

**LAW REFORM, DRUGS AND CRIME PREVENTION COMMITTEE**

**Inquiry into the supply and use of methamphetamines, particularly ice,  
in Victoria**

**Canberra — 12 February 2014**

Members

Mr B. Carroll  
Mr T. McCurdy  
Mr S. Ramsay

Mr J. Scheffer  
Mr D. Southwick

Chair: Mr S. Ramsay  
Deputy Chair: Mr J. Scheffer

Staff

Executive Officer: Ms S. Cook  
Senior Legal Research Officer: Mr P. Johnston

Witnesses

Mr J. Douglas, Regional Representative for South-East Asia and the Pacific, United Nations Office on Drugs and Crime.

Ms M. Akullo, Project Coordinator, Project Childhood, United Nations Office on Drugs and Crime.

Mr S. Baumeister, Project Coordinator, Smuggling of Migrants, United Nations Office on Drugs and Crime.

**The CHAIR** — I welcome all three of you. I appreciate you flying in from New Zealand, I think, and you have some engagements over the next couple of days in Canberra, so it worked in well for us and hopefully it worked in well for you.

My name is Simon Ramsay. I am a state member for Western Victoria Region in the Legislative Council of the Victorian Parliament and chair of this joint parliamentary committee, the Law Reform, Drugs and Crime Prevention Committee. Currently we have an inquiry into the supply and use of methamphetamines in Victoria, particularly ice. We have held a number of regional hearings throughout Victoria because part of our reference is to look at look at the impact of crystal meth, particularly in regional areas in Victoria. There is an indication that there is an increasing prevalence of use, and in fact trafficking, of methamphetamine in regional areas and also in Indigenous communities of Victoria, so we have spent quite some time in regional areas over the last two months.

In Canberra today and over the last three days in fact we been collecting evidence in relation to what is happening internationally and also nationally, so we are really pleased that you have been able to present at this inquiry given your experience in both sectors — both internationally and nationally — in relation to supply and also law enforcement, and hopefully we might be able to talk about some of the harm minimisation or reduction strategies that we might be able to recommend to our Parliament.

We have Sandy Cook — who I am sure you would have had some dealings with — the executive officer of the committee with us, and Russell Smith and Santanu Burman from the AIC and Ms Mann at the back and Hansard here recording the evidence.

On that basis, I will just make an opening statement before you make some opening remarks. 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. Any reporting of these proceedings enjoys qualified privilege for fair and accurate reporting as if the proceedings were in Victoria. All evidence given today is being recorded, and you will receive a proof version of the transcript in a couple of weeks.

I understand you have also seen the guide for presenting evidence to parliamentary committees. If you have not, we have a brochure outside that we can quickly provide you with.

**Mr DOUGLAS** — That's okay.

**The CHAIR** — We have with us Mr Jeremy Douglas, regional representative for South-East Asia and the Pacific. We also have Ms Margaret Akullo, project coordinator, and Mr Sebastian Baumeister, project coordinator from the United Nations Office on Drugs and Crime. I understand Sandy has probably backgrounded you on some of the questions we might like to ask of you, and you have got them in front of you.

**Mr BAUMEISTER** — Yes, I do.

**The CHAIR** — We invite you to make an opening statement, then perhaps we will deal with the questions. Jeremy, some of us do have flights later this afternoon, so I just flag with you that we have allowed until 2.45 for this session.

**Mr DOUGLAS** — Fair enough. I appreciate that you are busy, and thank you very much for the invitation. It is an interesting coincidence that we happen to be here at the same time as yourselves. I get here maybe once or twice a year; this is that time.

**The CHAIR** — We would have loved a trip of course, overseas if it was necessary!

**Mr DOUGLAS** — I have been working in the business with what are called amphetamine-type stimulants for almost 15 years now and have business with precursors and amphetamine-type stimulants. I have a presentation prepared for you which I believe answers quite a few of the

questions that you had forwarded in advance, and then around that I thought we could have a bit of discussion. It also talks about what we do, why we do what we do, and it will show some linkages from South-East Asia, where we are working primarily, and Australia, which would be of interest to the state of Victoria.

**The CHAIR** — Can I also thank you for the documentation. David has vigorously pulled some facts out already and alerted us to some interesting information.

**Mr DOUGLAS** — Excellent. Australia is a sponsor of some of that research along with New Zealand, Canada, the United States and a number of other countries that are contributing to that good research, which we have been doing now for about 10 years.

**The CHAIR** — Excellent, thank you.

**Overheads shown.**

**Mr DOUGLAS** — A little bit of what I will say is in the publication. What I have chosen to do is give an overview of the methamphetamine market in South-East Asia and then the response that we have in place. I have interspersed with that a couple of examples of cases which show the connectivity of Australia to South-East Asia — and I think they highlight that connectivity very nicely — as well as some cases from near neighbouring regions which have a link into the same types of crime groups in South-East Asia, the ones that would be targeting Australia.

The green book in front of you — the dark green, the one at the bottom in front of you — is called *Transnational Organized Crime in East Asia and the Pacific — A Threat Assessment*. Last year, again with the support of Australia and New Zealand, I did some research to pull together information on financial flows related to a number of crime types in East Asia and the Pacific. Amongst those crime types we quantified four major crime categories; the largest remains the drug economy in East Asia. It is very obvious, based on the information that we have coming in and that we publish in the second book there, that the demand for methamphetamine is growing in East Asia. There are a number of factors driving that demand, which I will touch on in a moment, and the production and trafficking also continue to grow. There is a diversification of the market for methamphetamine in East and South-East Asia.

There is also a phenomenon, which has recently been coming into play in the region, which is intraregional trafficking. This is to say we are seeing methamphetamine from other regions of the world coming into South-East Asia and some of it directly adjacent to Australia and Indonesia. When we were in Wellington yesterday we were with the drug intelligence bureau and they were telling us about a case last week in Fiji of Nigerians trafficking methamphetamine to Fiji for the purposes of bringing it here. I think it just shows you the intraregional connectivity of these crime groups that are very opportunistic and can capitalise on the demand which is here and the value of the drug which is here within Australia.

We are very much of the belief that there is a need for a stronger, more coordinated response in South-East Asia in regard to methamphetamine trafficking. The reason for that is there is a phenomenon which some refer to as the balloon effect, other people call it displacement. There is an unevenness of capacities in South-East Asia — very uneven capacity in the Pacific — so a lot of the time the traffickers typically target the weaker states where they can manufacture the drug and traffic the drug, so manufacture it for the purposes of potentially bringing it to Australia.

I am going to touch on the background. I am using four key documents, all of which were produced in the last 12 months. The most recent is our *Southeast Asia Opium Survey 2013* — I will touch a little bit on opium and heroin when I speak — and that was published last month. It is based on a survey that we run every year in Myanmar and every year in Laos. It is based on satellite imagery. In Myanmar we do ground truthing and in Laos we do helicopter survey and ground truthing. It is under way right now. We gather the data over late January into March by helicopter and then we compile those reports.

The second one you have in front of you is entitled *Patterns and Trends of Amphetamine-Type Stimulants and Other Drugs — Challenges for Asia and the Pacific*. Amphetamine-type stimulants

are a category or class of drugs that includes ecstasy, methamphetamine and drugs that are passed off as ecstasy and methamphetamine. The other is *Transnational Organized Crime in East Asia and the Pacific — A Threat Assessment*, which is the document that quantifies the economic value of the financial flows related to these drugs in that region. Then we have our *World Drug Report*, which is an annual publication. All member states that have signed the international drug control conventions are obligated to submit information under their treaty obligations to the United Nations, so they submit every year to us information related to their seizures, their drug use. Typically this means drug treatment data, because a lot of member states do not have good data when it comes to population use. Australian is an exception because you have very good data from various reporting systems here in the country.

We have quantified the illegal economy, if you will, or the financial flows related to transnational crime in East Asia and the Pacific at roughly \$90 billion. That is an annual figure. That is a very large amount of money on an annual basis. We have underlined here that it is a conservative estimate, and it is a conservative estimate because it does not include, including in the drug area, some important key data. It does not include precursor data like pseudoephedrine or ephedrine which would be necessary — those are primary ingredients for making methamphetamine. It also does not include cannabis. The reason is that a lot of states in that part of the world do not prioritise cannabis, do not gather much data on it, so it is hard for us to pull together a money value for that. The precursors are similar. Unfortunately there is not very good precursor control regimes. We are not getting good information from some member states on the amount of precursor that is being seized. We get some ad hoc reports but not systematic data.

I will skip over the other crime types, but you get a sense of them. Roughly a third of the illegal economy of South-East Asia or of that conservative figure of \$90 billion is related to drugs.

I have one slide only on the Pacific, and that is because we do not have much on the Pacific, I will be frank.

**Mr SCHEFFER** — So you are saying that that \$15 billion for — —

**Mr DOUGLAS** — Methamphetamine.

**Mr SCHEFFER** — Methamphetamines, just keeping to that for a minute, that is the finished product. You are not talking about precursors in that \$15 billion?

**Mr DOUGLAS** — Correct. That is the finished product only.

**Mr SCHEFFER** — Yet we have had evidence — I do not want distract you from this — that talks about the huge quantities of pseudoephedrine that are being produced in China and in India, for example.

**Mr DOUGLAS** — Yes.

**Mr SCHEFFER** — So that leaves all that out?

**Mr DOUGLAS** — That leaves that out, and the reason is that we are getting data from 15 countries or so which is used in this document. Australia has very good seizure data on precursors; China has some data; Thailand has a little bit of data; most countries do not have any data to work with. If we did quantify it, it would be a fraction. It would be very spotty. That is why.

We do not have much data on the Pacific; again I have only one slide on this. But we have received indications from the New Zealand police and the Australian Federal Police about activity in the Pacific, primarily in relation to it being a transshipment point, because there is not a lot of money in the Pacific or demand, if you will, for synthetic drugs. But as I said, we were told of a case from last week that was meant for Australia, which was Nigerians from East Asia to Fiji to Australia. It is a bit of a convoluted route but often traffickers do things in odd ways to try to avoid detection.

We have arrived at the figure of the \$15 billion of methamphetamine or the over \$30 billion in relation to illicit drugs in East Asia and the Pacific. We need to know roughly the numbers of users, so if you look at the two white bullets on the left, you will see the rough estimate for the numbers of users. We have estimated ATS users, excluding ecstasy because there is very little ecstasy in the market, would be roughly 8.75 million regular users on an annual basis, and then we have roughly 3.6 million using heroin and opiates.

**Mr SCHEFFER** — That is out of a total population of how many?

**Mr DOUGLAS** — That is a good question. You are stumping me here. Hundreds of millions. If I go back to the previous slide, the value of the \$15 billion for the 8.75 million and the value of the \$16.3 billion for the smaller number of users, the 3.6 million, why is there a difference? Crystal meth is worth more than heroin per kilo in the markets of East Asia, but there is another form of methamphetamine that is typically used in East Asia which is lower value, and that is there is a pill form of methamphetamine in South-East Asia which is really prevalent. The Thais call it 'ya ba'; it is their no. 1 drug of use and it is much cheaper, thus the lower economic value for the finished product. But still you have a very large market. It is a growing market, primarily driven by demographics and the fact that the countries there have a lot of disposable income now. They are growing economies, usually with much higher growth rates than Western economies.

We track systematically. In the green document on amphetamine-type stimulants we have a lot of seizure data, and that is because it is our best type of data generally speaking. Between 2008 and 2012 we saw a sevenfold increase in seizures from roughly 30 million to almost 230 million pills seized. This is the type I was referring to earlier, which is very popular in the Mekong subregion of Thailand, Laos and Cambodia. That is not to say necessarily that the supply has gone up radically. We believe it has, but the increase would also be as a result of more efficient law enforcement and training that has been delivered to law enforcement so they are prioritising it. Basically a larger effort has been made, therefore the seizures have gone up. That is partly the reason.

Most of that comes from Burma — Myanmar. In the north, which is called the Shan state or the Wa special region, which is an autonomous region on the China border, basically the money is used to fund several insurgent groups that are active in northern Myanmar where there is no state control. We are projecting right now, based on the seizure data that we have already received and it is going through like a data cleansing process or verification process, that 2013 will be roughly equal to 2012.

I have highlighted here an interesting case which is from a week ago. I have done that because the Thai government has told us that it is from Laos, manufactured in Laos. If that is the case, that would be the first case of manufacture in Laos. The Laos authorities maintain they do not have any, but if I were a drug trafficker, I would target a country like Laos. They have very, very poor or weak law enforcement. It is a prime location in which to manufacture drugs. It is a large amount. Those types of figures, such as 1.2 million pills, are fairly routine in media in Thailand. At least every week you will see one case that size.

**Mr SOUTHWICK** — What would be the street value of 1.2 million pills?

**Mr DOUGLAS** — One pill's street value is about \$10 — 300 Thai baht. Wholesale they would be a fraction of that, but 300 baht street value. So multiply the 1.2 million by 300 baht or US\$10.

Crystal methamphetamine has also been increasing in the last few years, 2008 to 2012. It is interesting. Typically 2008 and 2009 were primarily China — that is Chinese data — because for six, seven or eight years China has been seizing a lot of crystal methamphetamine. Since 2009–10 there has been a change in the market in South-East Asia. In Thailand and Cambodia-Laos there has been crystal meth coming into the market. Again, that crystal meth often comes from Myanmar, or Burma, and it comes from China. Increasingly it is coming from countries such as India which have manufactured precursors. Now at the airport the Thais are arresting quite a lot of Indians coming in with high-purity crystal methamphetamine, so there is obviously manufacture in

India. The same is happening for Pakistan; people are flying in from Pakistan. Both countries have very active pharmaceutical markets, with a lot of companies.

**The CHAIR** — Are they organised crime syndicates? I am trying to get an understanding of whether they are traditional organised crime groups or new groups of dealers. Do you know what the networking is?

**Mr DOUGLAS** — Yes, there are Indian organised crime groups or Pakistani organised crime groups involved, but there is a lot of Iranian involvement, actually. Right now Iranians are very prominent in arrest statistics of foreign traffickers in Indonesia, Malaysia and Thailand, and also there is manufacture in South-East Asia by Iranians.

**Mr SCHEFFER** — The other day we were discussing — and you have alluded to them just now — jurisdictions that are weak and obvious spots where activity can occur. Iran would not be generally described as a state that is weak, so does that imply that there is state involvement in it? My other question would be: what is the Chinese state's involvement in it?

**Mr DOUGLAS** — I don't think there is state involvement in it.

**Mr SCHEFFER** — In both cases?

**Mr DOUGLAS** — In both cases I do not think there is state involvement, but in Iran's case only recently have they started acknowledging it themselves. They were basically saying that this is not true and that a lot of the reports were of Iranians corrupted outside the country and getting involved. Lately, though, they have been admitting that there is production in Iran. More recently there have been Iranians setting up labs or involved in lab set-ups in other countries. The mention of Pakistan earlier is an example. In Karachi there was a Malay Chinese organised criminal. In that case there was a cook like a chemist that the Chinese had given to some Iranians to set up a lab in Karachi. He is now in a Pakistani prison. His travel pattern when he was trying to leave Pakistan was very interesting. His travel pattern was routine flights in and out of Pakistan into South-East Asia. So there is interregional trafficking occurring and Iranians feature prominently in it.

This case is of an Australian. You have probably heard of it. This was late last year. I think it just nicely illustrates the connection of Australia with East Asia. Of course you have an enormous two-way trade in every kind of product, so it is conceivable you will have this type of product also. The types of production that are taking place in China to produce high-purity crystal methamphetamine are quite phenomenal. Only a few weeks ago you may have heard from the AFP or whoever has been discussing with you that only six or eight weeks ago one of the largest methamphetamine labs ever seized was seized in Fujian Province in South China, where almost 3 tonnes of methamphetamine in various forms was seized in one go, so there were very large volumes. Fujian would indicate it is for export. The Chinese do not want to say it is transnational, so they were saying, 'Oh, no. It's for the local market', but then that does not correlate with their — —

**Mr SCHEFFER** — Do you mean the Chinese government, the Chinese authorities, are saying that?

**Mr DOUGLAS** — Yes. They have told us. They said, 'Oh, it's for the domestic market', but that probably is not completely accurate.

**Mr SCHEFFER** — How does that square with what you were saying before, that the state is not in any way implicated? That sounds to me as if they are saying less than the truth.

**Mr DOUGLAS** — There were corrupt public officials involved in that case. While the Chinese central government appears very strong from outside China, there is a lot of autonomy for local Communist Party officials. They were involved and they were removed and then the Chinese took down the facility. Apparently it was running for many years — up to five years is the belief — and with complicity of corrupt local officials. They were turning a blind eye, taking bribes basically.

I have included this — it is from the same publication — just to say that there is ecstasy in the market. We have qualified it, though, to say it may include meth. There is very poor forensic information in South-East Asia and East Asia and it is highly likely that a lot of the ecstasy is not ecstasy. It will be methamphetamine adulterated with something else to pass it off as ecstasy to try to command a higher price for it. There is a Dutch connection still with Indonesia and some Dutch traffickers have been caught there with MDMA, but nonetheless there is some activity there.

There is a drug in East Asia which remains a concern. Seizures are at high levels and some countries in the region control it. It is called ketamine, which you may have heard of. It is sold into the same synthetic drug market in East Asia. It is very popular in Hong Kong and southern China, but again the seizure levels are quite high — 6000 kilograms, so very high amounts. I am not sure if you are aware what ketamine is. It is for surgery, actually, but it gives you a hallucinogenic effect if you take it. Some people believe that if you mix it with methamphetamine, it can mimic ecstasy.

This lab in Phnom Penh I have included for a reason — that is, to illustrate again that regional connectivity. This lab was being shipped into Phnom Penh by Chinese organised crime groups. The two large round things on the right-hand side of the bottom left photo are called reaction vessels. They would be able to produce hundreds and hundreds of kilograms of crystal methamphetamine. This was being shipped in a shipping container to be assembled and set up as a lab. This illustrates the difference between synthetic drugs or methamphetamine and opiates, which require a geographic space. You can make this anywhere. Again, it is the targeting of a very low-capacity country to manufacture. There is no way that that amount of precursor in those vessels was for the Cambodian market. It would be for export. Just too much crystal methamphetamine could be produced in a factory of that size. There is demand there, but again the price of crystal methamphetamine is very high and the Cambodians cannot afford it. It is more profitable to export it to where there is demand, be that Thailand or maybe here or New Zealand — wherever there is demand.

**Mr SOUTHWICK** — Why would they be setting up there when they have a number of their own facilities that they are setting up where they have more control over the manufacture?

**Mr DOUGLAS** — They would be setting up there because of, as I alluded to, the lack of capacity of Cambodia — and also the corruption that is there. They can pay off officials. There have been some very prominent Cambodian law enforcement officials who are now in prison and who were involved with drug trafficking, including one I remember meeting at a precursor conference in Perth. He is a former general and now he is in a Cambodian prison. He was in charge of drug police and now he is in prison for collusion with drug traffickers. This happens all over the world, by the way. It is not just a Cambodian problem. It just illustrates that they can be bought and paid for because the volumes of money are so big.

We have estimated that at US\$15 billion. The point of this slide is just to show the interregional connectivity. We have the connection of West Africa now and the Middle East to South-East Asia, which remains the biggest demand area in the world — it has some of the highest levels of demand in the world — but is also very close to Australia, which is receiving — —

**Mr SOUTHWICK** — Is that street value, \$15 billion?

**Mr DOUGLAS** — Yes, that is the end value, yes.

**Mr SCHEFFER** — You are sure that with Australia it is only incoming — nothing goes out?

**Mr DOUGLAS** — I am pretty sure nothing would go out, yes. It would be too risky, I think. Like the Fiji case — and you may have heard of this from other people who have testified to you about West African organised crime — they are very prominent now in South-East Asia. They are very opportunistic; they are very interesting. They are involved in multiple crime types. Some of the Chinese organised crime are focused on drugs and making lots of money, but these gentlemen will sell all kinds of drugs. They will sell other things — probably sell the sister if they could. So there are all kinds of organised crime activity: bringing drugs potentially from West Africa to

South-East Asia and things going the other way — that would be of value, yes. But it is interesting because he was literally going to Cambodia. You would not think they would be in much need for West Africans there.

This case is an illustration of the creativity of traffickers, in this case from Iran. This is sand from Iran. It is a bit of an odd thing to shift to Malaysia, one would think. Anyway, I am not sure how they caught this, I have to confess — if it was intelligence led or if they were curious about why someone was shipping sand to Malaysia. But to infuse sand with methamphetamine and then have that processed or extracted is quite complex, but that is the lengths to which people will go. Twenty-six kilograms would be worth an awful lot when you can get a couple of hundred thousand dollars a kilo in some markets. So it is a lot of money.

One thing you mentioned before, and we are seeing, is increasing levels of Indian pharmaceuticals in Burma primarily. These are seizures taking place. If we looked further back to 2007 or 2008, you would not see any pharmaceutical from India, or very little. Everything was from China into Myanmar/Burma. But now you see a lot of pseudoephedrine pills, and they are just packaged pharmaceuticals, which they then extract. This is an example of the size of the types of seizures. I would not want to be these two men because they are now in a Burmese prison, but they were trafficking basically pure pseudoephedrine in tablet form. The border between those two countries is essentially non-existent. To make the seizures they are making, someone is either selling someone else out or it is pure luck, because there is very low-capacity law enforcement in northern Myanmar and essentially no border between the two countries. You can walk across with no controls of any kind. Seizures like this are fairly commonplace these days.

That map looks a little complex, I apologise for that, but you will see India and then Myanmar — the cities are in Myanmar, and it would be coming to the east towards Thailand. They manufacture in Burma, but it is destined for the Thai market. So the Shan state is the area to the bottom left.

Other drugs — I only have a little bit of information, but it is important to consider — —

**Mr SOUTHWICK** — Are they pseudoephedrine tablets or pseudoephedrine drugs?

**Mr DOUGLAS** — Pseudoephedrine tablets. That would probably be mostly pure pseudoephedrine, yes. The amazing thing is if you ask Indian officials, they do not know how many manufacturers they have because they just have so little control over their industry so they do not have a good regulatory framework. There are just lots of companies manufacturing.

If you look over a long time line, late 1990s to 2013, there has been a decline in opium poppy cultivation. But if you look at the last half dozen years, it is quite different. There is a year-on-year increase from the bottom, which is in 2006, which is worrying of course because the heroin that comes to this market is primarily Burmese heroin still. There is a lot of African heroin down here, but Burmese heroin is coming as well. It is coincidentally produced in the same place where the methamphetamine is produced: in Burma, the Shan state and the Wa region.

This is the type of thing that occurs at the Thai-Myanmar border from time to time. Obviously most of it gets through, but every year there are stoppages up to — this is the subregional total, not a total — nine times. Most of that would be China. China remains the biggest single market for heroin. It is a traditional popular drug in China. This is the value, so just a little bit more than the methamphetamine. That is again because of the low value of the particular form of methamphetamine in South-East Asia.

The implications: we are working with countries to strengthen their systems. That US\$90 billion that I mentioned earlier is larger than double the size of the Burma's economy, the legitimate economy. It is almost 10 times the economy of Cambodia and 13 times the economy of Laos, so in and of itself it is an economy that yields big economic power.

**Mr SCHEFFER** — What was that amount again coming into Australia of the methamphetamine?

**Mr DOUGLAS** — The previous case? It was a couple of hundred kilos.



**Mr SCHEFFER** — No, you said a total figure. It was US\$16.3 billion in heroin and what was the — —

**Mr DOUGLAS** — US\$15 billion

**Mr SCHEFFER** — Thank you. Sorry.

**Mr DOUGLAS** — As I said earlier, there are a number of — we call them non-state actors or insurgent groups or criminal groups that are operating with that money. They need that money to survive. Then you have your other purely criminal groups, which are operating in a number of countries. Again they can migrate their production from place to place. A lot of the countries in eastern South-East Asia are spending an awful lot of money on security and justice as compared to what they would spend on public health. That is the case in many countries, but they disproportionately spend on security and justice responses. There is a significant underinvestment in those countries in the public health response side.

One thing is very much on our minds. We work, or try to work, with the ASEAN secretariat, which is the political body of the Association of South-East Asian Nations. It has coming into being next year an economic community, which will lower visa and trade barriers between those states. They want to accelerate trade in South-East Asia to spur their economies along, but there is likely — and we believe, highly likely — a downside because the illegal trade will likely accelerate with the legal trade. So a lot of what we do is in support of states being able to hopefully prevent and combat some of the downsides. That would mean strengthening key institutions that might be related with trade — we work with ports — or related with justice institutions or prison systems or health systems. So these are the types of institutions we are working with.

I will skip this. This is about the program I have just mentioned. These are the two areas where we specifically work in terms of drugs. We run a program on transnational organised crime and trafficking — multiple kinds of trafficking, mind you, but we work on drug and precursor trafficking. We do that in support of ASEAN, but we also have a framework we run with the Mekong countries specifically which is 20 years old now. It is the UN and six countries: China, Cambodia, Laos, Thailand, Vietnam and Myanmar. We come up with an action plan and we do activities together to try to get them to counter drug trafficking. We also work with them on drugs and health, so we also work on community-based treatment. We have colleagues who are from a medical background that advise the governments on how to deliver better treatment. In Laos and Myanmar we also run alternative development programs. That is basically trying to give farmers an alternative economy to consider. That is not difficult if they are given an opportunity because they do not make money from opium, frankly.

That is it for the snapshot. I think that answer some of your questions.

**The CHAIR** — What if I start off, Jeremy, with a couple of quick ones. We had some evidence collected this morning from the United Kingdom where it is indicated that they have a higher prevalence of cocaine use, distribution and trafficking than crystal meth. One of the reasons posed to us was the price. From memory, it was the equivalent of A\$87 for a gram of cocaine to an equivalent of A\$486 crystal meth. I guess we had a discussion between ourselves about whether it is because of the proximity of South-East Asia and the trafficking that is going on to Australia that is signalling high prevalence in this country. We seem to have a large appetite for illicit drugs in this country per capita — for whatever reason I am not clear about yet. Or is it because of the cyclical nature of choice of drugs in the UK? The question I pose to you is: why? What is your view of that? Importing into Australia: is it people or ports? I guess from an organised crime point of view, what is the more favourable entry point: is it through our ports where there is low surveillance or is it through people, obviously through airports?

**Mr DOUGLAS** — On the last question, I think it is much lower risk to bring it in through shipping or potentially mixed with commercial trade. There is smuggling with people through airports, but it is much higher risk, especially on some flights that would be flagged for closer inspection. I would imagine that the larger volumes would be coming in through the shipping trade, and in fact your police do a pretty good job of trying to keep up with that overseas. There

have been cases, for example, from Pakistan of a container of food products, spices actually, that was mixed with pseudoephedrine. This was about three or four years ago when I lived there, and there was a container going out which the AFP did a case on, and it was a lot; it was like 300 or 400 kilos, if I remember correctly. That is probably the better way to get it through if you are organised crime.

Your first question, if I could paraphrase, was about drug of choice in the UK. I do not think it is a proximity issue. Your organised crime groups have very effectively helped nurture the methamphetamine market here. What do you call them — bikies?

**The CHAIR** — Outlaw bikie gangs.

**Mr DOUGLAS** — Biker gangs. But I think proximity does play some role in why cocaine is so prevalent in the United States and Canada, where I am from; there is a lot of cocaine in the markets there. There is increasing cocaine in South-East Asia as well. There have been some very large amounts coming into Hong Kong and into Bangkok recently, so clearly there are shipments going that way as well. I do not think it is just the proximity to South-East Asia that is driving the methamphetamine here now. You have a well-developed market for drugs. Cannabis, I think, is the no. 1 still though, if I understand.

**The CHAIR** — Second now, though.

**Mr DOUGLAS** — Second.

**Mr SOUTHWICK** — Just extending on from the Chair's question. We have been told overwhelmingly in our evidence that because of the accessibility, the affordability and the ease of manufacture you can produce this relatively cheaply and get it out there relatively cheaply. The question about whether in the UK the cocaine market is so much stronger largely because the price is substantially higher than ice seems a bit odd. If there are other reasons for its limited — —

**Mr DOUGLAS** — There has been a lot of cocaine coming into Western Europe, and it has become extremely popular, and the use of cocaine is very prevalent in Western Europe. I have to confess I am not an expert on the UK drug market. On the Australian market, yes, you are right; you can make the methamphetamine anywhere. You can have a lab the size of the table here in front of me. If you are clever enough, you can make your own. I understand the Australian model of manufacture is generally in someone's house or garage — a small lab that produces relatively modest amounts compared to what I showed you on the screen, which would be this kind of commercial-scale stuff. Australia is looking at these things overseas, but I think it should probably consider keeping a very close eye on some of the developments, because if you are having difficulty getting precursor here, there is clearly plenty of product very close by.

**Mr SOUTHWICK** — Just following on from that, we had evidence the other day from AFP that there was a substantial amount of precursor that was coming in and it was unknown as to possibly where that would go in that it was far too much to be made in clandestine labs. The thought was it is either being shipped on or possibly there might be bigger operations than we are aware of. Have you got any comments about that?

**Mr DOUGLAS** — I would not know more than they would know on that, but on the point of precursors I do think that if you were to think about prioritisation, if you want to assist countries overseas prior or early, that is a good priority — precursor control. A lot of those countries have very little knowledge of precursors. They do not have strong regulatory systems, and if you do not have the precursors, it is very difficult to make the drug. You can make it with other methods, but you have to be a good chemist to make it without pseudoephedrine or ephedrine. That is an area where countries do need help, and probably it is a good idea to prioritise that kind of assistance.

**The CHAIR** — Just on that, we have taken it from the other end, where we are concerned about precursors coming from overseas through the internet particularly into the market, whereas we have not given much thought about precursors going from here to somewhere else into countries that have less regulation and greater access.

**Mr DOUGLAS** — I do not think you need to get them from here. Elsewhere there is plenty in the mix coming from India and China, and maybe Pakistan.

**Mr SOUTHWICK** — Talking now particularly around the discovery of some of these big cases, I was just wondering whether you are aware of any better surveillance systems in one country or another, or whether it is purely intelligence gathering or are there better technologies being used in some places to discover such large shipments.

**Mr DOUGLAS** — Primarily it is intelligence and people working with developing intelligence through human sources, but there is very good equipment. For example, we provide some, and I know that Australia probably also does this bilaterally overseas. For example, in ports there is very good inspection equipment that can detect a lot of chemical substances very fast — on-the-spot testing. You can do it very cheaply with chemical reaction tests, but then there are also much more sophisticated ones which can give you almost a lab readout immediately, and those are very effective and allow you to do a quick check. But the most effective is risk profiling in intelligence, because then you narrow your focus to where it needs to be and then you do your test. Because there is so much going through the trading systems, you need to narrow your focus.

**Mr SCHEFFER** — The evidence we have been getting has been quite challenging for us to put together into a coherent picture and a pattern — no doubt something you are struggling with as well. What I am interested in is the business model behind this. We have had most of our evidence in the last couple of days from the European setting, and interestingly this morning we had a presentation that was asserting that in Europe at any rate the old criminal players are not so prominent in this space and that a new what was called ‘new free market of entrepreneurs’ was coming into the space and that that seemed to cover the area of a legitimate business.

You mentioned trade agreements before and how the opening up of legitimate trade also provides opportunities for illicit trade of drugs. The types of industries that were cited to us were transport companies, and one is mindful of the tyres in which the methamphetamine was stored; importers and exporters; storage businesses; casinos; the night-time economy; restaurants; taxi businesses; and so forth. Have you done any work on looking in that space in the South-East Asian criminal economic world and the crossover of legitimate business and illegal business?

**Mr DOUGLAS** — We have done some. Others have done more than we have in fact, but the large volumes of money that I mentioned at the beginning go somewhere, and they are often laundered through real estate. There is a lot of allegation of some pretty large real estate holdings in South-East Asia that have been funded by large amounts of money from heroin trade or methamphetamine trade.

The business model of methamphetamine in South-East Asia and in many other parts of the world is very different from the cocaine business model or the heroin business model, because you can be the manufacturer or the trafficker. It is a very small group involved, it can be a very tight group involved, whereas when you are involved with the heroin trade you have farmers, you have people buying the opium from tens of thousands of farmers, collecting it, then putting it into heroin processing and then trafficking. So you have all these people involved at various points of the supply chain.

In the other, you have very few involved often, and therefore it is much more lucrative. You do not have all that money spread across a lot of people, so it can be much more lucrative. But, as you can see from there, there are a lot of different players involved, so you have also people coming into South-East Asia — and probably likely to Australia — of different ethnic backgrounds because they will go where the market is. It is very lucrative, so they will chase that dollar, so you have these small groups from West Africa, Iran or India — wherever — that are going to target the market. So you do have these entrepreneurial groups that pop up very quickly in that market.

**The CHAIR** — Do other syndicates use their own communities within Australia to distribute the drugs? You talk about using China and India as an example, where there is manufacturing or distribution. Do they link into, like organised crime, the Indian community or the Asian community, using them as dealers through the network?

**Mr DOUGLAS** — Yes. For the smuggling purposes or whatever purpose, that is the belief, yes. Again, that is an extra barrier of protection for them from police to try to infiltrate, because they know each other and they have their community and their kind of protection around their community. This happens to other crime types as well.

**Mr SCHEFFER** — Jeremy, the angle in the response I was asking you for was that you were talking about illegitimate operators setting themselves up in bogus businesses that look legitimate. The evidence this morning, as I read it, was saying that owing to state policies and economic pressures, legitimate businesses — for example, with bouncers outside clubs — the operators of those are under pressure, and bars are under pressure, so the night-time economy was very tempted and pressured to move into the retailing of drugs.

**Mr DOUGLAS** — Right.

**Mr SCHEFFER** — So it is legitimate businesses that have hitherto operated in legitimate ways that, because of the circumstances they find themselves in, are actually pressured into opening themselves up, either through standover or through being enticed, to shift their businesses into illegitimate businesses.

**Mr DOUGLAS** — Or allowing illegitimate moneys to be laundered through their business, coming into their business.

**Mr SCHEFFER** — It is that bit that I am interested in. Do you have any evidence of that happening in the countries that you have mentioned?

**Mr DOUGLAS** — Yes. The hotel trade is very well known for that. You have a lot of that because there is a lot of money flowing through hotels. I will give you one example. The largest hotel in Yangon, the capital of Burma, is believed to have been built by — he has just passed away — the biggest heroin trafficker in the history of Burma. It is the Shangri-La hotel, and it is not a small hotel. That was built 15 years ago, but with heroin money. It was largely empty until the country opened up. Now it is full of businessmen. It is a beautiful hotel, and it must have cost them a couple of hundred million bucks, I guess. But that is a good example.

A lot of that similar thing that you are describing takes place in cities like Bangkok, where the drug trade would revolve around the night-life scene, and therefore the legitimate businesses in that scene would be pressured, I am sure, to be involved.

**Mr SCHEFFER** — Okay, thank you.

**Mr DOUGLAS** — I have to caution that we are not an operational agency. What we do is we assist states. We identify their capacity problems and help them with strategies and so forth. When it comes to the operations, we help build their capacity for the operation, but we ourselves do not get involved; we have to draw a line in that area carefully.

**Mr SCHEFFER** — Yes.

**Mr SOUTHWICK** — I am just wondering whether in your research you have seen any correlation between some of the sex trade and the drugs that are coming in — women being used as drug mules as part of the sex trade and also through brothels and what have you in the illegal sense of distribution of the drug.

**Mr DOUGLAS** — Right. Women are often used as couriers in these so-called romance scams that you hear about, with especially our West African friends being prominent in that. My colleagues might want to add something about the correlation between the sex trade and the drug trade, or drug use anyway — there is definitely a correlation there. Margaret, do you know of anything?

**Ms AKULLO** — Just a little bit. I work on child protection, so specifically looking at the abuse of children by travelling child sex offenders. I think one of the gaps, looking at statistics, is that it is such a hidden crime, so the official statistics are really difficult to get. But anecdotal evidence

suggests that the offenders actually give drugs to some of the children, and that is where perhaps the direct link is. Obviously there is the business trade in terms of prostitution where, as you just mentioned, the legitimate versus illegitimate is sort of happening under this sphere. But in terms of children, we have had a lot of anecdotal evidence that children are actually drugged, mainly boys, and then sexually abused thereafter. So there is a link, but in terms of research, we have not undertaken that as yet. I do not know whether Sebastian would want to say something about it.

**Mr BAUMEISTER** — I also have very little hard facts in this respect. I know from illustrations of migrants coming from Africa to Europe that migrants often would take small quantities of drugs with them in order to finance their journey. I know about mules — women being used as mules — but I do not have any particular information in this regard.

An interesting question could be, to my understanding, if heroin seizures have increased in Australia, if there could be a correlation also with the increased arrivals of Afghan migrants over the last three to four years, but again that is pure speculation.

**Mr SOUTHWICK** — One last question. You have been in this space a while and you have had the ability to research and observe the region and the activity: how bad do you think the prevalence is of methamphetamine at the moment, and what hope or forward strategies do you see? Is it just another one of those drugs that will move in and out, or are we stuck with a problem that we are going to have for some time?

**Mr DOUGLAS** — In that region it is very entrenched. The epidemic, if you want to call it that, has been running for 25 years in Thailand. They have higher uses of methamphetamine there than here, for example, and it has been running for an awfully long time. To deal with it, I think frankly at the moment the way the states are working on it, with the traditional approach they have been taking, obviously has not worked the best.

They need to make a very significant change in approach towards prevention and probably drug treatment, or at least some investment in prevention and drug treatment, because the current way of dealing with it is to arrest people, put them in jail, and they come out and use again; or they put them into certain types of treatment, which are effectively prison, and then they come out and use again. There is this recidivism, or going back to using the drug. This is something which I think they really need to rethink.

The population is growing and therefore the market is growing. You have a very large young population there, drugs that are cheap and increasing disposable income. The income growth in those countries is very fast. That's three times what they did 10 or 15 years ago — that is not the case here probably; right? — so their economies are growing, they are becoming middle-income countries and they have much more cash to spend. Drug traffickers know that. So I think they really have to change their approach.

The other thing they need to do is chase the money. Because it is so big, they really need to work on their financial systems and their financial regulation so that money is not so easily able to be laundered.

**The CHAIR** — All right, Jeremy, I appreciate that you have commitments elsewhere, as we do. Can I just ask probably a leading question?

**Mr DOUGLAS** — Yes, sir.

**The CHAIR** — I assume you are having some discussions with the Australian government in relation to responses to illicit drugs in this country. Could you venture an opinion as to how the cross-jurisdictions of governments and their law enforcement agencies are working with respect to sharing intelligence and sort of mapping the escalation and prevalence of illicit drugs in Australia? Is it working well?

**Mr DOUGLAS** — To my limited knowledge it seems to be working okay. I am familiar with your Australian Crime Commission, which is doing a pretty good job of coordinating intelligence sharing between law enforcement. I think they have proven to some extent that that relationship

has some positive effect. I would say that probably could be strengthened, but you could say that anywhere.

I come from a federal state as well, Canada, which is not as well coordinated. For a variety of reasons we have many more police forces, so you end up with a bit of chaotic coordination between them. But nonetheless my understanding is it seems to be working okay. I do think Australia, given its proximity to such a large market — very close proximity and really big two-way trade — should be really paying attention outside the country. You do have a strong network of AFP outside the country, but I think that should be a priority, because your two-way trade will only increase with Asia over the coming years.

**The CHAIR** — On behalf of the committee, thank you very much for your time this afternoon, all three of you. We appreciate it. You had some notes; are you happy to table the overheads to the committee?

**Mr DOUGLAS** — Yes, sure.

**The CHAIR** — Thank you.

**Committee adjourned.**