



NEW SOUTH WALES
C R I M E C O M M I S S I O N

Submission to Parliamentary Joint Committee on the Australian Crime Commission – Inquiry into the Amphetamines and Other Synthetic Drugs (AOSD)

Prepared on 14 February 2006

The New South Wales Crime Commission (NSWCC) investigates amphetamine related crime under its *Vacy* reference, which was first granted on 2 November 1993 and was most recently updated to *Vacy VII* on 21 November 2005.

The Commission attended the 9th National Chemical Diversion Congress in Darwin in October 2005. This Congress is an annual event, sponsored by the Australian Crime Commission and the Attorney-Generals Department, which aims to bring together law enforcement, health care, law and pharmaceutical industry representatives to discuss the problems relating to the diversion of chemicals into the manufacture of amphetamines. 167 delegates attended the conference from sixteen countries – Australia, New Zealand, China, Hong Kong, the Phillipines, Thailand, Samoa, Fiji, Papua New Guinea, Germany, Japan, the Netherlands, Belgium, Canada and the USA – representing a wide range of experience and expertise.

Most of the issues discussed below are derived from the Congress.

The increasing impact of amphetamines

The market for AOSD in Australia is rapidly expanding – the United Nations estimates that Australia has the **second highest rate** of consumption worldwide of methylamphetamine (speed) and the **highest rate** of consumption worldwide of MDMA (3-4-methylenedioxymethylamphetamine, known as ecstasy). A recent study by the National Drug and Alcohol Research Centre estimated that there were currently around 73,000 dependent users of amphetamines in Australia. Around two-thirds of these users prefer to use ice, a crystalline and more potent form of methylamphetamine. The increasing market for AOSD is illustrated by the seizure of around 3 tonnes of MDMA (powder and tablets) by Customs in 2004-2005, compared to around half that in 2003-2004.

Ecstasy and ice have traditionally been imported into Australia, with speed more likely to be manufactured locally. Manufacture of speed has grown rapidly because it is relatively easy, with 'recipes' available for download on the Internet and most ingredients readily available for purchase. It is also profitable, with US figures indicating that \$600 worth of chemicals can produce \$2000 worth of amphetamines.

Laboratory detection figures show that there were 333 clandestine laboratories detected across Australia in the year to August 2005. The majority of the laboratories (140) were located in Queensland, but these tended to be small 'box labs'. NSW figures for 2005 show that there were 58 clandestine laboratories discovered, and that 46 of them were producing speed. Six were producing ecstasy. Several different methods were being used including the Nazi method, the hypo method, and so on. The NSWCC is currently involved in several investigations relating to the discovery of laboratory sites.

The scale of the problem in Australia is dwarfed by that of America, where 17,170 labs were detected in 2004, in all shapes and sizes and spread across all states. Methylamphetamine has replaced cocaine as the most problematic drug for the USA.

Ecstasy is becoming both freely available and increasingly socially acceptable in Australia. Work conducted under the NSWCC *Gymea* reference has shown that European organised crime groups (particularly from the UK, Netherlands, Belgium and Israel) are targeting Australia for large-scale importations of ecstasy tablets, millions of pills at a time, due to the high profitability of the Australian market. Pills can be sold here for a much higher price than in Europe.

Recently several large shipments of pills have been intercepted by law enforcement, such as the 820kg seizure of ecstasy located inside a pizza oven by the AFP in 2004. This has led to a shift in the preferred import methodology from importing the finished pills towards importing the ecstasy in powder form which is more difficult for Customs to detect. The increase in powder imports has led to a growing local market for pill processing plants, where the powder is pressed into pills. Pill presses are not a restricted import and can be legally purchased in Australia.

Imported tablets are generally a higher quality than locally produced ones and sell for a premium price. In the last six months several large labs have been located in NSW which were producing high quality ecstasy, perhaps indicating a new trend. Local manufacturers often attempt to copy the appearance of the popular pills from Europe, with inferior ingredients. The European exporters consider this to be a significant problem, and in a recent investigation used a new and expensive machine to place a raised logo onto their pills that could not be replicated locally. The other challenge for exporters is the need to arrange money laundering schemes to repatriate their substantial profits. Underground banking systems are commonly used. In *Gymea/Temblor* one individual repatriated \$60 million through a single remitter in a period of eight months.

The increasing production and use of amphetamine is leading to a growing awareness of the mental and physical consequences of amphetamine use. Up to 25% of regular users experience psychotic behaviour, such as paranoia, hallucinations and rages which can lead to violent episodes. Users often develop sores on their bodies from scratching at 'crank bugs', the result of a common illusion that bugs are crawling all over them underneath the skin. Long-term use can also have a devastating impact on physical appearance.

The rescheduling of pseudo-ephedrine and its impact

Pseudo-ephedrine is a key ingredient in the manufacture of methylamphetamine. In the commonly used 'hypo' manufacturing method, pseudo-ephedrine is reacted with hypophosphorous and iodine to produce a methylamphetamine oil which is then treated and refined to produce speed.

In August 2005 pseudo-ephedrine was rescheduled under the *NSW Poisons and Therapeutic Goods Act* to become a Schedule 3 Recordable substance, which means that all products containing pseudo-ephedrine, such as Sudafed, must be kept behind the pharmacy counter. Packets containing more than 30 tablets are Schedule 4, which means they are available on prescription only. Currently these restrictions only apply to single ingredient tablets which contain pure pseudoephedrine, and do not cover mixed cold and flu tablets such as Codral or Demazin.

The rescheduling has led to several new trends in sourcing of precursor chemicals.

- An increase in offshore sourcing of pseudo-ephedrine, which can be purchased over the Internet. It is freely available from China and India which both have large legitimate pharmaceutical industries, loosely regulated. The purchase of chemicals and lab equipment over the internet is being monitored by ACC Project Chillaton, which has had some success in linking internet purchases to laboratory sites.
- A reduction in the threat posed by 'pseudo-runners', who would go from one pharmacy to the next purchasing Sudafed packets to use in manufacturing. Similarly, rogue pharmacists who were able to divert Sudafed from their pharmacies to criminal associates are no longer able to do so.
- An increase in the use of violence to access pseudo-ephedrine, such as armed robberies on pharmaceutical warehouses or pharmacies.
- Investment by major pharmaceutical companies in the development of pseudo-ephedrine free cold and flu products. Pfizer has just released the first of these onto the market, Sudafed PE, which contains phenylephrine as an active ingredient instead of pseudo-ephedrine.
- A proliferation of creative methods of precursor importations, with a level of complexity previously only seen for the illicit drugs themselves. The following examples are some of those seen by Customs.
 - In July 2001, a container of ceramic tiles was imported into Melbourne from Montenegro. Tiles had previously been used to conceal narcotics, so Customs examined the container and found that each pallet of tiles contained 22 garbage bags filled with ephedrine, making a total of 556kg.
 - In September 2003, a shipment of 1500 decorative wall plaques from Thailand was imported into Sydney. The plaques were found to be pure compressed pseudo-ephedrine, 750kg in total.
 - In August 2005, 400kg of ephedrine powder was found compressed into the base of ceramic statues which were imported from Vietnam into Sydney.
 - In August 2005, 12.5kg of pseudo-ephedrine was found inside the covers of childrens books which had been imported from Malaysia into Adelaide. The books were intercepted in seven parcels over a two month period, and tracking of the imports led to the detection of nine clandestine laboratories and sixteen arrests.

The work of Project Prism

The International Narcotics Control Board runs Project Prism, which aims to track all global imports and exports of the key precursor chemicals for the manufacture of AOSD as specified in the 1988 UN Convention Against Illicit Trafficking in Narcotic Drugs. The Project is represented by Customs in Australia. Monitoring aims to prevent diversions from legitimate international trade, and to backtrack to the source of diversions when they do occur. Key smuggling routes have been identified – the precursors for ecstasy manufacture, P2P and sassafras oil, tend to originate from the Netherlands and China, while the precursors for amphetamine manufacture, ephedrine and pseudo-ephedrine, come out of China and India. Globally, three key methods for diversion have emerged.

- Precursors can be can be legally imported and then diverted, for example 3.3 tonnes of phenylacetic acid was found in an abandoned stolen truck in Serbia which had been legally imported from China.

- Precursors can be concealed and smuggled, for example 1.1 tonnes of ephedrine was found in Greece inside a shipment of rice from Pakistan.
- Legal loopholes can be exploited. For example, 2 million ephedrine tablets were seized in the United Kingdom which had been imported from Pakistan and had not been monitored by Project Prism as they are a pharmaceutical product.

Identification of these international trends assists local law enforcement agencies in detecting shipments and locating possible lab sites.

The secondary impacts of amphetamine manufacture

The increasing local manufacture of AOSDs has important secondary impacts on the environment and on the people, particularly children, who may be exposed to toxic chemicals from labs. US studies show that the production of one pound of amphetamines produces 5 to 7 pounds of toxic waste, as well as releasing toxic gases into the atmosphere. This waste is dumped into drains, parks and rivers.

Laboratories can be extremely dangerous, especially when run by inexperienced operators. The methods which do not involve pseudo-ephedrine tend to be more dangerous and explosive than the relatively simple 'hypo method', which may mean that as pseudo-ephedrine becomes less freely available there will be an increase in laboratory explosions and injuries to laboratory operators. In the US the 'Nazi method' is more commonly used, involving highly explosive anhydrous ammonia, and laboratory explosions and associated injuries/deaths are common. The dangerous chemicals and fumes also present a challenge to emergency personnel entering laboratory sites. Residual chemicals left in residential homes can cause allergies and illnesses for later occupants.

The contamination caused by labs, and the expense required to remediate the sites, is a growing problem. In the USA the Drug Enforcement Agency has set up a fund which now spends around US\$20 million a year cleaning up laboratory sites and waste dumps. In Australia, the regulation in this area is not uniform – in NSW, the owner of the land bears the cost of the land rehabilitation under the Protection of the Environment Operations Act 1997 which commenced in 1999. Individual owners are liable to pay \$120,000 for not complying with a council order to clean up the land plus an additional \$60,000 per day that the clean up is delayed. In many cases labs are set up in rented properties, leaving the owner of the property with a significant cost burden. The Australian Institute of Criminology has recently commenced a study into the impact of these issues in Australia, funded by the Attorney-Generals Department.

Homegrown laboratories also impact on children who may be living in close proximity to labs run by their parents or other family members. In the US this is a growing problem, which they responded to in 2002 by introducing a Drug Affected Children Program allowing the government to remove children found at laboratory sites and take them into care. Since the program started they have removed 10,651 children. 76 children have been injured in laboratory accidents, and six have been killed. Most of the US states have relevant charges for exposing children to laboratories.

In Australia, a new piece of federal legislation was introduced last year that includes new offences for exposing children to labs. The *Law and Justice Legislation Amendment (Serious Drug Offences and Other Measures) Bill 2005* aims to bring federal drug offences in line with the States, and key changes include:

- An increase in the penalty for commercial drug manufacture from ten years to life;

- An increase in the penalty for commercial manufacture of a precursor chemical to 25 years;
- Two new child endangerment offences with a maximum sentence of life for 'aggravated manufacturing' (exposing a child to amphetamine manufacture).

It is not yet clear how this legislation will impact on a state level – in theory it can be applied, but in practice most states will probably enact similar laws of their own. In NSW, offences for involving children in manufacture are being introduced in the *Drug Misuse and Trafficking Amendment Bill* currently before Parliament.

Conclusions

Australia is making good progress in reducing AOSD production by preventing the diversion of precursor chemicals, particularly through the rescheduling of pseudo-ephedrine. However, the use of AOSD remains a serious and growing problem here and worldwide.

A key problem for law enforcement agencies lies in the adaptability of the manufactures – there are many ways to produce amphetamines, using many different chemicals and reactions. By controlling one chemical, as has been done with pseudo-ephedrine, we simply force the manufacturers to use a different methodology. For example, in NSW there have been recent laboratories found using methcathinone, which is not controlled and can easily be converted to ephedrine and then to amphetamine. This flexibility makes it very hard to prevent manufacture through stricter controls on chemicals, because most of the chemicals do have legitimate uses in industry. Generic offences may need to be created.

New trends in manufacturing and uses of new chemicals will be easier to track once the National Clandestine Laboratory Database is introduced. This database is currently being developed by the ACC and the Attorney-Generals Department, and will contain detailed information on all labs located in Australia. This will be an invaluable resource for law enforcement agencies. Enhanced communication between the various agencies involved in this area would allow a more efficient and effective law enforcement response.

Australia is a significant and profitable market, particularly for ecstasy produced in sophisticated factories in Northern Europe. Precursors from China and other parts of Asia are also a significant problem, fuelling the local manufacturing industry.

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