ILLEGAL DRUGS

The rejection of the proposed ACT heroin trial and the recent failure to legalise personal use of cannabis in Victoria means Australian treatment of illegal drugs is unlikely to change in the near future. This article attempts to quantify the economic size of the illegal drug trade in Australia. Such estimates can of necessity only be rough, but suggest turnover could be up to $7 billion or 1.4% of total Australian spending, which is in line with international estimates of the illegal drug trade. The bulk of this revenue accrues to criminal wholesalers and retailers rather than to producers. This can be compared with the legal drug trade in alcohol and tobacco where the Government imposes high taxes raising retail prices well above the return to producers.

The UN World Drug Report (1997) provides a detailed examination of the international drug trade. It estimates total turnover of around $US480 billion in 1994 equal to about 1.4% of total world output. Total official aid to developing countries by comparison was $69 billion in 1995. The price of illegal drugs soars as the closer drugs get to their final destination, with the majority of the cost being added after export from the farm gate in the case of plant-based drugs, in line with the growing risk of being arrested.

Graph 16: Illegal Drug Income in Early 1990s

Mark-ups. For example opium is worth $US80 per kg at the farm gate in Pakistan, $US287 per kg wholesale in producer countries, $US80,000 per kg wholesale in the US and $US290,000 per kg retail at 40% purity, a mark-up of over 3000 times. Cocaine rises from $US610 per kg for coca leaves to $US25,250 per kg wholesale in the US and retails at $US50,000 per kg for crack and $US110,000 per kg for cocaine powder at 65% purity, a mark up of 80 to 180 times. As a result farmers receive only 6% of revenue, processors 2% and traders 2%, with 90% of the return going to heroin traffickers controlled by organised crime. The attraction of the industry to organised crime is obvious, given willing buyers and huge mark ups. Even so the small size of the producer economies means income from illegal drugs as a proportion of total output is significant for Pakistan, Peru, Bolivia, Colombia, Afghanistan and Myanmar (as illustrated by Graph 16) and makes up 20% or more of exports. In Australia much cannabis is produced locally as are most chemically produced drugs. Perhaps surprisingly cannabis use is not particularly price sensitive (because spending is small relative to income) while hard drugs (though addictive) are more price sensitive because spending is high relative to income.

Graph 17: Turnover of Illegal Drugs in Australia in 1988

Source: Marks, 1992

Australian illegal drug trade. The Cleveland Parliamentary Joint Committee report estimated illegal drug turnover in Australia at $2.6 billion in 1988 for cannabis, heroin and cocaine. The calculations significantly underestimated the number of cannabis and heroin users. Marks' suggests a figure of $5.6 billion would be more accurate giving a range of 0.9% to 1.9% of 1987-88 total output. These estimates would suggest a current turnover in these three drugs of $4.6 billion to $9.6 billion even assuming no growth in spending on illegal drugs relative to total output. Synthetic drugs such as ecstasy and amphetamine made up only 5% of money spent on illicit drugs in the US in 1991. Use in Australia may be slightly higher and is growing rapidly, but would not greatly change estimated spending. The mid-point of this range suggests Australian illegal drug trade turnover of 1.4% of output or around $7 billion. This is consistent with international estimates of the size of the drug trade, given surveys of the frequency of

Australian drug usage are similar to those in other developed countries. As Graph 18 shows the bulk of expenditure in Australia is on cannabis rather than more expensive hard drugs, reflecting its widespread use. The street value of seized drugs in 1994 was nearly $1 billion.

By comparison in 1996-97 private consumption expenditure on alcoholic drinks totalled $13.2 billion and expenditure on cigarettes and tobacco equalled $6.2 billion. Expenditure on medical drugs is estimated to have totalled $4.2 billion in 1994-95 and expenditure on legal gambling was $9.6 billion in 1995-96. Expenditure on illegal drugs on these estimates is larger than spending on either cigarettes and tobacco, or medical drugs. The tax take from excise and franchise fees on tobacco products in 1996-97 was $4.3 billion and on alcohol $1.8 billion, an indication of how lucrative taxation of legal drugs is for governments. In addition there is company and income tax collected on those involved in these legal industries. Legalisation or controlled use of cannabis would allow governments to impose taxes at least partly substituting for the profit mark-ups currently accruing to organised crime. Imposition of a GST would do little to tax this part of the black economy except if the proportion of revenue raised by indirect taxes was increased so more revenue was raised when black market income was spent on legal items.

**Graph 18: Drug Use in Australia**

<table>
<thead>
<tr>
<th>Common use of soft drugs.</th>
<th>Ever used</th>
<th>Used in last 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannabis</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Amphetamines</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Hallucinogens</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Tranquilizers</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Cocaine</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Inhalants</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Ectasy, designer drugs</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Barbiturates</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Heroin</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>% of persons surveyed</td>
<td>0 5 10 15 20 25 30 35</td>
<td></td>
</tr>
</tbody>
</table>

Source: UN World Drug Report

Widespread use of illegal drugs.

The 1995 national household survey found 39% of Australians aged 14 or more had tried at least one illegal drug (including non-medical use of prescription drugs, naturally occurring hallucinogens and inhalants) and 17% had used one in the last 12 months. Graph 18 provides a break up between different types of drugs. The highest use was in those aged 25 to 39 where 62% had used illegal drugs. More than half of people aged 14 to 39 had tried cannabis. Use in the last year was highest among the 14 to 24 age group. Usage rates

in Australia (except for cocaine) are very similar to those in the Netherlands and the US, but above those in the UK. This is despite the Netherlands distinguishing between hard and soft drugs and not penalising personal use, while the US emphasises prohibition and law enforcement. There appears to be rising use of synthetic drugs and of illicit drugs among younger age groups in Australia in the nineties. This is in line with international estimates of greater areas of cultivation and rising drug seizures in the last decade.

Costs of illegal drugs.

The Pennington Report estimated the tangible and intangible costs of misuse of illegal drugs at $1.8 billion in 1995 of 0.4% of output, based on an update of estimates made by Collins and Lapsley. The Collins and Lapsley study suggested tobacco accounted for two thirds and alcohol for 25% of the costs of abuse and illegal drugs only 9%. Similar estimates of the costs of illegal drugs have been made for the US and the UK. Around 50% of the costs were the resources available for other uses if consumption of illegal drugs ceased, law enforcement costs made up 25% and loss of production due to death made up another 24%. These estimates exclude drug related crime and welfare payments. Marks points to the relationship between the number of addicts and property crime. Survey data suggests heroin addicts obtain the bulk of needed income from drug dealing, crime, prostitution and social security. On his estimates expenditure by addicts would now be around $1.5 billion. This is a guide to the extent of crime caused by those supporting a drug habit, given spending on cannabis and recreational use of hard drugs would generally be financed by legal income. Around 6.5% of people in prisons have drugs as the most serious charge. In Victoria 285 people died from illicit drug related deaths in 1995, compared with 378 fatalities on Victorian roads. Drugs other than alcohol were present in a significant proportion of drivers killed in road accidents.

Prohibition.

Prohibition of drugs has not prevented widespread use and has created a criminal run industry which corrupts law enforcement agencies. Falling world prices suggest increased availability and prohibition has been unsuccessful in preventing increased use of illegal drugs. In fact the UN study points out one third of all cocaine trafficked has been intercepted in the nineties. More successful interception pushes up the retail price and actually increases the profitability of the illegal trade. The UN study suggests that trends in illegal drug use in Norway, Canada, the US and the Netherlands have been very similar despite very different legal regimes. The bulk of users as shown in Graph 19 use illegal soft drugs, suggesting consumer disapproval of hard drugs is strong. The eleven US States which decriminalised personal possession of cannabis in the

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seventies did not experience significantly increased consumption compared with those that did not do so.

Graph 19: Number of Drug Users World Wide

Source: UN World Drug Report

- Regulated use. Harm reduction policies accept recourse to drug use is inevitable, but is undesirable, and should be regulated, discouraged and treated rather than prohibited. Such policies involve use of the criminal law against drug trafficking, but decriminalisation of personal possession of soft drugs and assistance for hard drug addicts in treatment programs. Legalisation or regulated use of cannabis alone would deprive black marketers of profits on a non-dependent drug and free up law enforcement agencies (61% of all drug arrests in Australia are for cannabis consumption). Its widespread use brings the law into disrespect. However, only around one third of people favour decriminalisation of cannabis in Australia.

- Legalisation. More radical proposals for legalisation of all drugs are based on the cost ineffectiveness of prohibition and a liberal view that criminal law should not interfere if behaviour does no harm to others. Yet it seems likely consumption would rise and addiction (to hard drugs) would become more widespread if all drugs were legalised. While government taxes could be imposed the evidence of tobacco and alcohol suggest revenues would be unlikely to cover fully the costs to society of addiction.

- Conclusion. The illegal drugs industry in Australia is a major industry, equivalent in size to the oil industry and larger than the tobacco industry. It generates substantial costs for society, while generating no government revenue. Prohibition appears to have failed to prevent its growth and involves substantial costs. Whether regulated use or complete legalisation of soft drugs would be more successful remains a matter of debate.