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Drug Money: the illicit proceeds of opiates trafficked on the Balkan route

Executive summary

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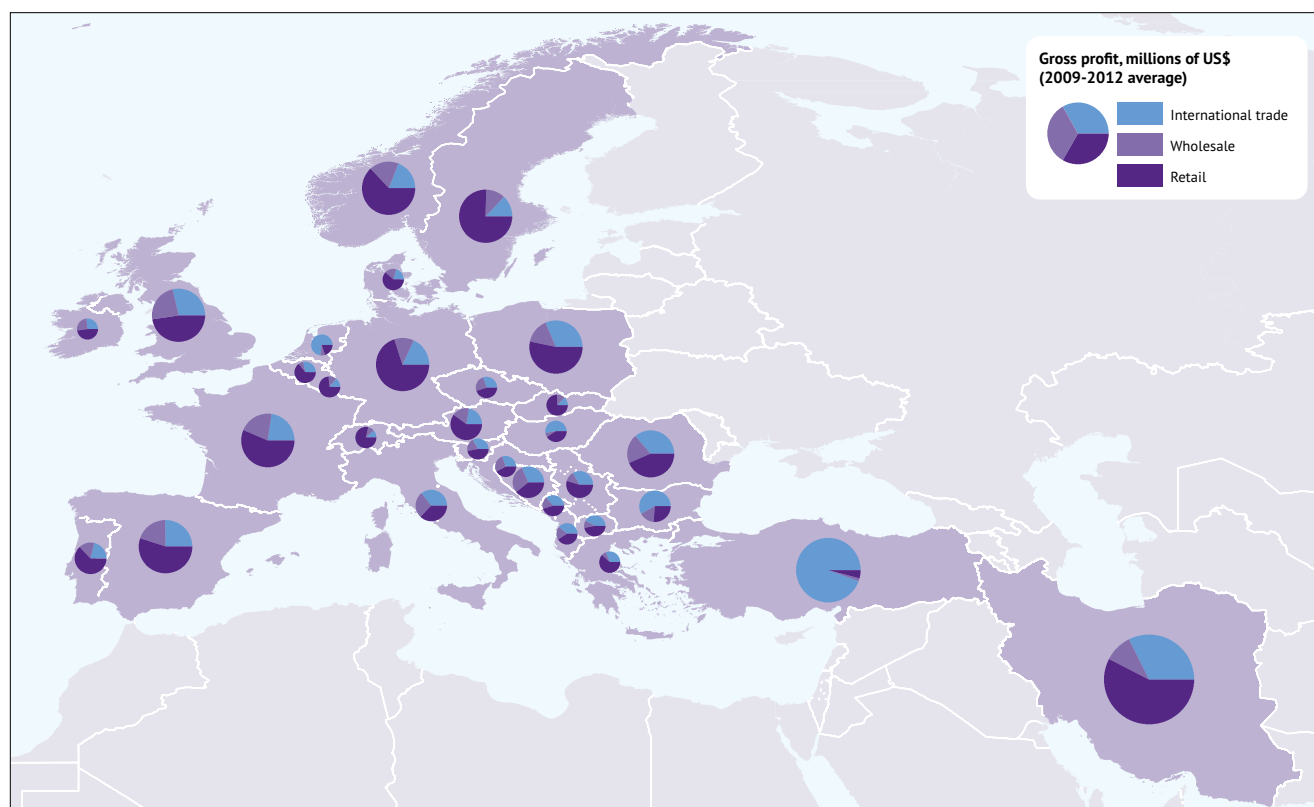
The cultivation, production and trafficking of illicit opiates accounted for almost an eighth of the Gross Domestic Product (GDP) of Afghanistan in 2014. Yet the profit made from illicit opiates that actually remains in Afghanistan is only a fraction of the illicit profit made by those who traffic Afghan opiates on the Balkan route.

This study estimates that the total monetary value (value added) of illicit opiates trafficked on the Balkan route amounts to an average of \$28.0 billion per annum. Even though the Balkan route only accounts for a part of all the opiates trafficked from Afghanistan to markets around the world, this sum is still roughly a third bigger than the entire GDP of the source country (\$21.2 billion in 2014). While much attention is focused on the production of illicit opiates in Afghanistan, this shows that, in economic terms, Afghanistan is just one element of a much bigger problem, as the negative economic impact of illicit opiates is actually greater in the Balkan route countries than in Afghanistan itself. The fact that opiates are only one of several types of illicit drug available in the marketplace underlines the magnitude of the economic value of illicit drugs in those countries.

It is not the intention of this study to rank the individual Balkan route countries in terms of the monetary value of the trafficking of illicit opiates. Every country faces different problems and a unique set of circumstances, which are partly a function of the geographical location of each country on the Balkan route and the principal role it plays, be it as a transit or consumer country of illicit opiates.

Retail, international trade and wholesale are the main components that govern the total gross profit made from illicit opiate trafficking. The importance of these components varies according to the role a country plays in international trade, the number of opiate consumers, the intensity of law enforcement counter-measures, and purity-adjusted prices, but analysis of the components of monetary value confirms the centrality of retail sale in the illicit opiate economy.

Shares of the three components of the gross profit made from illicit opiate trafficking on the Balkan route (millions of United States dollars), by country/territory 2009-2012 average



Note: the boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map does not represent Afghanistan because the sub-division of the gross profit from illicit opiates made by traffickers in that country is not fully comparable with that made in other countries. International trade takes into account only shipments to the rest of the Balkan route, while Afghanistan exports illicit opiates in multiple directions. The map represents the best estimate.

Source: based on UNODC data.

The large quantity of opiates trafficked across the Islamic Republic of Iran and the country's high domestic consumption of opiates mean that, at \$7.5 billion and accounting for 27 per cent of the total monetary value of opiates trafficked on the Balkan route, the gross profit made by traffickers of illicit opiates in the Islamic Republic of Iran is the highest of any single country on the Balkan route.

It is, however, the large consumer markets in the countries at the western end of the Balkan route that together account for the largest share of total gross profit made by the traffickers of illicit opiates. Totalling 64.7 per cent of the total gross profit generated on the entire route, a combined annual gross profit of \$18.1 billion is made by traffickers of illicit opiates in the countries of Western and Central Europe – more than the entire GDP of Bosnia and Herzegovina.

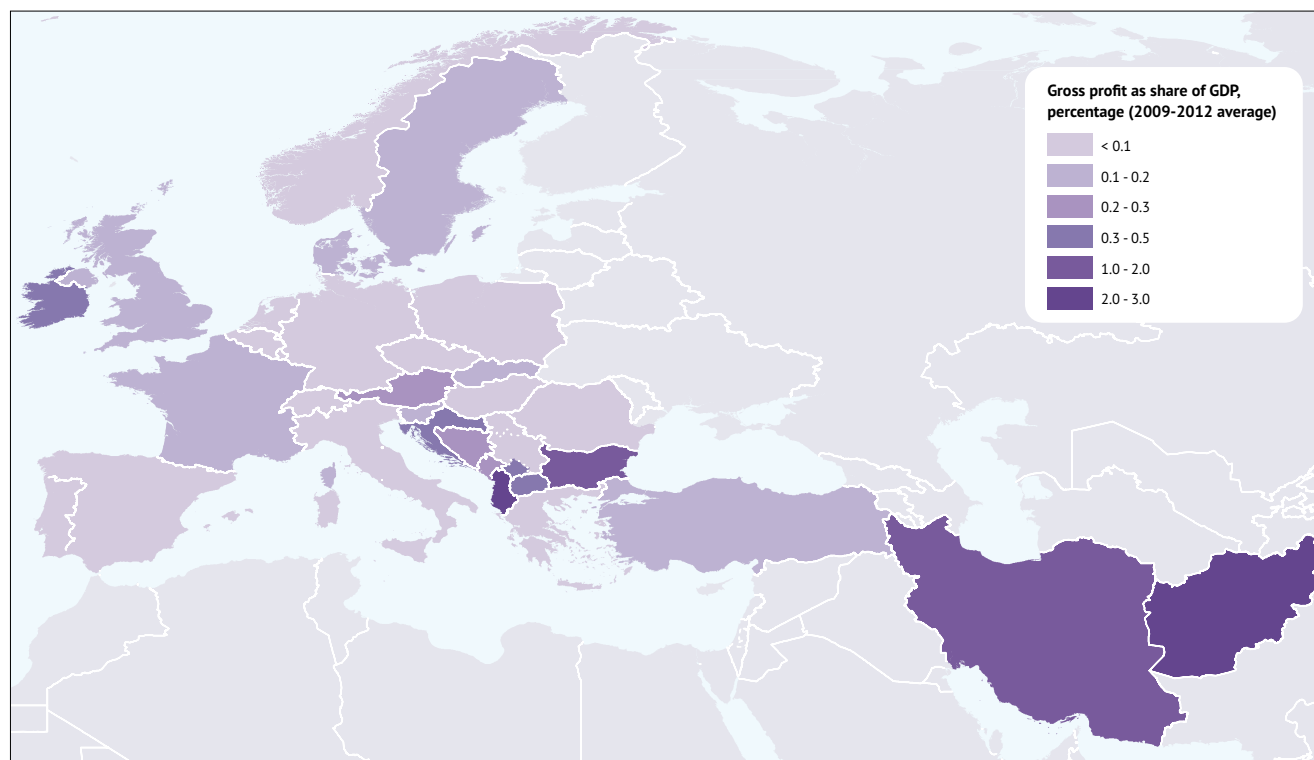
The four largest European markets together account for nearly half of the annual gross profit generated by the trafficking of opiates on the entire Balkan route. This figure is roughly \$5.1 billion in France, \$3.4 billion in the United Kingdom, \$2.6 in Germany and \$1.5 in Italy. High levels of opiate consumption and high purity-adjusted prices at retail explain the magnitude of the illicit gross profit in those countries.

Despite being the second main transit country on the Balkan route, and the large amount of opiates flowing through the country, Turkey has a low prevalence of opiate use. The retail market for opiates in Turkey is therefore relatively small, as is, at \$0.8 billion, the annual gross profit made by opiate traffickers in the country.

The total gross profit made by opiate traffickers in the countries of South-Eastern Europe amounts to \$1.7 billion per annum. This value is less than a tenth of the total gross profit made from opiate trafficking on the entire Balkan route. Opiate traffickers in Bulgaria, with a gross profit of \$0.6 billion, made the highest gross profit in the sub-region.

Another way of looking at the magnitude of the monetary value of illicit opiates trafficked on the Balkan route is to compare it with GDP. This indicator varies considerably across countries according to the role they play in opiate trafficking and the size of their economies, but it is equal to 0.15 per cent of the combined GDP of all the Balkan route countries. At first glance not a significant share, yet only slightly less than the percentage of GDP that some of the world's wealthiest countries spend on foreign aid (United States: 0.19 per cent; Spain: 0.16 per cent: OECD 2013).

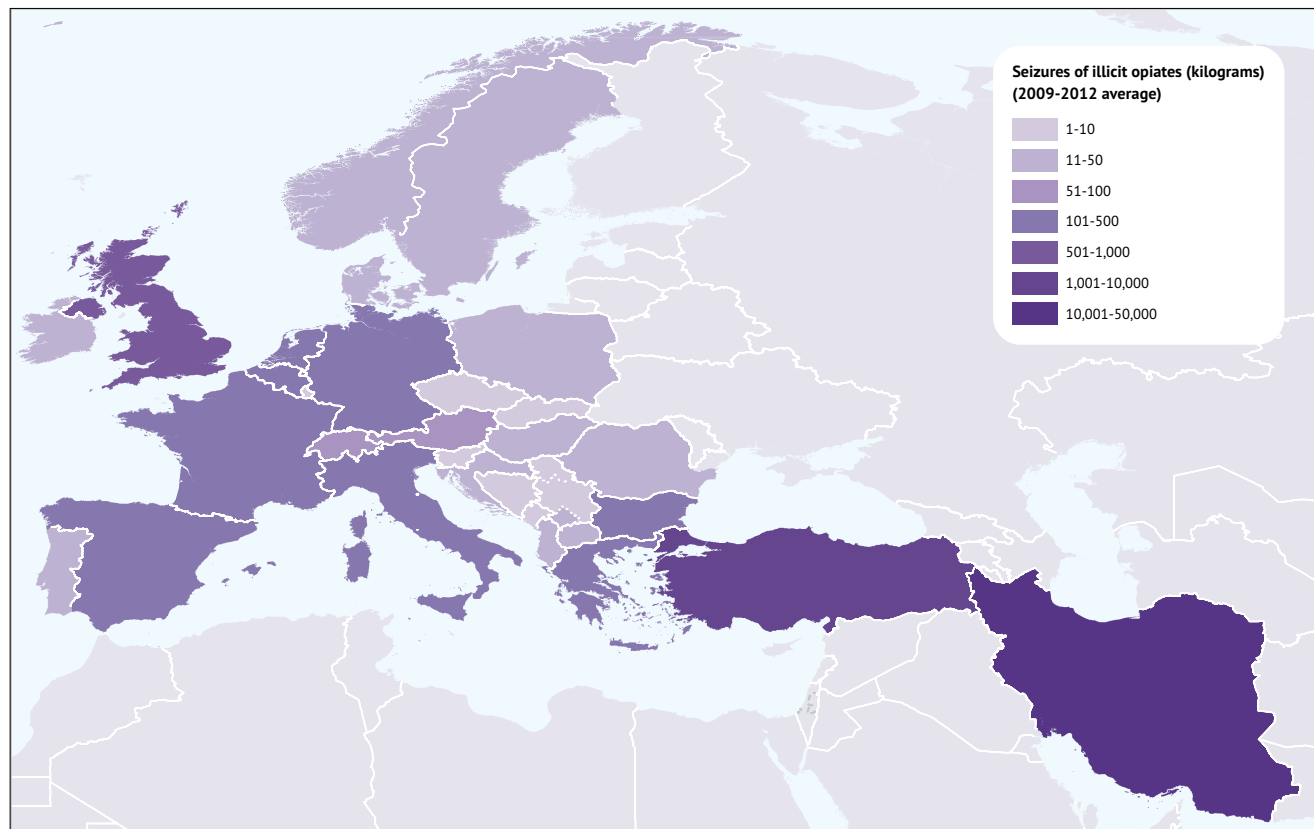
Gross profit as a share of GDP (percentages) in the Balkan route countries/territory, 2009-2012 average



Note: the boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The opiate economy accounts for a particularly large share of GDP in two transit countries, Albania and Bulgaria, and in the Islamic republic of Iran. The opiate economy is worth 0.11 per cent of the GDP of the 22 European Union Member States included in the analysis. The map represents the best estimate.

Source: based on UNODC data.

Seizures of illicit opiates in the Balkan route countries/territory (kilograms of pure heroin equivalent), 2009-2012 average



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Source: based on UNODC data.

If the monetary value of illicit opiates trafficked accounts for a sizeable share of a country's GDP, the capital generated may compete with that made from licit economic activities by introducing significant macroeconomic distortions. It is therefore important to determine the relative economic scale of the trafficking of illicit opiates since its potential economic consequences depend not only on the amount of money that opiate trafficking generates, but also on its magnitude with respect to national economies.

Accounting for 1.66 per cent of GDP and corresponding to an annual figure of \$98.4 per inhabitant, the monetary value of the illicit opiate trade is significant for traffickers in the Islamic Republic of Iran. By contrast, although Turkey also plays a pivotal role in opiate trafficking on the Balkan route, the country has a relatively low opiate consumption rate as well as a GDP (an annual average of \$727 billion in 2009-2012) far larger than that of the Islamic Republic of Iran, therefore the gross profit made from illicit opiate trafficking in Turkey accounts for less than 0.11 per cent of GDP.

The monetary value of opiate trafficking is considerable in several countries in South-Eastern Europe. Albania (2.60 per cent of GDP) and Bulgaria (1.22 per cent of GDP), in particular, are the two countries with the highest ratio between gross profit and GDP on the Balkan route, which can be explained by the strategic location of those countries in the trafficking of opiates on the route. The monetary value of opiate trafficking is less significant in the largest countries in the sub-region, such as Serbia (0.08 per cent), Romania (0.08 per cent) and Greece (0.08 per cent).

As to be expected, it is in the countries with smaller GDPs on the Balkan route that opiate trafficking has the greatest relative monetary value. This is underlined by the fact that, overall, the monetary value of illicit opium trafficking is 0.11 per cent of the combined GDP of the Western and Central European countries, and while this sub-region is where the largest amount of gross profit is made on the Balkan route, it is where the monetary value of the opiates trafficked is the smallest relative to national economies.

The countries of Western and Central Europe, most of which have sizeable licit economies, are the main destination markets for Afghan opiates trafficked on the Balkan route. Yet the monetary value of those illicit opiates is quite

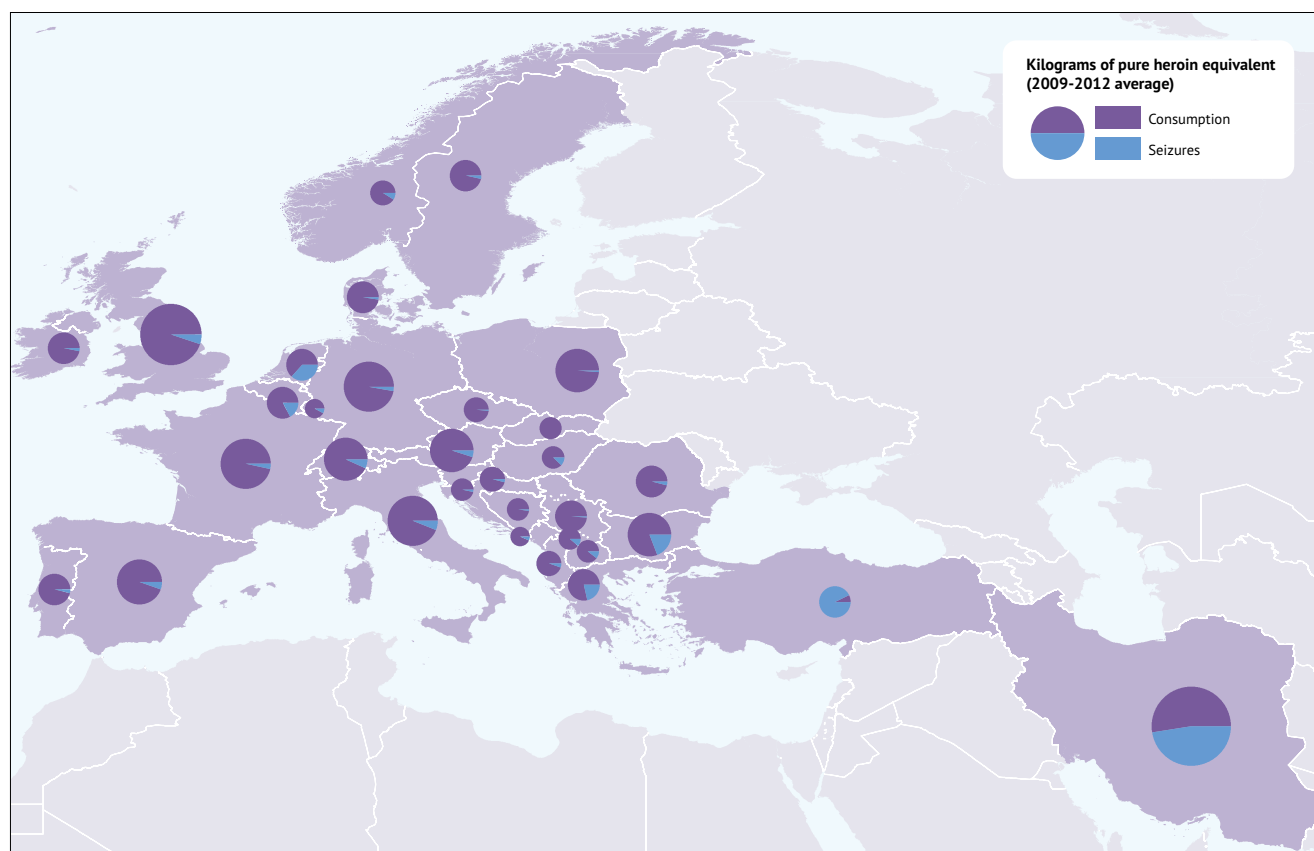
different among the four main European markets. The gross profit made from illicit opiates is relatively high in France (0.19 per cent of GDP) and in the United Kingdom (0.14 of GDP), whereas it is 0.07 per cent in Italy and 0.08 per cent in Germany.

The Netherlands and Belgium are among the countries with the lowest ratios of gross profit to GDP on the Balkan route (0.02 and 0.03 per cent, respectively), notwithstanding their position as international trade hubs. In countries such as Ireland (0.31 per cent of GDP) and Austria (0.26 per cent of GDP), the potential spillover from the profit made from illicit opiate trafficking may be significant.

The above figures are the results of a model that calculates the monetary value of opiates trafficked on the Balkan route from the combination of total consumption and seizures of opiates at the national level and the flow of opiates trafficked through each country. Based on this approach, the combined quantity of illicit opiates consumed and seized in the Balkan route countries is estimated to be an annual average of 170.0 tons of pure heroin equivalent. The best estimate of the total annual consumption of illicit opiates is 111.3 tons in pure heroin equivalent, while an annual average of 58.7 tons of illicit opiates was seized in the Balkan route countries in the period 2009-2012. The volume seized corresponds to more than 80 per cent of global seizures of illicit opiates. Overall, 60 per cent of the seizures concerned heroin (including morphine), the rest concerned opium.

Quantities seized and interception rates vary considerably across countries. The Islamic Republic of Iran seizes an annual average of 46.7 tons of illicit opiates in pure heroin equivalent and has the highest interception rate on the Balkan route. The Iranian authorities intercepted an annual average of 30 per cent of all illicit opiates entering their territory in 2009-12, while Turkey also has a high interception rate, with the authorities intercepting 17 per cent of opiates entering the country, an annual average of 8.4 tons. All other Balkan route countries seized a combined annual average of 3.6 tons of illicit opiates or 6 per cent of illicit opiates entering those countries.

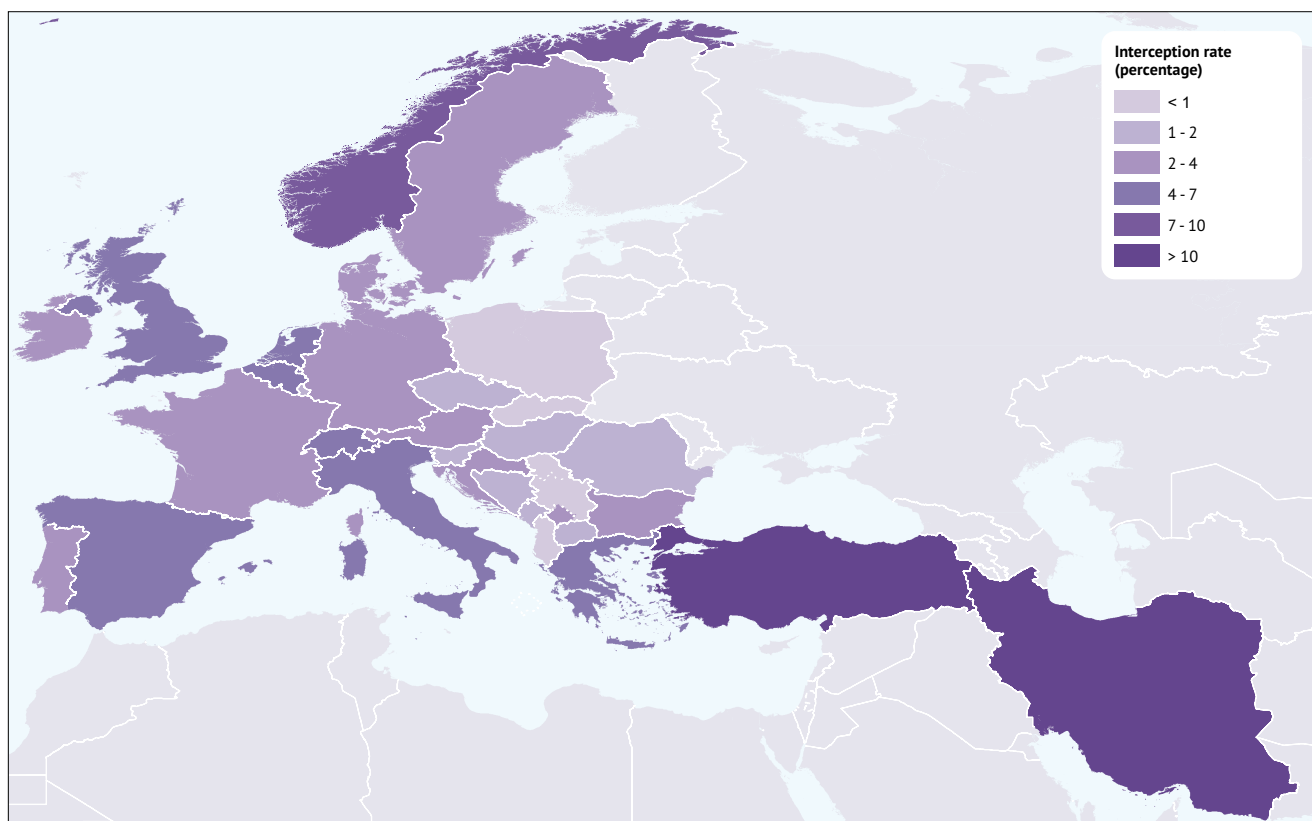
Domestic consumption and seizures of opiates in the Balkan route countries/territory (kilograms of pure heroin equivalent), 2009-2012 average



Note: the boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map depicts the total amount of illicit opiates available on the Balkan route in a year (2009-2012 average). This amount corresponds to total final consumption plus seizures. The map represents the best estimate of consumption.

Source: based on UNODC data.

Interception rate: the percentage intercepted of all opiates entering the Balkan route countries/territory



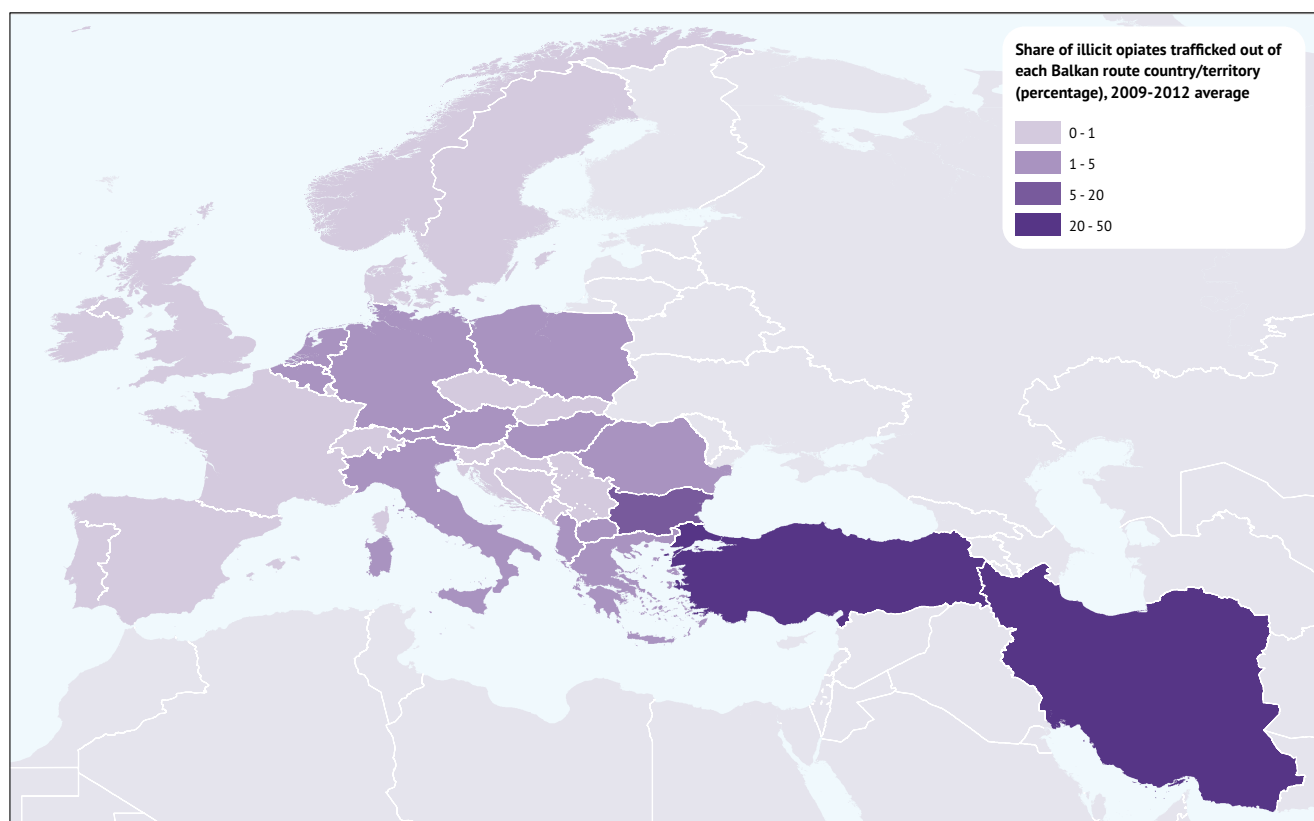
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Far greater shares of opiates are therefore intercepted close to source, presumably because the flow of opiates is greater there than in the countries further along the Balkan route and because international trade and wholesale play a bigger role. The resulting large shipments of opiates lead to bigger seizures and higher interception rates. By contrast, retail dominates in the large consumer markets in the final destination countries at the western end of the Balkan route, meaning that shipments are smaller than in the countries closer to source and so are seizure quantities and interception rates. Traffickers therefore not only make more income in the large consumer markets, they also run a lower risk of arrest than in the countries closer to source, where the greater flow of illicit opiates leads to greater pressure being placed on law enforcement than further along the Balkan route.

In order to assess the flow of opiates trafficked through each country, this study defines a network that consists of countries and connections between them. By combining this network with the total combined consumption and seizures of illicit opiates in each country it is also possible to estimate the quantity of opiates trafficked from one country to another, which is a function of the quantity of illicit opiates that enter and exit previous countries in the chain. Among the 1,056 possible connections between the Balkan route countries, only 98 were actually identified, showing that opiate trafficking is concentrated into just a few specific paths, or chains of countries, on the Balkan route.

Afghanistan is the producer of all the illicit opiates consumed in the countries along the Balkan route. A small quantity of Afghan opiates destined for the Balkan route reaches the Islamic Republic of Iran through Pakistan, but the vast majority of them reach the Islamic Republic of Iran directly from Afghanistan. In 2009-2012, an average of 154.8 tons of illicit opiates in pure heroin equivalent per year crossed the border from Afghanistan to the Islamic Republic of Iran.

Between 42.3 and 59.1 tons of illicit opiates were trafficked annually from the Islamic Republic of Iran to Turkey in 2009-2012. Turkey is also a key transit country on the Balkan route, with shipments reaching hubs such as Bulgaria (10.3 tons), the Netherlands (4.4 tons) and Albania (1.4 tons) as well as main consumer markets such as Germany (6.1 tons), France (5.6) and Italy (2.4 tons).

Share of illicit opiates trafficked out of each Balkan route country/territory (percentage), 2009-2012 average

Note: the boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map does not represent Afghanistan. Afghanistan is the source of several opiate trafficking routes⁵³ and the share of exports to the Balkan route countries is not representative of the country's actual export share. The map represents the best estimate.

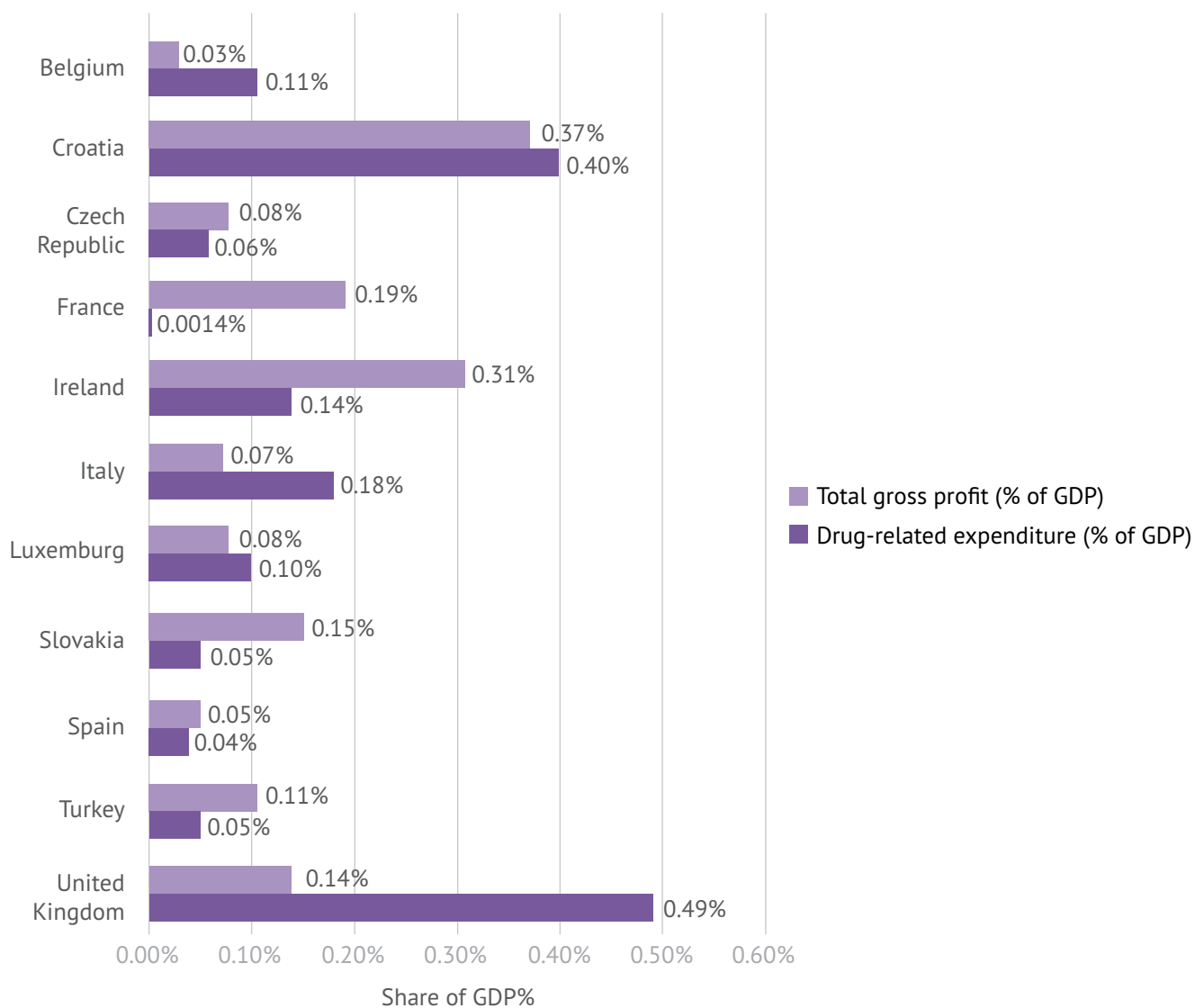
Source: based on UNODC data.

After Turkey, Bulgaria has a pivotal position in the opiate trade, both in terms of the volume of illicit opiates trafficked (an annual average of 11.5 tons of illicit opiates entering the country and 10.1 tons leaving the country) and the number of country connections. Indeed, most countries in South-Eastern Europe export the majority of the illicit opiates that enter them, making the sub-region an important transit point for opiates bound for Western and Central Europe.

Belgium and the Netherlands also act as hubs for the trafficking of illicit opiates, with more than three quarters of the illicit opiates that enter those countries being subsequently trafficked to other countries. In fact, an annual average of 4.7 tons of pure heroin are subsequently trafficked out of the Netherlands, the fourth-largest quantity of opiates trafficked from a country on the Balkan route. However, most Western and Central-European countries consume the majority of the illicit opiates that make it onto their territory, with only very small amounts being subsequently trafficked elsewhere.

The comparison of the gross profit made by the traffickers of illicit opiates with the drug-related public expenditure dedicated to the implementation of drug policies in those and other Balkan route countries offers a different perspective of the magnitude of the monetary value of illicit opiates trafficked on the route. In all the countries for which data are available, these two values are similar, but in some countries (Czech Republic, France, Ireland, Slovakia, Spain and Turkey) gross profit actually exceeds drug-related public expenditure. In other words, drug traffickers make as much money purely from illicit opiates, as many countries spend on addressing the drug problem.

Drug-related public expenditure as a share of GDP and total gross profit as share of GDP, selected Balkan route countries, various years



Source: EMCDDA.