

“Coke on Tick”: Exploring the Cocaine Market in the UK through the Lens of Financial Management

1. Introduction

In the 1990s a number of household surveys found that all four countries in the United Kingdom (UK) had levels of illicit drug use that were several times the size of any other European country (Parker, 2001). Increasing in popularity and decreasing in price in the late 1990s and early 2000s, cocaine became a sought after and more readily available drug among this drug-experienced population. By 2011 there were over 4 million users of cocaine in Western and Central Europe, within which the UK – closely followed by Spain – had the highest prevalence rates (Kilmer and Pacula, 2009; EMCDDA, 2013; UNODC, 2013). Statistics from 2003/4 valued the UK’s illicit drugs market at between £4 billion and £6.6 billion. Powder cocaine accounted for an 18 per cent share of expenditure in the market, whereas crack cocaine had a 28 per cent share (Matrix Knowledge Group, 2007; McSweeney *et al.*, 2008; EMCDDA, 2012; see also Home Office, 2007). Both powder and crack cocaine are classified as Class A drugs in the UK. Under the Misuse of Drugs Act - which determines sentences by the class and weight of the drug - maximum sentencing for supply is life imprisonment (see Fleetwood, 2011; 2014). Yet, despite the risks involved, the sizeable demand results in large amounts of cocaine entering Britain, with various networks, means of distribution and sources of financial investment all playing a part in the process.

Some research is available on the financial management of drugs markets in specific contexts internationally (see Reuter *et al.*, 1990; Levitt and Venkatesh, 2000; Naylor, 2004; Brå, 2007; Skinnari, 2010; Kruisbergen *et al.*, 2012), offering a relatively sound understanding of finance-related issues, with an emphasis on prices, costs of doing business (Caulkins *et al.*, 1999; Moeller, 2012), investments and money laundering (see also van Duyne and Levi, 2005). However, little research has been conducted on the financial management of the cocaine market, or indeed other illicit markets, in the UK (cf. Antonopoulos and Hall, 2015). This is despite the fact that ‘proceeds of crime’ and ‘tackling criminal finances’ have been a priority for policymakers and law enforcement agencies both in the UK and internationally (FATF, 2012; NCA, 2015; HM Government, 2015). Exceptions to this include two broader studies funded by the Home Office, one exploring middle-market drug distribution (Pearson and Hobbs, 2001) and the other the illicit drugs trade more generally (Matrix Knowledge Group, 2007), which offer some information on financial aspects of the cocaine market.

This article aims to offer detailed preliminary data and analysis that focuses specifically on the structures, actors and, most importantly, financial management of the UK cocaine market. According to Kleemans (2015: 213) “empirical research into financial aspects of organised crime is very important to test the assumptions that are part of public debate, but are often taken for granted, not explicated, and put to the empirical test”. In addition, understanding the broader range of financial aspects of organised crime is an important component of the process of crimes for gain, and can contribute to more effective investigation and prevention (see Antonopoulos *et al.*, 2015; Levi, 2013). Although it is estimated that the crack cocaine market in Britain accounts for a much larger proportion of cocaine expenditures and up to “80% of all primary crack episodes in Europe” (Kilmer and Pacula, 2009: 30), the main focus of this article is the powder cocaine (cocaine hydrochloride) market. This is because over a five month period from November 2013 to March 2014 we gained access and conducted in-depth interviews with four *active* criminal entrepreneurs involved in powder cocaine supply in the UK¹. The sample of criminal entrepreneurs interviewed is relatively small. However,

¹ In the text we refer to them as ‘entrepreneurs’ or ‘criminal entrepreneurs’.

bearing in mind they were active in the market at the time of interview, and were accessed via the first author's personal network without any connection to an institutional setting, the research provides valuable in-depth accounts that shed light on some of the financial aspects of the cocaine market in ways that might have been more difficult to capture if the entrepreneurs had been accessed via the criminal justice system (e.g. Matrix Knowledge Group, 2007) or drug treatment facilities (e.g. Moyle and Coomber, 2015). Furthermore, alongside a review of relevant literature and open sources, in-depth interviews were undertaken with a range of experts with knowledge of the cocaine market to offer richer empirical evidence and analysis. These experts included law enforcement agents from the Police, Her Majesty's Revenue and Customs (HMRC), the UK Border Force and the National Crime Agency (NCA), as well as independent academics/researchers who have researched the cocaine market in the UK and internationally. Some of the law enforcement agents interviewed were able to provide accounts on a macro-level because of the seniority of their position and experience (for example, a Head of Detection at HMRC).

The article is organised into three sections. The first offers a general discussion of the characteristics and key actors of the cocaine market in the UK. This overview is based on our own research and that of others (e.g. Matrix Knowledge Group, 2007; Pearson and Hobbs, 2001, etc.). The second focuses on the financial aspects of the market in terms of sources of financing, settlement of payments, and profits. The article ends with a discussion of our findings.

2. Cocaine Market Structure(s) and Actors

It is well known that cocaine is primarily cultivated in South America, specifically in Colombia, Bolivia and Peru. Often it enters the UK via the Netherlands and Spain, having been initially smuggled into Europe by means of established trade routes from South America through the Caribbean or West Africa. Our interview with an HMRC officer highlighted the following modes of transport used by suppliers targeting the UK market:

- *By Sea*: merchant vessels and container shipping, with the product cut across various commodities, containers of variation and vessels of 500 tons reported; speed boats; and luxury yachts (see also Dodd, 2011).
- *By Air*: executive jets; light air crafts dropping cargo before landing; and smaller aircrafts landing in regional airports.
- *By Land*: road (car, lorry, bus); national and international rail (according to the particular interviewee, the Trans-Siberian railway is now being utilised as a faster and more effective way of shipping illicit goods from the Far East to the UK); and postal and courier services delivering parcels (this is particularly apparent in the context of the emerging online trade).

Recent figures show a reduction in the number of seizures of cocaine in the UK. Although in 2012 cocaine remained the most seized drug in England and Wales (80% of which was seized by the UK Border Force), the figure has been steadily declining since 2008/9 when the highest number of seizures were recorded during the time of peak use (Arnett, 2013). A law enforcement agent we interviewed highlighted the negative impact of changes to the border agency and enforcement structures, particularly since the formation of the Serious Organised Crime Agency (SOCA)². Formed in 2006 as a 'non-police agency', which pooled the investigative team responsible for drug trafficking at HMRC and the National Criminal Intelligence Service (NCIS) among others (see Hobbs, 2012), our expert noted that SOCA's formation had diluted enforcement numbers and expertise. The interview also revealed:

² Currently National Crime Agency (NCA).

- various institutional changes to the UK Border Force since 2004 that have reduced the number of customs officers;
- customs officers no longer being present 24/7 at British airports;
- the sheer size and volume of containers entering the UK.

According to the expert these factors have resulted in a substantial decrease in drug seizures and a decline in the overall effectiveness of drug enforcement practices (see also Hobbs, 2012). Therefore, changes to the policing of organised crime and drug trafficking could be the primary factors behind the decline in cocaine seizures in recent years, rather than a slowdown in supply and demand (see also Matrix Knowledge Group, 2007).

Another reason for the decrease in seizures is that continued diversification of trade routes and techniques have begun to reshape the supply chain. Container shipments are still the predominant method, with ports in the Netherlands and Belgium (Rotterdam and Antwerp, respectively) heavily implicated in the cocaine trade (see Zaitch, 2002a; UNODC, 2011; EMCDDA, 2013; NL Times, 2014). This is a major link in the supply chain of synthetic drugs between South American production centres and the UK, with “Dutch and Belgian warehousing operations playing a crucial role in trading directly with UK national middle market brokers” (Pearson and Hobbs, 2001: 21). Moreover, Eastern, South-Eastern and Central European states have become increasingly associated with the trade (EMCDDA, 2013). Increased seizures have been noted in Greece, Romania, Bulgaria and the Baltic countries (Kostakos and Antonopoulos, 2010; EMCDDA, 2013). As mentioned earlier, the emerging trend of online trading (on the surface web and ‘deep web’) and home delivery of smaller, retail-level quantities of cocaine in post parcels also presents an emergent and largely unknown dimension of the cocaine trade in Britain.³

In order to gain an accurate understanding of the market structure and the actors involved in cocaine supply in the UK, it is necessary to point out the distinct stages of the operation. These can be defined by the following ‘four tier classification’ identified by Pearson and Hobbs (2001; see also Matrix Knowledge Group, 2007; McSweeney *et al.*, 2008):

- *Importation*: consisting mainly of traffickers involved in the importation of cocaine.
- *Wholesale*: those involved in selling larger quantities of cocaine.
- *Middle Market*: the drug brokers existing between importation/wholesale and retail level dealing.⁴
- *Retail Level*: drug dealers who sell smaller quantities directly to consumers.

For the Matrix Knowledge Group (2007: 17), the market is structured according to the area covered by an operation. Therefore, alongside the four tiers are variations in market level and reach:

- *International*: those crossing borders and importing from abroad.
- *National*: dealers distributing nationally across towns and cities.
- *Local*: traders buying and selling in smaller geographically-defined areas.
- *Retail*: street level dealers.

Both sets of classifications are not fixed and distinctions can become blurred at various levels and stages of an operation. For example, an individual or group may be importing from abroad *and* selling wholesale quantities of cocaine nationally. Alternatively, a national dealer may also be involved in distributing cocaine regionally or locally.

³ It is interesting to note that some online traders of cocaine brand their merchandise as ‘fair trade’ or ‘organic’: “*We are a team of libertarian cocaine dealers*”, writes one dealer, targeting the ethically conscious user. “*We never buy coke from cartels! We never buy coke from police! We help farmers from Peru, Bolivia and some chemistry students in Brazil, Paraguay and Argentina. We do fair trade!*” (cited in Bartlett, 2014: 45).

⁴ See also Zaitch (2002b) and Decker and Townsend Chapman (2008) on the centrality and importance of brokers in the cocaine market.

Another expert we interviewed noted the lack of organisation in some operations that are international in nature, mentioning one case in which a man travelled to South America *alone*, bought some cocaine, and brought it back to the UK in a small talcum powder bottle he had ingested. In this case a direct connection to a ‘crime group’ was not necessary and the process was relatively disorganised. Therefore, it is important to point out that the structures of the British cocaine business vary. As the Matrix Knowledge Group found, actors involved in supply can work as ‘sole traders’, as part of a ‘small to medium enterprise’, or as part of a ‘collaborative network’ (2007: 32). The market is, therefore, best described as a horizontal structure. From the levels of production through to consumption different flexible networks of both ‘organised’ and ‘disorganised’ individuals and structures are involved in the process. Although some degree of hierarchy may be present at various stages of an operation, overall these are networks with variations in structure and scale in terms of the actors involved, the quantity and quality of the product they distribute and the geographical area they cover. Therefore, descriptions of cocaine businesses as ‘cartels’ headed up by a ‘drug lord’ were seen as inaccurate stereotypes by our experts and entrepreneurs. On many occasions connections exist only between small numbers of individuals along the supply chain. One key finding of the Matrix Knowledge Group’s (2007) study was that individuals involved in drug supply have information about the market level in which they operate, yet know little when it comes to the market overall. Indeed, individuals working as middle level drug brokers do not want their retail level buyers to contact their wholesale supplier directly, which could have the effect of pushing the brokers out of the market.

Although the cocaine trade is a transnational trade, local and regional markets are better placed for our analysis of the British cocaine trade (see also Pearson and Hobbs, 2001). In particular, the UK’s big cities are crucial to the functioning of the supply chain. The primary city associated with the illicit drugs trade is London, with Liverpool, Birmingham, Glasgow and Manchester also playing significant roles. In terms of cocaine, Liverpool is an important node in the market, where operators in the city have established themselves as major national distributors (Pearson and Hobbs, 2001). Larger and more mature night-time economies and the presence of ports (in Liverpool and Glasgow) are two key factors impacting on the size of a city’s cocaine market according to experts and entrepreneurs.

Various actors are involved in the British cocaine market and they perform different roles. The Matrix Knowledge Group’s (2007) study paints a comprehensive picture of the various roles involved at different levels of the cocaine trade in the UK, which can include the following:

- International Transporter
- Legitimate professional (e.g. accountant, solicitor, etc.)
- Drug Courier
- Money Collector
- Money Counter
- Money Deliverer
- Tester
- Transporter/Runner
- Specialist
- Mixer
- Corrupt Law Enforcement staff
- Storer

According to their research, a dealer’s main activities include “drug purchase, storage, domestic and international logistics planning, domestic delivery and sale... drug cutting activities, marketing or post sale customer services” (2007: 33). For the dealers we interviewed, transportation, storage and sale were regarded as the most important tasks. In keeping with previous research, our data identifies differences in the operations at retail level, which can consist of various markets (see McSweeney *et*

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4 *al.*, 2008). Two of the entrepreneurs we interviewed operated a closed market, selling exclusively to
5 friends who had placed orders. Another was semi-open, selling to friends and also to people in bars,
6 clubs and after-parties. Finally, one entrepreneur sold online and to friends. There are also prison drug
7 markets to consider, which are profitable, and where it has been noted that connections are often made
8 between suppliers and dealers at various levels of the trade (Hales and Hobbs, 2010).
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10 In terms of market entry, our data corroborates findings from previous research (Pearson and
11 Hobbs, 2001; Matrix Knowledge Group, 2007; Hales and Hobbs, 2010). Initial market connections can
12 be made through family, friends, school, neighbourhood, ethnicity, or criminal background (sometimes
13 while an individual is serving a prison sentence). One expert, drawing upon a personal contact
14 involved in the trade, identified his imprisonment as “the making of him”, which refers to the
15 increased criminal business opportunities he found among his fellow inmates. Pearson and Hobbs
16 (2001) also note the role ‘clubbing’ and night-time leisure pursuits can perform in facilitating
17 connections between dealers, which we have also found to be the case with one of our experts, who
18 expressed how connections in the cocaine trade can often be made on “nights out”.
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20 Overall, there is no specific demographic involved in cocaine supply in the UK. However,
21 some patterns have emerged in specific regions or levels of the trade. For example, Pearson and Hobbs
22 (2001) note the role played by Colombians based in London, who control a large amount of the bulk
23 shipments of cocaine entering the country. Moreover, the role played by Caribbean-based teams,
24 usually involved in “small-but-often” loads trafficked via air (Pearson and Hobbs, 2001: 21). The
25 UKDPC policy report (McSweeney *et al.*, 2008) also notes the following patterns with regard to the
26 UK cocaine trade:
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- 28 • The role of Colombian traffickers who dominate the international supply of cocaine into
29 Europe.
- 30 • The involvement of Spanish criminals involved as middle market dealers who receive
31 shipments from outside Europe and distribute them to the UK.
- 32 • White British traffickers’ roles as suppliers of powder cocaine from Spain and the Netherlands
33 to the UK.
- 34 • West Indian traffickers involved in cocaine supply, most of which is intended to feed the UK’s
35 crack cocaine demand.
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37 Our data suggests that British crime groups and ‘families’ are still involved in the importation and
38 wholesale tier of the cocaine market (see also Zaitch, 2002a). ‘Crime families’ were mentioned in
39 particular as wholesalers by the entrepreneurs we interviewed. These families or groups are not
40 exclusively white. British-Asian networks of investors and dealers were also mentioned by UK law
41 enforcement. Often it is through a connection to such a family or group that a retail level dealer can
42 gain access to cocaine. The link is not always direct; a partner in a scheme of smaller retail level
43 operators may have a direct connection through school, neighbourhood or family and will arrange
44 supply for the group. Another entrepreneur, who is based in a smaller English city, revealed that he
45 was buying direct from a broker in Manchester. Furthermore, data was collected with an online dealer
46 of cocaine based in the UK, who provided the researcher with access to a range of sites and sellers on
47 the TOR network, otherwise known as the dark net, and the broader ‘deep web’. In this case the
48 Internet gave a retail level dealer the opportunity to widen his customer base. Therefore, the online
49 trade could reduce the need for a middle level broker, because importers/wholesalers have the ability
50 to sell direct to the consumer. However, it may be the case that the Internet is simply mirroring street-
51 level dealing and offering a similar business-to-consumer transaction, but with less risk and increased
52 anonymity.
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54 Finally, there was a good deal of discussion with both experts and entrepreneurs regarding a
55 two-tier powder cocaine market that has developed in the UK in terms of differentiations in *purity* and
56 *price*. Firstly, a ‘pure’ and more expensive high-end market. Secondly, a low-end, cheaper market for
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product cut to a high degree with glucose or active pharmaceutical ingredients (APIs) such as benzocaine; sometimes with purity levels as low as 2 or 3 per cent at street level. For example, one entrepreneur spoke of deliveries of kilos of high purity cocaine worth thousands of pounds being dropped over the fence of a wealthy customer's house by transporters linked to wholesalers, whereas another spoke of highly cut ounces and grams sold to numerous users at street level by dealers or among friends by 'facilitators'. The majority of entrepreneurs we interviewed noted two purity levels, where they were buying and/or cutting their product in order to sell at two prices to different customers. This dual market is explored in more detail in the sections below.

Overall, studies to date have noted that the UK cocaine market has a complex and fluid structure (Pearson and Hobbs, 2001; Zaitch, 2002a; Kenney, 2007; Matrix Knowledge Group, 2007). Likewise, our data found that the market is structured by flexible and often loosely organised criminal networks.

3. Financing and Financial Management in the Cocaine Market

The following sections will draw specifically on our primary interview data and findings from previous studies conducted in the UK in order to describe the financing and financial management of the British cocaine market.

3.1 Source of Capital for Initiating/Sustaining Criminal Operations

Whether a group or individual is operating at the level of importation, national or local level dealing, in the first instance they must secure start-up capital. We have found that a variety of financial and non-financial means are typically used in order to initiate and sustain cocaine supply in the UK at various levels of the market.

3.1.1 Capital beyond the Economic

According to all of our experts and entrepreneurs the importance of social capital (i.e. connections and relationships) and symbolic capital (i.e. trust and reputation) were equally, if not more, important than economic capital in initiating and sustaining a cocaine operation. All of our entrepreneurs mentioned the importance of acquaintances and trust to their operations. One expert also spoke fervently about the levels of trust on display. Therefore, it is through social and symbolic capital that an actor can connect with a supplier, secure product on credit, and build up a reliable long-term customer base that provides a quick turnover. The importance of a reliable customer base was also highlighted by all other retail level entrepreneurs, including the online dealer. For example, along with acquaintances and trust, one entrepreneur spoke of "being able to get rid of a certain amount quickly" as the most important need for sustaining his operation. Slowing down and diminishing the reliability of distribution to end-users at the local level would disrupt the smooth operation of the whole trade.

Moreover, drawing upon his experience, one law enforcement officer noted that financial capital is *not* necessary to enter the business. Rather it is "reputation, reliability, an initial connection, and a will to make money". In these instances, when an individual enters the market they start by buying small amounts of cocaine on credit and, ensuring they pay it back on time, begin a rolling credit with suppliers, while simultaneously building their reputation. This supports the contention made by the Matrix Knowledge Group (2007: 24) that

"...for many individuals a combination of their life situations, and relatively easy access to friends and contacts in the business, meant that barriers to entry were very low.

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4 *Furthermore, access to start-up capital was not considered a barrier to entry because of*
5 *the wide availability of credit”.*
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7 One expert noted an interview with a dealer who had a family connection and used her social capital, a
8 level of trust and her labour power to sell in order to enter the market. Therefore, an individual’s
9 labour can also be used as a non-financial form of initial capital. Another example was that of a mule
10 who was initially employed by his cousin (an independent trafficker). After successfully completing
11 his first job he became involved in the business more regularly. The lower levels of the trade seem to
12 work with entry-level distributors entering the market and connecting with large numbers of local
13 suppliers who are willing to take small credit risks. This arrangement spreads the overall risk and
14 incentivises small-scale distributors with the possibility of using their social networks to make profits
15 and eventually move up the supply chain.
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18 **3.1.2 ‘Chipping In’: Acquaintances and Group Investment Schemes**

19 On many occasions initial operations include friends and partners who work and invest *collectively* in
20 a cocaine business. They will group their money together to ‘bulk-buy’ more product at a lower price.
21 We found three specific examples of this in the data:
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- 23 1. The first involved an entrepreneur investing with a good friend who had a larger legitimate
24 income. They were “going halves“ - splitting the cost 50/50 - with the investing friend
25 requiring double on his investment without touching the drugs.
- 26 2. The second was a partner in a group of retail level dealers collectively “chipping in” to
27 purchase larger amounts of cocaine at a discounted price. The group were purchasing from a
28 local crime family one of the partners had a direct link with via an old school friend.
- 29 3. A third entrepreneur was also investing with a small group of four or five “players”, some of
30 whom originally met 20 years earlier as members of a commercial burglary team. There was
31 some fluidity within the group, with different actors being involved in different deals, but the
32 core of the unit comprised of the entrepreneur and two men who had all been involved in
33 criminal activities in the past.
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36 According to one of the experts we interviewed it is also common for two or so otherwise separate
37 groups to “chip in” and secure a larger amount of cocaine to sell. Finally, a South Asian network of
38 cousins was mentioned by a law enforcement respondent, where a kinship network played a role in
39 investments in legitimate and illegitimate businesses, including cocaine supply. Here the close kinship
40 structure and a culture of reciprocity helped to initiate and sustain a successful cocaine operation.
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43 **3.1.3 Legitimate Money and Loans**

44 Legitimate money coming from a variety of avenues can also fund cocaine operations. As mentioned
45 above, one example from the data is that of a British Asian group. A businessman from the group
46 invested money from his taxi company, from property that he owned and, combining this money with
47 small loans from his cousins, began to import cocaine from a Spanish dealer.
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49 Legitimate businessmen who own restaurants, pizza shops and taxi companies have been
50 known to become involved in the cocaine trade. They tend to use the proceeds from their legal
51 businesses as start-up capital in a cocaine operation, then ‘clean up’ the criminal proceeds by
52 reinvesting the money back into their legal businesses. Therefore, legitimate businesses can act as both
53 start-up capital *and* money laundering schemes in the British cocaine trade. The same expert also
54 mentioned that large scale money laundering is done through acquisition of property, and that trusted
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4 accountants are used to sustain and conceal the operations; yet another example of the crossover with
5 legitimate businesses involved in the cocaine trade in the UK.

6 An expert gave an example of two legitimate businessmen who traded cocaine “on the side”.
7 Here their legitimate businesses – a carpet business, an antiques import business and a property
8 development business – generated initial start-up capital, provided ways of cleaning up criminal profits
9 and knowledge and awareness of import/export procedures. In the loosest sense, these examples
10 highlight the involvement of ‘organised’ crime groups who finance operations, which often include
11 people with legitimate business portfolios.

12 Legitimate start-up money invested in the cocaine trade does not always come from the
13 proceeds of commercial business. An entrepreneur we interviewed, who became involved in cocaine
14 dealing with a group of friends who were buying from a crime family, used his student loan of £1,200
15 as his initial start-up capital. He received a loan every 3 months over a 7-year period, which helped
16 him to sustain and reinvest in his drug business. Student life was also mentioned by the entrepreneur as
17 a good way to make connections with suppliers and build a customer base. Furthermore, the online
18 wholesaler we interviewed - who had a connection to a cocaine broker from his previous involvement
19 in dealing ecstasy - sold his car to fund his initial operation. He also ran a legitimate online business
20 selling e-cigarettes, and occasionally money shifted between the capital and profits from both online
21 businesses. In general, many of our interviews seemed to suggest a blurring between legitimate and
22 illegitimate capital investment in cocaine.
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27 ***3.1.4 Criminal Careers, Illegitimate Money and Loans***

28 Criminal sources of investment and reinvestment also act as the financial capital for cocaine
29 businesses. Our experts talked of cocaine deals financed with the proceeds of armed robberies and
30 selling stolen goods. For instance, one entrepreneur – who was also involved in burglaries – financed
31 his cocaine operation directly through his criminal activity, alongside his ability to secure product from
32 suppliers on credit due to the reputation he had built up throughout his criminal career. Another high
33 profile importer, known to one of the law enforcement agents we interviewed, used his criminal
34 expertise, contacts made in prison, proceeds from crime and prior involvement in drug markets to
35 facilitate his cocaine supply. Again, some of the criminals involved grouped together to invest in
36 cocaine.
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38 A particular operation we came across involves a criminal group currently importing large
39 amounts of cocaine into the UK via Spain (specifically Tenerife) and Amsterdam. They supply to
40 several regions across the UK via intermediaries. The group do not rely solely on cocaine and are
41 involved in various legal and illegal operations. For example, amphetamine supply and manufacture
42 was mentioned as a “big earner”. Some of the key players were also involved in large scale cannabis
43 cultivation. Moreover, several individuals had legitimate concerns, including tyre and exhaust fitting
44 centres, fruit and vegetable shops, property portfolios, hotels, public houses, and guest houses catering
45 for social security residents.
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47 An expert mentioned cocaine dealers who diversify their illegitimate businesses and
48 investments. For example, many known criminals who are involved in buying and selling stolen
49 goods, particularly high-end expensive goods such as top of the range cars, also deal in cocaine.
50 However, again, there was a blurring of the legal and illegal because some of the same criminals also
51 had legal business portfolios that they were using to ‘clean up’ their crime money. This included shops
52 and rental properties, and particularly small cash-only businesses such as nail salons, barber shops, car
53 washes, and auto-repair shops.
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3.1.5 Access to Capital in Critical Moments

As is the case with high-risk criminal operations, it is not uncommon for actors involved in the cocaine trade to require immediate access to substantial amounts of capital in critical moments; for example, if a shipment is seized or an arrest is made. Highlighting similarities with the processes used to obtain capital in order to initiate and sustain a cocaine operation, the information we gathered during the in-depth interviews with experts and criminal entrepreneurs in the UK suggested the following ways in which cocaine dealers acquire access to such capital in critical moments:

Securing cocaine from a trusted source on credit: Entrepreneurs, academic experts and law enforcement all spoke of the role past associates and connections in the cocaine trade can play in critical moments if an individual needs to access capital in the form of an amount of cocaine on credit. One entrepreneur - who having been arrested and sentenced to six years began to buy cocaine entirely on credit through an old associate on his release - explained that this may be at a higher price at first: *"he wasn't doing many favours with the prices... I was paying a little bit over the odds, but beggars can't be choosers"*. Experts also noted the role played by "a help out", in other words a past associate, friend, and/or supplier who can *"offer a decent amount of gear totally on bail with no up-front payment"*. Moreover, law enforcement respondents were quite adamant that re-entering the market after an arrest is relatively easy if you have the right connections: *"You can re-enter using connections and reputation more than money. Product 'on tick' from friends for example. Then establish yourself back in the market"*. Therefore, just as we found with regard to securing initial start-up capital, connections, reputation and trust play a fundamental role in a cocaine dealer's ability to access capital in critical moments in the British cocaine trade.

If arrested, a trusted partner acts in the arrestee's absence to continue operations: An expert described cases in which individuals involved in the trade were able to begin dealing immediately after release from prison because a trusted associate had kept their business in operation during their time away: *"Usually this involves a trusted accomplice keeping the business going in his absence"*.

Selling labour power: Two experts mentioned individuals simply selling their labour power by making themselves useful to existing operations in order to re-enter the market. One specific example involved an individual working as a mule to "get back in the game" after 2 kilos of cocaine they were responsible for delivering was 'lost'. Although the mule denied their involvement in the missing shipment, they chose to work again to gain entry back into the business, to build their reputation and to pay off the debt.

Using financial capital from other legitimate or illegitimate businesses: If an individual or group involved in a cocaine operation has a business portfolio (illegitimate and/or legitimate), he or she may borrow and move capital between businesses in order to gain access to funds when necessary. This also links to the simultaneous role that legitimate businesses can play in money laundering. For example, the online dealer who also runs an online e-cigarette business (see discussion above).

3.2 Settlement of Payments

In the cocaine trade settlement of payments depends on whether the payment is being made upstream or downstream, whether there is a pre-existing relationship, the level of trust between the actors involved, and the level of the trade in which they operate. According to one of our experts, upstream payments between producers/suppliers at different levels of the British cocaine business are usually organised in one of the following ways:

- a. Up-front
- b. Part-payment
- c. Payment on delivery

According to experts, it is rare to find either full up-front or on-delivery payments. Therefore, various ratios of part-payments are usually agreed. However, at the importation level some groups/operations may settle a payment for a shipment in full in one country, then have different agreements set up for further distribution in other countries. Once in the UK, large payments can be made up-front and often larger sums “on bail” or credit. As for employees facilitating payment arrangements, a runner is often used to transport money to and from locations and between groups. For example, one ‘firm’ known to an expert in the North East of England, with strong links to another in the South East, have been known to transfer both money and drugs via London King’s Cross station. As the expert explains:

“A runner would almost always be used to carry out such a task. Typically it would be someone lower down in the ‘hierarchy’, although they must be trusted. Often someone known from youth. Often an up-and-coming youngster who is in need of the money enough to take the risk, but not seen as desperate enough to try and rob monies or goods. Typical payments would be 500 to 1,000 pounds per trip - money or drugs at the same rate - depending on who the runner [is]”.

Downstream payments between customers and dealers are usually cash up-front, but on occasion there will be a certain amount of credit given. However this credit is in cocaine, not money. The criminal entrepreneurs interviewed offered the following information about both upstream and downstream payment arrangements:

Criminal Entrepreneur #1

- Upstream: the first entrepreneur either paid up-front or on credit with an agreement to pay back over a certain amount of time. Sometimes he would pay back his connection as and when he sold the drugs, i.e. a revolving credit agreement. He never borrowed money, only received drugs on credit. The bigger and faster his turnover and the more he gained trust, the larger the amount of cocaine he could buy at a discount and the greater the level of credit he could receive.
- Downstream: he would ask for cash up-front, but would occasionally give a gram or two of cocaine to his friends on credit without interest. This would only be with trusted people to guarantee payment. He reported having only ever had to make a couple of threats to secure payment.

Criminal Entrepreneur #2

- Upstream: this entrepreneur dealt with a trusted supplier and sometimes was given product on credit. As he explains: *“I see one main guy. Payments were always in cash. I could get some coke on tick because we go way back, I knew him as a kid and he trusts me. The terms were just like a kind of rolling credit. He never had to secure his payment because I wouldn’t mess about”.*
- Downstream: he would sometimes give customers cocaine on credit, but only trusted people. Moreover, the majority of his business was now online and he traded solely in bitcoin, whereby orders were not sent until the digital currency arrived in his bank account. For sellers, the dark net and digital currencies offer less risk in terms of securing payment from customers. The entrepreneur even mentioned the increasing popularity of private, invite-only and personalised

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4 sites now appearing on the TOR network in which trusted online sellers and buyers do
5 business.
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7 *Criminal Entrepreneur #3*

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- Upstream: this entrepreneur uses one supplier in Manchester and no credit is allowed, only cash up-front.
 - Downstream: normally cash up-front, however he would infrequently give small amounts to very close friends on credit.

14 *Criminal Entrepreneur #4*

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- Upstream: this entrepreneur has done deals in the past whereby he would pay a certain amount up-front, and also receive the remaining quantity of cocaine on credit from a dealer in Liverpool. Currently, he has the capital and buys his cocaine up-front from a wholesale dealer based in Yorkshire.
 - Downstream: at one point in his career he was selling over a kilo of cocaine every two weeks. Now, he sells to a “select group of customers”, the money is usually up-front and only in ounce deals, never smaller.

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In the cocaine business the cash flow needs to be constant and there is always a floating amount of debt and recovery. In order to guarantee payments many of the dealers we interviewed (see above), along with one expert with personal experience in the market, spoke of trust as a key principle required to ensure a return of payment. Therefore our data, in support of previous research (see Pearson and Hobbs, 2001; Soudijn and Reuter, 2013), has found that threats and intimidation are part of the cocaine business but not routine. In other words, violence happens when things go wrong and as a last resort. As one entrepreneur notes: *“I only deal to trusted friends with jobs and cash, but if I have to, threats of violence or taking some collateral worth more than the debt such as an X-Box or a watch usually would do the trick to incentivise a payment”*. One expert also spoke of cocaine being sold at street level in return for stolen goods, one example being that of a shoplifter who traded a flat screen TV for 1 gram of cocaine worth 50 pounds. Therefore, how various dealers manage their payments and profits may also depend on the demographic profile of their customers.

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However, sometimes things do not go to plan, in which case trust only extends so far, and in order to guarantee that payments will be settled cocaine dealers may use violence or threats of violence, recover assets, or sell on debts. Our law enforcement experts spoke of cases where the use of violence, threats, recovering property/assets, and selling debt to enforcers had taken place. As an expert notes, *“some people employ a ‘facilitator’ or ‘enforcer’ and pay a fee. Others may sell the debts on. It all depends on the amount needing to be recovered. If it goes to a local loan shark the interest will be big”*. Another expert mentioned something similar: *“A UK dealer may have networked and made an agreement with an importer but something goes wrong, they are ripped off or the product intercepted. They may use violence or threats... or sell this debt on to a heavier headed group or individual to enforce the debt, say a £40,000 debt sold half return”*. In other words the enforcer keeps half of the money they recover.

52 **3.3 Profits and Profit Sharing**

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The UK is an end-user market for cocaine; therefore, the drug is at its highest price, having increased incrementally as it moves through a variety of places and complex stages in the supply chain. There are variations in mark-ups and profit margins throughout the stages and operations involved.

Considerable profits can be made at the wholesale level of the cocaine business in the UK. This is also true at the level of importation (see Matrix Knowledge Group, 2007).

One of the law enforcement experts we interviewed noted that on average an “original block” of 1 kilo of high quality cocaine is worth approximately £40,000 once it reaches the UK market. He explains: “If you import a block you may sell in full, or usually have a small number of one-off deals and cut product by one third with APIs to make three times the profit”. We have found that once cocaine reaches the UK, criminal entrepreneurs’ profits can fluctuate and vary depending on a number of factors: availability, demand, quantity, quality of the product (purity before and after adulterating), customer base, and risk of seizures or arrests. The UK based entrepreneurs we interviewed buy and sell cocaine with the following mark-ups (entrepreneurs 1, 2 and 3 work at the retail level, while entrepreneur 4 is a middle level dealer; Table 1).

Table 1. Interviewed criminal entrepreneurs’ mark-up

	<i>Criminal Entrepreneur #1</i>	<i>Criminal Entrepreneur #2</i>	<i>Criminal Entrepreneur #3</i>	<i>Criminal Entrepreneur #4</i>
<i>Buys</i>	£960 per ounce	£800 per ounce	£700	£15,000 per 9 bar (9 ounces)
<i>Sells</i>	£40 - £50 per gram	£50 (to friends) £70 (online) per gram	£60 per 0.8 gram	£23,400 per 9 bar*
<i>Mark-up</i>	47.6% @ £50 per gram	147.6% @ £70 per gram	191%	56%

Notes:

* Criminal Entrepreneur #4 splits his 9 ounce deal into 2:

1. He cuts 6 ounces into 18 ounces ‘3, 2, 1’ with lactose and caffeine powder sold at £800 per ounce
 - 44% mark-up
2. He cuts 3 ounces into 6 ounces ‘1 to 1’ sold as ‘pure’ at £1,500 per ounce
 - 80% mark-up

The variation in the prices that retail level dealers pay for ounces suggests that the levels of purity and adulteration of the cocaine they buy and sell also varies. Our data also highlights that considerable profits can be made at the retail level with the right supplier and customer base, particularly if the actors involved cut the product to a high degree. Having said that, Entrepreneur #1 – although having been involved in the business for over 7 years – had not gained or invested his money and seemed to offer a typical example of a street-level dealer who had fewer opportunities to profit from the cocaine trade in the long term. He noted that he had simply “had a good time”. This contention was supported by two of our experts who spoke of the “big money” available in operations over borders, but less profit available at street level. Of these, two experts gave details of three specific cases, which offer an insight into the fluidity in levels and profits of cocaine operations:

“The biggest case I know was international and they were importing 2.5 to 5 kilos per month. Another was at street level, where a woman at the peak of her dealing was making £1,000 per

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4 *month. However, another case was that of a female dealer who chose to do less. She made*
5 *£300 per month because it was less bother and she was happy with her customers and how it fit*
6 *with her lifestyle – she had kids and a job”.*
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9 Our data shows vast differences in terms of profit margins at retail level and a suggested drop in purity
10 could be the result of criminal entrepreneurs who operate at street level further adulterating their
11 products to increase profits. Previous research also suggests that mark-up can depend on risk (Dorn *et*
12 *al.*, 1998; Matrix Knowledge Group, 2007). For example, the risk of arrest at the level of importation
13 results in larger profit margins when trafficking cocaine over borders. As Matrix Knowledge Group
14 contends:

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16 *“Mark-ups in the illegal drugs market mirror the risks taken, and dealers reported that*
17 *local and regional price rises of a “couple of grand a kilo” can occur because of a large*
18 *and effective enforcement operation affecting that part of the supply chain. However these*
19 *limited effects are not enough to change price trends overall”* (Matrix Knowledge Group,
20 2007: 10).
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23 Yet, this risk-driven mark-up can have a knock-on effect in terms of purity and/or price along the
24 supply chain to customers (Dorn *et al.*, 1998). One law enforcement officer we interviewed also
25 suggested that profit margin depends on the original investment and level of risk: *“Depending on what*
26 *one invested in the first place. If one invested 50% they expect 50% of profits. That is of course in*
27 *those cases that do not involve losing merchandise”.*
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29 Moreover, at wholesale and middle-level in the UK, prices and profits can vary depending on
30 the size of the local markets and the availability of cocaine. One entrepreneur based in the North East
31 of England was buying in Manchester in ‘ounce deals’ cheaper than another entrepreneur based in the
32 same city who bought from a local dealer. He was also selling 0.8 as 1 gram deals, which leads to a
33 further increase in the mark-up (see Table 1 above). Therefore, a dealer buying wholesale in a larger
34 market such as Manchester or Liverpool, but selling in a smaller city or town, can secure a higher
35 profit margin.

36 In terms of profit-sharing, experts suggested that some actors may be involved in group
37 investment schemes in which they seek a percentage return similar to their original investment.
38 However, we have found that most cocaine entrepreneurs work on an individual basis. For instance, an
39 expert spoke of street level dealers who decide what to do with their own product – how much they cut
40 it, who they sell to and so forth - and what they do with the return. Therefore, flexible networks of
41 individuals may invest in cocaine to sell, yet profit from it on an individual basis. All of the
42 entrepreneurs we interviewed profited individually. Furthermore, our interviews emphasised that
43 profits were usually spent on a consumer lifestyle (buying expensive goods such as cars, and holidays),
44 reinvesting in the cocaine business or laundering money by investing in legitimate businesses or
45 property in the UK. Unfortunately, however, we do not possess detailed data on the issue of money
46 laundering and handling/investment of profits that would allow us to elaborate on this point further
47 (see, for example, Kruisbergen *et al.*, 2015; van Duyne, 2007).
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53 **4. Discussion**

54 The cocaine market is a fragmented business dependent on networks of individual entrepreneurs and
55 small groups rather than rigid hierarchical structures. This lack of formal structures and permanence
56 acts as a self-protective mechanism to reduce costs, maximise profits and prevent detection (see
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4 Williams, 1998; Reuter and Haaga, 1989; Ruggiero and Khan, 2006). At the core of collaboration
5 between and among entrepreneurs involved in cocaine supply often lie family, ethnic or kinship
6 relationships, legitimate business connections or associations forged in prison. Often actors in the
7 cocaine market require the development of trust as the threshold for access to a partner, to the
8 merchandise and to financing (see Kleemans and de Poot, 2008). What von Lampe (2007) calls a
9 ‘social microcosm’ of illegal entrepreneurs is of critical importance to the success of a cocaine trading
10 scheme, which can act as a non-monetary form of capital in an “enduring hostile landscape” (van
11 Duyne, 2000: 370).

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13 The fragmented and decentralised nature of the cocaine market, which often depends on local
14 peculiarities *and* wider global political-economic conditions, is reflected in the patterns of its
15 financing. Therefore, the cocaine market in the UK is financed in a number of ways due to the
16 complexity and variation in its structure. Primarily it is important to point out that capital investment
17 practices in this market are flexible, ‘messy’ and mutating (see Hobbs, 1995). There are various
18 ‘degrees of participation’ and a ‘spectrum of organisations’ in the cocaine trade and the upshot is that
19 money comes from a range of different places. Some operators finance operations collectively, others
20 individually. Some are involved sporadically, whereas others continually operate and reinvest. In this
21 context, there is a blurring between legitimate and illegitimate capital investment in cocaine.
22 Importantly, and unlike other illegal markets such as the illegal tobacco trade (Antonopoulos and Hall,
23 2015), credit is an integral feature of the cocaine business in the UK (see also Brå, 2007; Skinnari,
24 2010) and there is always a floating amount of debt and recovery. Furthermore, our research
25 corroborates the findings of similar research in the UK and internationally highlighting that violence,
26 threats and intimidation – although present in the market – are not the main ways of securing payments
27 (see Pearson and Hobbs, 2001; Soudijn and Reuter, 2013). However, an interesting feature relating to
28 the settlement of payments involves selling debt to enforcers and/or loan sharks, where patterns of
29 violence and threats of violence are more likely to emerge.

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32 At the level of importation the risk of arrest when trafficking cocaine over borders results in
33 larger profit margins. At wholesale and middle-level in the UK, prices and profits can vary depending
34 on the size of the local markets and the availability of cocaine. There are vast differences in terms of
35 profit margins at retail level depending on purity and price. The entrepreneurs we interviewed
36 possessed a small piece of the market with modest profits that simply spilled over into the legal
37 economy. Yet our research has also shown that some actors launder bigger profits through legitimate
38 businesses and property. In those cases involving money laundering, criminal entrepreneurs are
39 embedded in legitimate businesses which provide for a very convenient (and already existing) setting
40 for this type of financial management. Therefore, the examination of the financial management of the
41 cocaine trade in the UK highlights that legal businesses act as platforms for a relatively more efficient
42 management of crime money (see Kleemans and van de Bunt, 2008).

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44 These findings might partly be the result of methodological limitations that should be
45 mentioned at this point. Official data, including data derived from interviews with members of the
46 authorities, is the result of law enforcement activity, which in turn depends upon resource restrictions,
47 the competency of agents, organisational priorities and wider political priorities. In addition, official
48 accounts often limit the scope of our analysis by relating the identity of individuals involved in
49 ‘organised crime’ activities to that of one dimensional ‘criminals’ drained of cultural context;
50 something that might have numerous implications in terms of the *financial* information that is
51 available (see Hobbs and Antonopoulos, 2014).

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53 In some respects this has been addressed in our research by interviewing active criminal
54 entrepreneurs involved in the trade. However, as reflected upon by almost all researchers who have
55 conducted interviews with ‘organised criminals’ (e.g. Zhang and Chin, 2004), such interviews also
56 have numerous limitations. There are issues of generalisability and one can never be absolutely certain
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4 about validity; although in this instance the presence of a pre-existing relationship between the
5 researcher and the entrepreneurs, alongside 'cross-checking' and 'member checking', significantly
6 contributed towards eliminating untruthful accounts. Moreover, this brings about issues in terms of the
7 representativeness of the sample. This study sample was small and we were not able to interview
8 entrepreneurs involved in the production of cocaine or, perhaps most importantly, to obtain primary
9 data on the financial management of the trade from importers and wholesalers. However, the world of
10 'organised crime' is a very complex and diverse terrain and, notwithstanding these limitations, this
11 research, adding to the scant research already available, helps begin to build an accurate picture of the
12 functioning and financial management of the cocaine trade in the UK.
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