensically tested and recorded.

I am not a chemist, and I understand that when you are talking about synthetic drugs they do not have a sort of provenance signature the way that cocaine does, because when they forensically test cocaine they can actually link it back to what part of South America it has been grown in because of its constituent parts. You cannot do that as easily with synthetics, but this Mexican signature is a known signature that they can test for, so again they have detected as part of this program the Mexican signature in some seizures of methamphetamine within Australia.

Again, that provides pretty good insight over time. We can trend that over time and see whether that is changing, and that can then provide intelligence back to us and our law enforcement as to what it is telling us about what is actually going on in relation to supply.

Mr SOUTHWICK — Thank you.

Ms LIND — I think we are almost to the end, and we want to focus a little bit on the demand side. How do we focus on demand? We use arrest data. I thought you might be interested to see this. Again, this is the same 10-year trend line — national ATS-related arrests. It is split into — when the police arrest, they categorise it as to whether they think they are arresting a consumer or a provider.

Mr SCHEFFER — Sorry, could I just ask you, because I am colour challenged: the consumer and the provider — is it the top or the bottom?

Ms LIND — Provider is the bottom, consumer is the middle and the total is the top. That is all — both groups are following a consistent trend line, and, again, you can see that between 2010–11 and 2011–12 there was a marked increase in consumer arrests in particular, more so than provider arrests.

Mr SCHEFFER — Thanks.

Ms LIND — The Victorian picture is the same, but, again, there is probably a slightly sharper spike in ATS arrests in that same period than perhaps the national picture. The only other data we have available to monitor what the actual consumer demand is looks at some of the surveys that are conducted.

I think the AIC conducts the DUMA survey, and people who get arrested can agree to be tested whilst they are in incarceration for drug use. This looks like it has come from the DUMA survey. You have regular injecting, population reporting and recent use of speed and ice. That is a pretty hard graph to interpret, but the light green line is use of ice. Again, between 2010 and 2013 that was increasing whilst the other forms of reported usage were going down.

I think that might be our last slide. We have in our written submission attempted to address every question you put to us, so I thought I might just stop there and see whether there are any particular questions you want us to focus on now, or else we can leave the submission with you and you can come back to us.

The CHAIR — Sandy will want me to ask you if you would not mind tabling that written submission to the committee.

Ms LIND — Yes, sure.

The CHAIR — We appreciate that. We have discovered through a hearing — the pharmacy guild indicated that they are having problems with real-time monitoring of over-the-counter sales nationally, and there have been some states that have been reluctant to participate. They have Project STOP as another thing which is active.

Ms LIND — Project STOP, yes.

The CHAIR — We are mindful of that, and we know that Victorian is in fact a state that has yet to sign up nationally to real-time monitoring, so we are having some discussions with our colleagues.

Ms LIND — We are a big supporter of Project STOP and any project that is trying to get real-time insight into diversion.

The CHAIR — We only have a couple of minutes left, so perhaps I will ask the committee if they have any last-minute questions.

Mr SOUTHWICK — Just very quickly, in terms of volume — I know you have a whole lot of slides today — where does Victoria rank, do you think, in terms of activity compared to the other states?

Ms LIND — In terms of seizures?

Mr SOUTHWICK — How prevalent, do you think, based on all the information and intelligence gathering you have, is the problem of ice in Victoria compared to the other states?

Mr NEILSON — At a guess I would say that it is second to New South Wales, and Queensland is probably third — so New South Wales, Victoria, Queensland. The thing is these days it is so interrelated that it may well be that it is just a point. Ice may be imported into Melbourne simply because that is where the connection is. A proportion of it stays in Melbourne, then it goes up to New South Wales. It might go on the ferries — some of it — to Tasmania. It may go across to Perth. But the answer specifically is New South Wales, Victoria, Queensland.

Mr SOUTHWICK — As a follow-up, that lab activity you had before is not a determination of the volumes that are necessarily being produced; it is the number of labs that are currently being — —

Mr NEILSON — Indeed.

Mr SOUTHWICK — So we could have, following on that seizure, the more sophisticated lab in Victoria. So that was giving large volume, I assume, in terms of what was being produced there?

Ms LIND — Yes, commercial volumes. And that is where, as a crime commission, we need to get behind. Police have done their investigations, done the arrests and disruptions of the lab. We need to try to get behind. Again, that is all providing intelligence as to who was behind it, who they are connected with and where that was intended to go. We cannot always get that intelligence. Once people are arrested, we are not able to bring them in for coercive hearings to understand the underlying intelligence. We cannot do that, and that is why we have to rely on HRED determination to look for other alternative mechanisms, to try to understand what is actually going on in the market.

Mr SOUTHWICK — Just one other. We have had evidence to suggest that there is a problem with being able to prosecute when there are, let us say, raw materials at one of these labs versus the finished product, so you are effectively prosecuting it on only the commercial quantities at the end. Would you see that as something that from a legal perspective we need to be addressing, looking at the actual materials that are being seized in their raw state as well as their finished state?

Mr NEILSON — I would certainly be encouraging you to think along those lines. I think it is a challenge when you have an organised crime environment where they are constantly going to the internet, to the underground literature, to find new ways of manufacturing these products. It is very difficult for state legislators — and the commonwealth, indeed — to keep abreast of all these different chemicals. Organised crime is essentially saying, 'This is a three-step process. Two of these chemicals are controlled. We'll find chemicals that go around that to get to the same end'. This is what we call the pre-precursors. If a precursor is controlled, you find an alternative method to manufacture the same outcome. If just certain chemicals are controlled, they are using non-controlled substances in many cases. They might be pool chemicals, they might be something for the fragrance industry, but they all end in the same drug. So it is a constant problem.

That is why things like Alberta are trying to feed into what Attorney-General's is doing with the voluntary code. The ultimate aim is to make sure that that code is as comprehensive as we can possibly make it. That will assist the legislation where there is definitely an intention to manufacture a prohibited substance. The Prosecution faces all sorts of challenges because a lot of this is about expert advice. The chemists have to get into the box and say, 'Yes, this is an unequivocal attempt to reach that conclusion'.

The CHAIR — Given committee members have indicated that they have probably reached their limit on questions, for us obviously there is an inquiry, a report, recommendations and the government response. I guess from your perspective I am giving you an opportunity now to raise any cross-border issues that might help, whether it is data collection, information sharing or common legislation through the states that would help. Today we have talked a lot about the supply side. Obviously that is your area of interest. From that perspective, are there holes or gaps where there is not a national approach through legislation in certain areas that could be improved? We are talking about improving legislation to try to deal with this.

Ms LIND — The issues to do with unexplained wealth and the lack of harmonisation of those laws nationally are currently the subject of government focus at commonwealth level.

The CHAIR — Which actually came out quite strongly in a hearing we had in Mildura, where we were told that in fact in New South Wales there was considerable unexplained wealth along the Murray, whereas in the Victorian jurisdiction — —

Ms LIND — You do not have any.

The CHAIR — We have fairly limited powers. So there was a sense of frustration from the local police to see considerable wealth on the other side of the border and not be able to — —

Ms LIND — Where you have asked for ideas, towards the back of our submission we support all the voluntary controls and strengthening voluntary controls around the chemical industry, including the whole system of end user declarations and Project STOP.

We have suggested that you might want to build into criminal law as an aggravating factor the presence of children in clan labs. We know we have data gaps in terms of user levels. In terms of law enforcement information sharing, we would say it is probably better than it has ever been before. There are new mechanisms in place to coordinate national law enforcement that were not in place four or five years ago. That came about when the commonwealth lodged the organised crime strategic framework. We have things like the Serious and Organised Crime Coordinating Committee, that is an assistant commissioner crime, state and territory police reps meeting with us and the AFP. They meet regularly. That is kind of a pretty effective forum in terms of dealing with issues that might need a national coordination response, and project Attero was run under the auspices of the SOCCC.

On the intelligence side of things, you have the Australian Criminal Intelligence Forum. Again, that is bringing together all the intel heads of state and territory police to make sure that there is appropriate sharing of intelligence holdings and knowledge across the board. We are doing some of our work internally in terms of our own infusion capabilities using data matching to try to better detect those involved in the illicit markets.

The connections internationally are growing all the time, so we have good connections, as with the AFP and with the DEA in the US in particular, trying to get a true handle. Shane is a bit of an aficionado on the wastewater analysis. There are some tests going on of wastewater in Queensland by scientists who now have the capability base from treatment plants to actually test for illicit product. That is as good as you are going to get if you want a real indicator of the actual use of certain illicit products. So that is really something on the data side of the equation that could be more widely used, and that can obviously be kind of regionalised or localised to the treatment plant.

Mr SOUTHWICK — Electricity companies, too? Is there work on monitoring the electricity use?

Ms LIND — Not that I am aware of.

Mr NELSON — More in relation to the cannabis growing. I think some areas have found some success with that.

The CHAIR — Thank you both very much for your time this morning. We really appreciate it. There was a lot of detailed information, which is great to have on record, so thank you for that.

Ms LIND — Good luck with your inquiry.

Witnesses withdrew.