



**CISC**  **SCRC**

Criminal Intelligence Service Canada  
Service canadien de renseignements criminels



# 2018-19 NATIONAL CRIMINAL INTELLIGENCE ESTIMATE

on the Canadian  
Criminal Marketplace

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ILLICIT DRUGS

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Canada 







**National Criminal Intelligence Estimate**

**2018-19**

**On The Canadian Criminal Marketplace**

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**Illicit Drugs**





## Foreword from the Director General of Criminal Intelligence Service Canada

I am pleased to present the unclassified version of the *2018-19 National Criminal Intelligence Estimate (NCIE) on the Canadian Criminal Marketplace – Illicit Drugs*. This strategic assessment provides an overview of the scope and magnitude of the main illicit drug markets in Canada and the role of serious and organized crime within these markets. It combines federal, provincial, and municipal law enforcement reporting, public health data, open source reporting, and intelligence from other domestic and international government agencies to explore existing and emerging threats to Canada.

While most intelligence produced by CISC is shared only with law enforcement agencies, CISC is increasingly releasing information to the public in order to raise awareness about the nature and extent of organized crime threats in Canada. This national perspective helps ensure that law enforcement, government, and the general Canadian public have a consistent view of serious and organized crime, and contributes to building and maintaining the partnerships that are instrumental to our ability to combat this threat.

CISC works collaboratively with its provincial bureaus and with many federal, provincial, and municipal law enforcement agencies. These partnerships allow for the exchange of vital information without which our ability to assess and ultimately disrupt organized crime threats would be compromised. I would like to express my sincere appreciation to our partners for their valued contributions to this report.

Chief Superintendent Rob Gilchrist  
Director General  
Criminal Intelligence Service Canada





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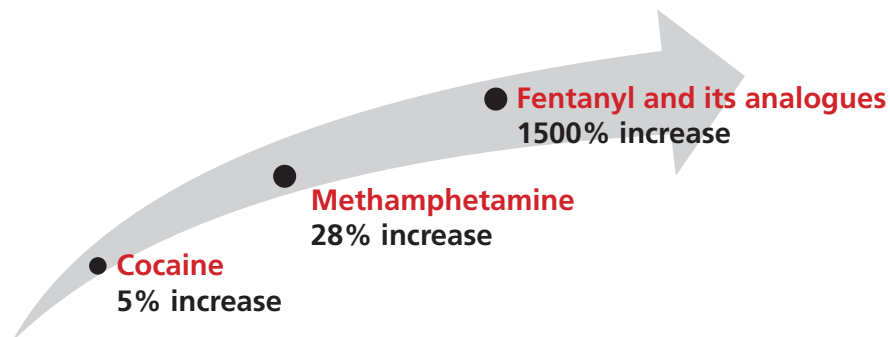


## Executive Summary

### Highlights

- Methamphetamine, fentanyl and its analogues, and cocaine are assessed as having the highest level of threat due to their geographical reach, high burden of harm, and increased involvement of domestic organized crime groups (OCGs). This is expected to continue into 2019-20.
- Regionally, the threat levels of methamphetamine, fentanyl and cocaine vary with methamphetamine and cocaine being the pre-eminent threats in most regions, and the dominant threat in British Columbia and Alberta being fentanyl and its analogues.
- The heroin market, assessed as a medium threat, is being displaced by fentanyl and its analogues in provinces such as British Columbia.
- The legalization of cannabis creates an unprecedented shift in this market, posing a low level threat in the long term (3 + years), as licit market supply increases.
- Increased OCG involvement in the fentanyl market is likely to increase the availability of fentanyl across the country through wider distribution networks – especially if entrenched groups such as the Outlaw Motorcycle Gangs (OMG) and Italian Organized Crime (IOC) become involved.
- Based on past trends and the increased involvement of entrenched organized crime, with its expansive distribution networks, intelligence indicates that over 4000 opioid-related deaths in Canada can be expected in 2019. The number of accidental deaths may exceed this number, with the increasing availability of new and more potent opioids and fentanyl analogues.
- Despite Mexico's traditional role in the cocaine market, Mexican cartel representatives are increasingly exporting methamphetamine, heroin, and fentanyl to Canada.

### Assessed OCG involvement, 2015-2018



**Methamphetamine** is assessed as one of the most important illicit drug threats in Canada, with substantial increases in trafficking and use and a 28 percent increase in OCG involvement over three years.



- The Canadian methamphetamine market is and will continue to be mostly supplied by domestic clandestine labs located in British Columbia, Ontario and Quebec, with OCGs effectively obtaining inexpensive, readily available chemicals from hardware, grocery, pharmacy and supplement stores.
- Despite domestic production meeting Canadian demand, Mexico, with its cartel-related smuggling networks, is increasingly becoming a source of methamphetamine.
- Whereas ephedrine-based production and methamphetamine in crystal or powder form is the norm in Western Canada and Ontario; in Quebec, phenyl-2-propanone (P2P) based production remains prevalent. Methamphetamine, usually in tablet form, is subsequently moved interprovincially from Quebec to Atlantic Canada and parts of Eastern Ontario.



Based on past trends and the increased involvement of entrenched organized crime, with its expansive distribution networks, intelligence indicates that over 4000 opioid-related deaths in Canada can be expected in 2019, largely as a result of **fentanyl**, its analogues and other opioids such as hydromorphone. Fentanyl is now a distinct opioid market, with stronger analogues becoming more prevalent, and represents a pre-eminent threat in British Columbia and Alberta, and, increasingly in Ontario.

- OCG involvement in fentanyl has increased by 1500 percent since 2015, and entrenched OCGs, such as outlaw motorcycle gangs, are becoming more involved.
- Independent criminal entrepreneurs also continue to be involved in the online procurement and trafficking of fentanyl from China via dark web marketplaces using virtual and cryptocurrencies.
- China will remain the primary supplier for illicit fentanyl, its analogues and precursor chemicals to Canada, although increasing amounts will likely originate from Mexico, as Mexican cartels shift from heroin production to fentanyl production.
- Canada is increasingly used as a transshipment country for fentanyl due to a rising international demand.



The **cocaine** market has more OCGs involved (75 percent) than any other market. This trend is expected to continue as a result of increasing domestic and international demand ensuring continued profits for OCGs.

- Mexican cartels, as well as a number of Colombian OCGs, are the main sources of cocaine consumed in Canada.



- An unusual number of high-level cocaine importers from Canada with links to Mexican cartels have been recently killed in Mexico, suggesting that the cartels may be looking to remove competition and to re-establish operational cells in Canada.



The **heroin** market was displaced by fentanyl and its analogues in British Columbia; other provinces will likely follow this trend. Nonetheless, the number of OCGs reported to be involved in the heroin market is increasing. This is likely in part due to heightened law enforcement action dedicated to combatting opioid trafficking in Canada, and is not necessarily reflective of an increase in the number of heroin users in Canada.

- The number of assessed OCGs involved in the heroin market has risen 44 percent in one year, but most groups are also involved in fentanyl.
- The majority of the heroin in Canada continues to be sourced from Afghanistan. South Africa remains a key transit point for heroin to Canada.
- The Greater Toronto Area (GTA), with its longstanding heroin importing and trafficking networks with ties to source and transit countries, continues to be a key point of entry for high quality, competitively priced Afghan heroin. The Greater Montreal Area (GMA) is likely an emerging entry point.
- Mexican heroin, often adulterated with fentanyl, will likely increasingly be imported into Canada through established cocaine trafficking routes.



Approximately 44 percent of assessed OCGs were involved in the **cannabis** market leading up to the implementation of the Cannabis Act. Almost all of these groups are also involved in at least one other illicit drug market and are unlikely to be disrupted by legalization given their alternate streams of revenue. In the short term (1-2 years), as the legal supply continues to be insufficient to meet demand, OCGs are well-placed to fill the gap. However, the number of OCGs in the illicit cannabis market is expected to decrease incrementally over the long term (3+ years), as the licit market supply increases.

- OCGs involved in illicit cannabis will likely, in the long term, increase their involvement in cocaine, methamphetamine and fentanyl to counteract the displacement of their market shares in cannabis as a result of legalization.
- Other adaptive strategies will include: exporting to jurisdictions where it remains illegal, such as in the U.S. and the U.K. focusing on more potent cannabis products; targeting consumers that are unable or unwilling to purchase cannabis from legitimate suppliers; and exploiting regulatory differences between provinces.
- On the eve of legalization, there was a marked 60 percent decrease in the number of illegal cannabis storefronts in Ontario, including the shuttering of all but one storefront with OCG links. Many of these storefront operators are expected to seek the acquisition of a legal retail license to resume operations in April 2019.
- The appearance of illicit dispensaries on First Nations Territories suggests that the illicitly sourced cannabis market will likely emulate the contraband tobacco market by exploiting the tax exemptions extended to Indian Status card-holders.



A total of 140 (23 percent) of OCGs involved in the illicit drug market are importing illicit drugs. The vast majority of these are importing cocaine.



A comparatively low number of OCGs are exporters: 28 groups (5 percent) are exporting illicit drugs beyond Canada's borders - primarily cocaine, cannabis, and MDMA.

- OCGs will continue to be attracted by a combination of high demand and high prices in some countries, such as those for cocaine and methamphetamine, to export to those areas, such as Australia and New Zealand.
- MDMA and cannabis will likely remain the most common drugs smuggled from Canada to the U.S., although to a lesser degree than in previous years.



Illicit drug trafficking is facilitated by dark web marketplaces and cryptocurrencies, which are providing anonymity to vendors and purchasers and posing new challenges for law enforcement. Despite domestic and international law enforcement efforts to take down illicit trading platforms, they are constantly re-appearing.



## Introduction

### Background

The *2018-19 NCIE* is produced by CISC Central Bureau, in collaboration with its network of ten Provincial Bureaus through the Integrated Threat Assessment (ITA) process, as well as contribution from member agencies and other federal and provincial partners. The NCIE is one of CISC's flagship products that was first introduced in 2005, and recognizes the need for law enforcement decision-makers and government policy makers to receive specific strategic intelligence on the scope and magnitude of criminal markets in Canada. This unclassified version of the *2018-19 NCIE* is shared with the Canadian private industry and the general public to help harden the environment against serious and organized crime.

### Structure

The *NCIE - Illicit Drugs*, is a comprehensive strategic assessment of the threat posed to Canada by domestic and international drug trafficking. It centers around five drug markets posing the most significant level of threat to Canada: methamphetamine, fentanyl and its analogues, cocaine, heroin, and cannabis. Brief overviews of other illicit drug markets are also included in the NCIE and will be the subject of ongoing monitoring for potential inclusion in future intelligence assessments and bulletins.



Another iteration of the NCIE, focusing on OCG involvement in financial crime markets, including fraud and money laundering, will be produced at a later date.

### Illicit Drug Criminal Market Profile

A total of 664 OCGs are assessed as high, medium or low level threats in 2018. The illicit drug trade provides organized crime with one of its most financially lucrative criminal markets; over 90 percent of assessed OCGs are involved in at least one illicit drug market in 2018. These OCGs either directly control or indirectly influence all aspects of the illicit drug market whether it be production, importation or distribution. Of these:

- 186 are involved in the methamphetamine market
- 128 are involved in the fentanyl and analogues market
- 496 are involved in the cocaine market
- 118 are involved in the heroin market
- 293 are involved in the cannabis market

The NCIE assesses the scope and magnitude of the main criminal markets. A focus on organized crime activities and their markets, in addition to groups or individuals, is necessary to produce an objective basis for setting law enforcement investigative priorities. For instance, strictly focusing on specific OCGs may not properly consider organized crime involvement in new and emerging markets causing substantial harm, such as fentanyl and other new potent opioids. The *2018-19 NCIE* aims to provide additional context to law enforcement, government and the Canadian public by assessing the markets at highest risk. This assessment will be repeated in subsequent iterations of the NCIE to monitor trends and improve methodology.



Table 1 provides the level of threat attributed to the five primary drug markets in Canada. Methamphetamine, fentanyl and its analogues, and cocaine are the criminal markets posing the highest level of threat to Canada in 2019-20. Heroin is assessed as a medium threat, and the threat posed by the illicit cannabis market is low. For the purpose of this assessment, levels of threat were determined by considering variables such as customer demand, supply (availability of products, ease of movement/sale), ease of market entry and profitability, law enforcement capability, harm, and history of organized crime involvement.

**Table 1 – Illicit Drug Market Threat**

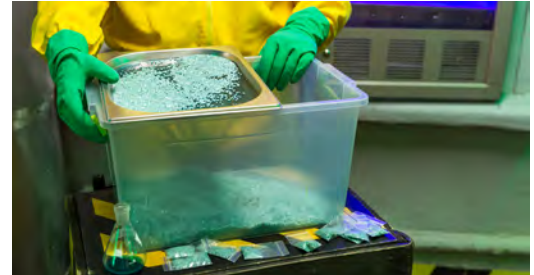
Market	Threat	Rationale	Page
Methamphetamine	High	High potential for abuse and dependence, with reported increases in the availability, demand and harms in most regions of Canada and growing OCG involvement at all levels of production, importation and distribution.	7
Fentanyl and its analogues	High	Intelligence indicates that over 4000 opioid-related deaths in Canada can be expected in 2019 as a result of increasing availability across Canada, including new and more potent opioids and fentanyl analogues. Profitability and relative ease of entry will continue to entice OCGs to enter this market, and law enforcement capability will continue to be challenged by importation and trafficking by independent cyber-enabled operators.	12
Cocaine	High	This market remains profitable and consistently attracts more OCGs than any other criminal market in Canada. Resurgence in domestic and international use and trafficking against a backdrop of signs of rising coca cultivation and cocaine production in Latin America.	16
Heroin	Medium	The market is being displaced by fentanyl and its analogues in Western Canada; however, longstanding heroin importing and trafficking networks continue to import competitively priced Afghan heroin in the Greater Toronto Area (GTA).	19
Cannabis	Low	Cannabis is a relatively safer drug, but it is not benign and risks and harms are associated with its use. OCG involvement will not be overly affected in the short term in light of shortfalls in the legal cannabis supply. In the long term, OCG market share will decrease as licit market supply increases. However, OCG involvement in the licit domestic economy will likely increase overtime.	24
Other Drug Markets	Ongoing Monitoring	Markets to be monitored include, but not limited to: Opium, Ketamine, Hydromorphone, MDMA, New Psychoactive Substances.	30



## Methamphetamine

### Overview

Methamphetamine has emerged as one of the most significant national-level market threats in Canada with entrenched organized crime involvement at all levels of production, importation and distribution. Domestic use of methamphetamine has risen over the past five years, and its prevalence is expected to continue to grow due to its availability, low costs and ease of production. Its harmful impacts will increasingly be felt beyond the individual user, posing greater risks to communities, including law enforcement and first responders.



The domestic market is largely supplied by Canadian-produced methamphetamine, which is moved interprovincially from three main production hubs in British Columbia, Ontario and Quebec to meet domestic demand. 'Super labs' capable of producing large amounts of methamphetamine cater to wholesale distributors from various organized crime spheres and threat levels. Methamphetamine is also imported from abroad, though in smaller quantities. Overall, the total supply of methamphetamine likely exceeds domestic demand and OCGs will continue to export methamphetamine to meet international demand in profitable international markets such as Australia and New Zealand.

The number of OCGs involved in this market has increased from 145 groups in 2015, to 186 in 2018, representing a 28 percent increase over the last three years. OCGs will continue to exploit the characteristics that make this market appealing, including the fact that methamphetamine can be produced domestically with readily available, inexpensive chemicals. Moreover, most of these chemicals are not controlled and can be purchased at hardware, grocery, pharmacy and supplement stores.

### Supply Origins – Domestic and Foreign

The majority of methamphetamine consumed in Canada will continue to be produced domestically in illegal-clandestine laboratories. In 2018, 23 assessed OCGs are involved in methamphetamine production, with the majority of groups based in British Columbia and Ontario. Methamphetamine production is also known to occur in Quebec and Alberta, albeit to a lesser degree. Methamphetamine is moved interprovincially from these main production hubs to meet demand throughout Canada (See Figure 1 for an overview of organized crime involvement in the methamphetamine market, by province and role).

Ephedrine-based production is currently the most common production method utilized, supplying methamphetamine in crystal (crystal meth) or powder form to domestic and international markets. However, in Quebec, where up to 95 percent of the market is in the form of pills, OCGs usually produce methamphetamine using the reductive amination method, which uses the precursor Phenyl-2-propanone (P2P) instead of ephedrine. Methamphetamine pills are subsequently moved interprovincially from Quebec to Atlantic Canada and Eastern Ontario.

Interconnectivity analysis suggests that a number of OCGs are likely collaborating in the production of methamphetamine in British Columbia, including in the acquisition of precursor chemicals. While some of these groups individually may pose a low- or medium-level threat, when combined they form the highest threats nationally. These British Columbia and Ontario-based groups likely have access to 'super labs' capable of producing kilogram-levels of methamphetamine.



In addition to domestic production, the supply of methamphetamine in Canada continues to be furnished by imports from abroad, albeit to a lesser degree, mostly originating from Mexico and the Netherlands. A total of 12 assessed OCGs are importing methamphetamine in 2018. A majority of these groups are international in scope with associations to either the U.S. or Mexico, and are also involved in importing of cocaine. After a series of U.S. federal government restrictions on the sale of medicine containing methamphetamine precursors, a significant proportion of the production moved from the U.S. to Mexico and the U.S. market is now largely supplied by Mexican 'super labs'. It is likely that methamphetamine is smuggled through established cocaine supply lines and trafficking routes, suggesting that Canadian OCGs will face increasing competition from Mexican methamphetamine moving into domestic and international markets.

Most of the precursors and other chemicals used for methamphetamine production in Canada are nonregulated or have regulations that will continue to be successfully circumvented by OCGs. Ephedrine and pseudoephedrine, both of which are legally available, are two common precursors used in the production of methamphetamine in Canada. Pseudoephedrine can be extracted from common cold and decongestant medications, while ephedrine can be bought from nutritional, pharmacy and supplement stores. Canadian-based methamphetamine production is fueled by the overwhelming domestic availability of ephedrine tablets. Ephedrine can be sold to anyone in Canada respecting the established threshold on a maximum of 8 mg per tablet and a maximum of 40 mg per container. Currently, there is no limit existing on the amount of containers a person can obtain. The remainder of the essential chemicals for methamphetamine production, such as solvents, acids and bases, can be found in common household items or purchased independently on their own. For example, iodine crystals continue to be imported legally, despite having few legitimate uses for Canadian businesses.





### Figure 1 - Organized Crime Involvement in the Methamphetamine Market, by Province and Role

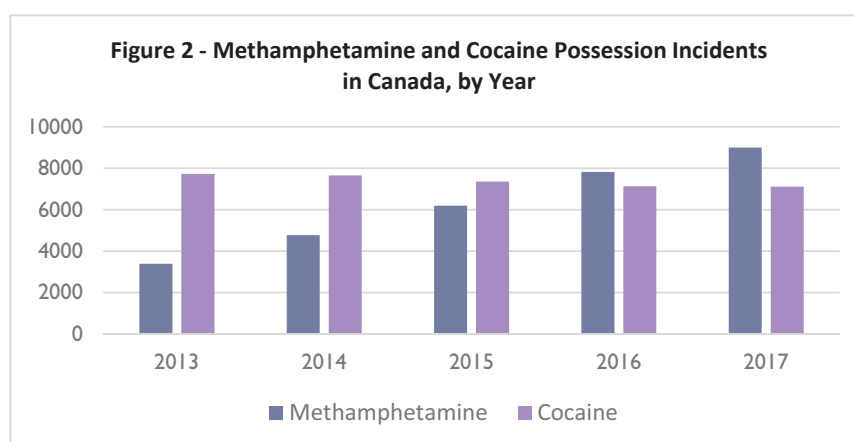


2018-19 NCIE ILLICIT DRUGS



## Demand and Use Trends

Methamphetamine is amongst the most prevalent substances in the Canadian illicit drug supply. This trend is likely to continue as methamphetamine is highly addictive, easy to obtain, and relatively inexpensive. Methamphetamine is now the third highest controlled substance seized by Canadian law enforcement agencies, following cannabis and cocaine. Moreover, a comparison of methamphetamine and cocaine possession incidents over time show contrasting trajectories (see Figure 2). While methamphetamine possession incidents have increased by over 160 percent between 2013 and 2017, cocaine possession incidents have steadily trended downward during the same period. British Columbia, Alberta, and Saskatchewan had the highest methamphetamine possession rates per capita in 2017, while Manitoba had the greatest increase in possession incidents since 2013. Likewise, the number of times that methamphetamine was identified by Health Canada's Drug Analysis Service (DAS) increased by 152 percent between 2012 and 2017 and its presence in DAS analysis results is now as common as cocaine. The biggest increase were reported in Manitoba, Alberta, and Saskatchewan with 606 percent, 633 percent and 1400 percent, respectively.<sup>1</sup>



Source: Statistics Canada

Despite supply reduction efforts, methamphetamine prices are generally trending downward domestically, further enticing use. Internationally, a combination of high demand and high prices in some regions will continue to prompt Canadian-based OCGs to export methamphetamine. Methamphetamine is currently inexpensive in all its forms nationally, with an average of around \$90 per gram, but is noticeably cheaper in Vancouver. Prices can vary for several reasons, such as proximity or access to producers or importers, quality, and form. Cocaine, like methamphetamine, is classified as a stimulant and is generally more expensive – \$100 per gram on average in Canada. Additionally, the high that comes from using methamphetamine is much longer than cocaine, with effects lasting up to 24 hours. This makes methamphetamine an attractive and affordable alternative for some users. Nonetheless, the total supply of methamphetamine likely exceeds domestic

<sup>1</sup> Health Canada's Drug Analysis Service (DAS) is responsible for testing suspected controlled substances that are seized. DAS asks that exhibits be submitted only when verification of the actual substances is required for court purposes. It is not uncommon for multiple exhibits to be submitted from the same seizure nor is it uncommon for multiple results to be entered in the database for the same exhibit. Exhibits analyzed by DAS likely represent a subset of the substances seized by law enforcement agencies, which would also be a subset of the substances found on the illicit market.



demand and OCGs will continue to export methamphetamine to meet international demand in profitable international markets. For instance, given that prices in Australia and New Zealand can be over eight times higher than in Canada, it is expected that Canadian OCGs will continue exporting to these countries.

As methamphetamine use increases, it will likely continue to be consumed in conjunction with other stimulants and depressants, increasing the risk of overdoses. There are indications that fentanyl users are actively mixing fentanyl with methamphetamine. Fentanyl was detected in 77 percent of methamphetamine overdose cases in British Columbia between 2016 and 2017. There are indications that methamphetamine is also being mixed with cocaine in parts of Saskatchewan, Nova Scotia and Ontario, suggesting traffickers are mixing the two in order to increase profits.

Harmful impacts will increasingly be felt beyond the individual user. Methamphetamine is believed to be a major contributing factor in recent surges of violent offences, including use of weapons and violent attacks on individuals. Hospitals are facing increasing rates of methamphetamine fueled violence on staff members, prompting the need for additional security measures. With no current treatment to counteract the effects of methamphetamine, risks to communities is high due to the psychotic and irritable symptoms of methamphetamine that may escalate situations.

### Future Consideration

The ease with which methamphetamine can be obtained or manufactured is a major contributing factor to the increase in methamphetamine use. Domestic methamphetamine production will continue to expand as long as OCGs can successfully circumnavigate the existing precursor control regulations. The violent behaviours associated with methamphetamine use will continue to pose challenges to law enforcement and first responders. Moreover, an expanding methamphetamine market will be a factor in the number and severity of instances of violent occurrences.





## Fentanyl and its Analogues

### Overview

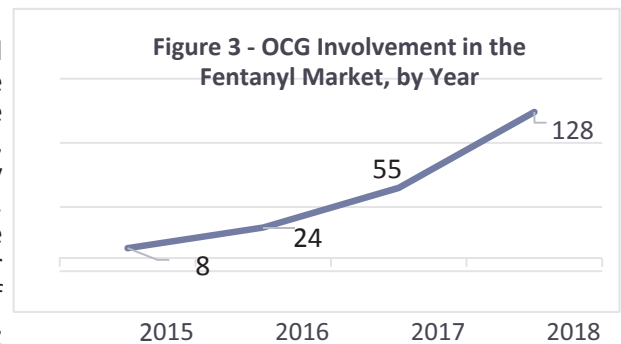
Fentanyl is now present across Canada. It has emerged as a distinct market in communities hit hardest by the opioid crisis. Overdoses continue to escalate in Western Canada and Ontario, placing increasing pressure on health care and public safety resources and exposing frontline personnel and first responders to the risk, albeit limited, of inadvertent exposure. Misuse and diversion of pharmaceutical fentanyl has contributed to the opioid epidemic, however illicit fentanyl and its analogues increasingly taint illicit drugs, causing the majority of unintentional apparent opioid-related deaths in Canada.



Opportunistic individuals and OCGs are increasingly involved in fentanyl trafficking and continue to exploit the characteristics that make fentanyl appealing. These include the fact that fentanyl is easily procured through various surface and dark web platforms; its potency allows for trafficking in small amounts; its ease of concealment makes it difficult to detect; and it is addictive and highly profitable. Fentanyl is predominantly imported from China, however increasing enforcement on Chinese fentanyl, its precursor chemicals, and analogues has and will lead to diversification of transshipment routes and new source locations such as Mexico. The trend toward new and more potent fentanyl analogues to which standard doses of naloxone are less effective will increase the potential of overdoses and deaths, as well as limited risk of inadvertent exposure to first responders.

### Organized Crime Involvement

In the past year, the number of OCGs reported to be involved in the fentanyl market has increased by 133 percent (see Figure 3). These groups are present in every province and territory, except for Prince Edward Island, Northwest Territories, and Nunavut, with the majority of groups concentrated in British Columbia and Ontario. The latter two provinces are also where assessed groups are reported to be involved in fentanyl precursor chemical importation. Vancouver and Toronto are two of Canada's busiest container port and air cargo destinations, which likely allows groups with frequent and ease of access to incoming shipments. Groups facilitate the acquisition of precursor chemicals by using businesses or shell companies that exploit precursor licences in order to supply the illicit market.



Seizures of fentanyl precursor chemicals continue to increase. Few clandestine labs have been detected and are likely increasingly difficult to locate due to a shift from the use of urban locations to rural properties. To date, labs have been located in British Columbia and Quebec. These labs have been described as sophisticated, with value in equipment consistent to the investment made by large OCGs. OCGs in Canada are known to be involved in poly-drug trafficking, and those already involved in the synthetics market face minimal barriers for producing fentanyl, including supplies easily obtained via online vendors and basic laboratory skills.



In addition to the rise in OCG involvement, independent criminal entrepreneurs continue to exhibit a presence in the online procurement and trafficking of fentanyl. In 2017, FINTRAC data revealed a significant increase in individuals providing online payment to chemical and pharmaceutical companies in China known to fulfill orders for fentanyl. Fentanyl is mainly imported and re-distributed using the mail stream with customers placing orders mostly via dark web marketplaces using virtual and cryptocurrencies, which provides anonymity to vendors and purchasers. Dark web vendors have shipped fentanyl to hundreds of domestic and international customers, including in Europe, Australia, and New Zealand. Most opportunistic individuals work independently and have no connection to or background in organized crime.

### **Production, Transportation and Distribution**

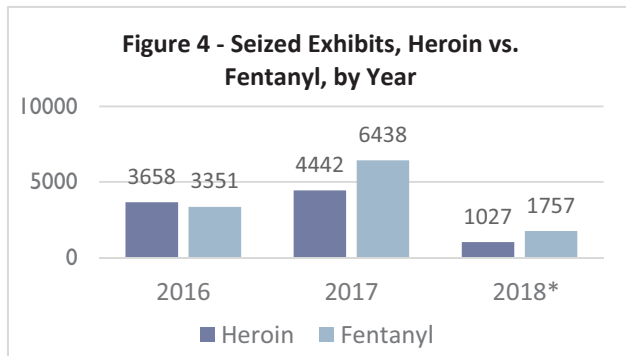
China will likely remain the primary supplier for illicit fentanyl, analogues and precursor chemicals to Canada, although diversification of transshipment points will likely be the preferred strategy of suppliers and purchasers in an effort to avoid targeted enforcement on shipments. Online sellers from China have begun to transship purchases through other countries to reduce the risk of a package being identified and seized by customs officials. Suppliers are also using new and innovative concealment methods and creating new forms of fentanyl and analogues with similar or more potent effects in response to increasing regulations, and in order to transit borders undetected.

Canada will likely see part of its fentanyl supply sourced from other countries, with Mexico as the greatest threat. Mexican drug cartels are believed to be shifting from heroin production to fentanyl production, given declining opium prices in Mexico and the recent discovery of a clandestine lab. As seen in the U.S., the cartels will likely use existing transportation lines for cocaine to ship fentanyl to Canada. With the Canadian border in close proximity to the northeastern U.S., it is likely that Mexican drug trafficking organizations will aim to expand their operations north using their nexus to criminal groups in Canada.

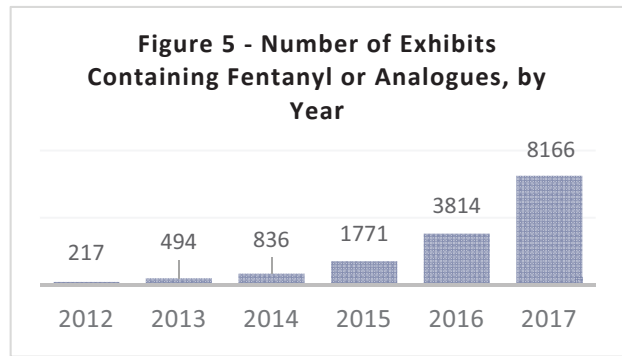
Canada is likely to increase its role as a transshipment country for fentanyl due to the increasing demand for synthetic drugs in North America and abroad. The U.S. has the highest number of deaths associated to non-medical use of pharmaceutical opioids, including fentanyl and fentanyl analogues. Beyond North America, fentanyl use and related overdoses are also increasing in the U.K. (England, Wales), and Australia. A proposed reduction in the availability of prescription opioids in the U.S. by one-third within three years will likely result in users seeking fentanyl from the illicit market. In Canada, criminal entrepreneurs already involved in the sale of diverted pharmaceutical fentanyl patches and dark web vendors selling fentanyl internationally are likely to capitalize on the opportunity to supply a potentially growing demand for fentanyl. In 2018, CBSA noted a rising number of outbound postal seizures of fentanyl. Moreover, Canadian fentanyl export quantities seized in the first half of 2018 were eight times higher than in mid-year 2017, an indication that Canadian involvement in export activities is on the rise.



Fentanyl will likely continue to displace heroin as the preferred opioid of choice by OCG traffickers and consumers in niche markets within Western Canada and Ontario as the continuous influx of illicit fentanyl perpetuates user demand. Fentanyl now represents the largest proportion of all opioids identified in substances seized by law enforcement, surpassing that of heroin (see Figure 4). Furthermore, fentanyl and analogues are increasingly identified in exhibits of illegal drugs seized (see Figure 5)<sup>2</sup>.



Source: Health Canada  
\* Jan-March 2018 only



Fentanyl is now predominantly seized in powder form in Canada, while pills and patches are more commonly seized in Quebec and Atlantic Canada. Although predominantly marketed to heroin and methamphetamine users, fentanyl is also marketed to new consumers, disguised as counterfeit prescription pills or other illicit drugs. Users unknowingly consume fentanyl, resulting in inadvertent addiction. Users who prefer heroin and are inadvertently exposed to fentanyl via adulteration may develop greater opioid tolerance.

Law enforcement in Ontario and British Columbia have reported seizing naloxone kits alongside illicit drugs, as dealers are said to be handing out kits and educating their clients on the proper use of naloxone as a strategy to prevent overdose deaths. In several provinces, dealers are incorporating dyes as a way to differentiate or distinguish their products and in Ontario a spectrum of coloured fentanyl is helping consumers to distinguish the relative strength of products.<sup>3</sup>

With the decrease in dispensing of prescription opioids in Canada, particularly in British Columbia, Alberta and Ontario, individuals who no longer have access to prescriptions may revert to the black market. Illicit fentanyl activity in Saskatchewan, Manitoba, Quebec and Atlantic Canada has remained relatively stable over the past two years, and is not expected to supplant heroin in these regions.

### Demand and Use Trends

Stronger fentanyl analogues will likely become more prevalent in the illicit drug supply, with current naloxone doses less effective in combatting overdoses. This may result in the requirement for the administration of more naloxone than is contained in a standard dose, and possibly in the need for multiple administrations. With fentanyl

<sup>2</sup> See footnote on page 10.

<sup>3</sup> Relative potencies are anecdotal and have not been confirmed through analyses.



emerging as a distinct market in communities hit hardest by the opioid crisis, users are reportedly now specifically seeking out carfentanil directly. Carfentanil, a substance which is 100 times more toxic than fentanyl, is being detected more often in the analysis of seized samples. Figures released by Alberta included a 330 percent increase in accidental overdose deaths related to carfentanil in 2017. Moreover, Canada's largest carfentanil seizures occurred within the past year, with police in Durham region and Edmonton seizing 42 and 16 kg, respectively. Following three deaths in a single week in October 2018, health officials in Ottawa issued a warning regarding the circulation of a new fentanyl analogue which can be found in an array of colours. Some new, emerging analogues are said to be very potent, and a standard dose of naloxone may be insufficient, which can result in unsuccessful reversal of overdoses if additional doses are not available.

An emerging trend to purposefully combine fentanyl or fentanyl analogues with non-opioids will likely result in more overdoses and deaths amongst individuals who are traditionally non-consumers of opioids. While some fentanyl and non-opioid combinations are believed to be unintentional as a result of cross contamination, a recent trend suggests that these mixtures are becoming more purposeful by traffickers and users. Users are intentionally exposed to opioids in order to increase addiction, thereby expanding customer base. In British Columbia, illicit fentanyl was detected in 72 percent of cocaine-detected cases and 77 percent of methamphetamine/amphetamine-detected cases between 2016 and 2017. Whether taken unknowingly or deliberately, cocaine and methamphetamine users who have never developed a tolerance for opioids are at greater risk of overdose death. "Speedball 2.0" is an emerging trend whereby users combine fentanyl or fentanyl analogues with cocaine or methamphetamines. There is potential for this trend to grow in Canada, particularly with the increases in availability of fentanyl, methamphetamine and cocaine, and as Mexican and American OCGs with a nexus to Canada supply their products north of the Canada-U.S. border. This trend will not only present greater danger to recreational users who have never developed a tolerance for opioids, but to emergency personnel and law enforcement who should be aware and exercise vigilance and caution when handling victims or drugs that may seemingly involve non-opioids.

### **Future Considerations**

The rapid evolution of synthetic drugs and in particular the prevalence of extremely potent synthetic opioids such as carfentanil will continue to pose challenges as naloxone becomes less effective in reversing overdoses. New, unregulated fentanyl analogues, enhanced concealment methods, diversified transshipment points, expanding e-commerce and increasing shipments via the postal mode will amplify the already difficult task of interdicting packages, specifically for fentanyl which can be sent in minute amounts and into multiple shipments.

Though Bill C-37 introduces amendments to the Controlled Drugs and Substances Act making it more difficult for OCGs to import and possess designated devices such as pill presses and encapsulators, these added controls do not affect existing groups who already have access to such equipment. Increasing regulations on China along with targeted enforcement on dark web activity and the postal stream may lead to domestic fentanyl synthesis. As OCGs become increasingly involved in the fentanyl market, with the potential likelihood for Canada to become an export country, policing agencies can likely expect increased requests from international partners to assist in addressing these activities.



## Cocaine

### Overview

Cocaine is available predominantly in two forms, powdered cocaine and crack cocaine, and is present across the country. Following years of stability, the domestic demand for cocaine is on the rise with usage rates doubling from one percent (353,000 users) in 2015 to two percent (730,000 users) in 2017. Historically coca production has been limited to Colombia, Bolivia (Plurinational State of) and Peru. However, coca plantations have recently been found in Guatemala and Honduras. While these are much smaller in scale, they may represent test fields to determine the viability of growing coca in new regions closer to Mexico. Not only could this lead to an increase in the global supply of cocaine, it could also represent a change in transportation and distribution routes.



High level Canadian cocaine importers have been recently killed in Mexico and in Canada. While the reason for the murders and the perpetrators behind them remain unknown, it could signal an attempt by Mexican cartels to remove competition and re-establish operational cells in Canada to oversee the import of cocaine for Canadian distribution. Should this occur an increase in violence can be expected; however the level of violence is not expected to reach that seen in Mexico.

Recent large international seizures indicate that transit routes for cocaine destined for Canada are shifting towards smaller Caribbean and South American countries in an effort to circumvent the increased presence of law enforcement around known transit routes.

### Production and Supply Trends

Since 2016, there has been an increase in coca cultivation, led predominantly by Colombia which accounts for 68.5 percent of the global cultivation area. The profitability of coca cultivation for farmers coupled with the profits for organized crime will remain obstacles to a sizeable reduction in the supply of cocaine, for the foreseeable future.

Along with the increase in production, there has also been an increase in global cocaine seizures. The UNODC reported a 20 percent increase in its 2018 report compared to the previous year. This is in line with data released by the Drug Enforcement Administration (DEA) which showed a 23 percent increase in cocaine seizures along the southwest border of the U.S. In Canada, while the number of cocaine seizures at the border is on track with 2017 figures, the quantity of cocaine seized is down 68 percent compared to the same time period in 2017. Given the suggested increase in Canadian cocaine consumption, as well as the increased world production, the reduction in seizure quantities could be attributed to smaller quantities sent in higher frequency to minimize seizure losses, or an increase in international seizures before they arrive at Canada's border, or law enforcement targeting lower yielding modes, such as the postal system.



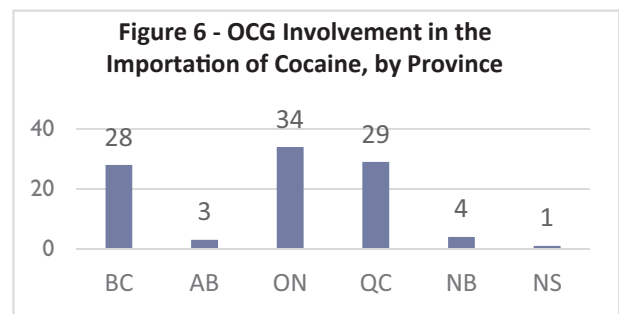


## Organized Crime Group Involvement

### Domestic

In 2018, approximately 75 percent of assessed Canadian OCGs play a role in the cocaine market. The large number of groups involved is indicative of the availability of cocaine and the continued profitability of the illicit commodity. While there are some conflicting reports on the shortage of cocaine or price increase at the kg level in Nova Scotia, Quebec and British Columbia, this shortage is likely temporary, attributed to larger international seizures that occurred over the summer that were likely destined for Canada, and are likely affecting certain distribution networks.

Out of the 496 OCGs, there are 99 groups that are importing wholesale quantities of cocaine. The majority of these groups are located in British Columbia, Ontario and Quebec (see Figure 6) parallel to the distribution of Canadian population in many of Canada's largest urban centres along with the location of marine ports and international airports. A number of Canadian OCGs, as well as individuals linked to OCGs, travel extensively to source countries or known transit countries for cocaine.



### International

The wholesale movement of cocaine to the Canadian market is believed to be controlled primarily by Mexican cartels, as well as a number of Colombian organized crime groups. In Colombia, with the peace agreement reached between the government and the Fuerzas Armadas Revolucionarias de Colombia (FARC) there has been a rise in FARC dissident groups that do not abide by the FARC peace process. The large hierarchal cartels in Colombia are being replaced by smaller more fluid OCGs. As a result, there are many new groups which keep a lower profile and are harder to target.

Although it is believed that nearly all of the cocaine transiting Canadian borders is a result of cartel involvement to some degree, at present, collaboration between Canadian individuals and Mexican/Colombian OCG members continues to occur primarily outside of Canada in source or transit countries, rather than cartel members physically operating in Canada.

High level cocaine importers with known links to Mexican cartels have been recently killed in Mexico. Although Canadian cocaine traffickers have been killed in the past in Mexico, the number of high level importers killed in 2018 represents an anomaly. While the reason for the murders, as well as the perpetrators behind the killings remain unknown, they could signal a shift whereby Mexican cartels may be looking to remove competition and to re-establish operational cells in Canada. Conversely, it is possible that their killings may be a result of the resistance of Mexican cartels to an increased presence of Canadian OCGs in Mexico proper.



### **Emerging Transit Countries**

The Dominican Republic, Mexico and the U.S. are well known and established transit countries for cocaine destined for Canada; however, a number of recent Canadian seizures and seizures involving Canadians abroad suggest that alternative transit routes are becoming more popular. In 2018, seizures have occurred in smaller countries in the Caribbean and in Latin America that may represent an effort to circumvent the heavy presence of law enforcement around traditional transit routes. In Oceania, likely as a result of increased enforcement around Australia and New Zealand, OCGs have started using smaller Pacific Island nations as transit points.

### **Canada as a Transit Country**

Even though the Canadian demand for cocaine has increased, the stability of the domestic price at the kilogram level, between \$50,000 and \$65,000, and at the street level, around \$100 per gram, suggests that domestic OCGs are continuing to export cocaine to more lucrative markets. Canada is one of the top origin countries for cocaine seized through the postal system in Australia. This is likely to continue, as cocaine prices in Australia and New Zealand at the kg level range from \$177,000 to \$295,000. Additionally, Western Europe has seen an increase in both demand and consumption rates as well as an increase in cocaine seizures, and there are indications that Canadian OCGs are already involved in the trafficking of cocaine to Europe.

### **Future Considerations**

Importers will continue to be a viable group for targeting due to their reduced numbers and vital role they play in the Canadian cocaine market, however intelligence gaps still exist as individuals with seemingly no links to organized crime continue to be apprehended entering Canada with wholesale levels of cocaine.

Recent interdictions of larger shipments of cocaine will likely lead to a shift towards smaller quantities being sent in higher volume to diminish the impact of future seizures. Additionally, OCGs are likely to continue establishing new transit countries and routes to circumvent law enforcement detection.

If Canada continues to export cocaine to other markets, international partners are likely to increase requests for Canada to prevent cocaine from reaching their countries. This will present resource challenges for existing law enforcement and border service resources.



## Heroin

### Overview

Heroin is a highly addictive semi-synthetic opioid derived from the opium poppy plant which is grown in regions such as Southeast and Southwest Asia, Mexico, and Colombia. In Canada, this drug commonly appears in the form of a white or off-white powder, which is similar looking to a synthetic opioid, fentanyl.

The adulteration of heroin with fentanyl and its analogues reached 62 percent nationally in 2017 with levels ranging as high as 70-85 percent in some western provinces. The heroin and fentanyl markets are highly intertwined as they belong to the same family of opioids and target similar users. OCGs and local drug traffickers are cutting heroin with fentanyl and its analogues to increase its potency and profits, or inadvertently mixing the two drugs during the milling process. Health risks to users have increased as consumers misidentify fentanyl as heroin. Refer to fentanyl section for further information on this synthetic opioid.



The number of reported OCGs involved in the heroin market continues to increase, and this is likely in part due to heightened law enforcement action dedicated to combatting the opioid issue in Canada. The number of reported OCGs assessed as being involved in the heroin market rose 44 percent (82 to 118 OCGs) from 2017 to 2018, while during the same period, the number of OCGs reported as being involved in both heroin and fentanyl markets approximately tripled from 20 to 62 groups. The increase in the number of OCGs involved in heroin occurred even though the known heroin user population did not increase, suggesting the increased targeting of fentanyl helped identify groups also involved in the heroin market.

### Production

The majority of the heroin in Canada continues to be sourced from Afghanistan, with some coming from Mexico. Afghanistan will continue to remain the primary source country for heroin seized in Canada, with Mexico becoming a viable source country. This is in contrast to the current U.S. situation, where the majority of heroin is sourced from Mexico. According to the United Nations Office on Drugs and Crime (UNODC), there was an increase in the global supply of heroin as the total global opium manufacture reached its highest estimate recorded in 2017. Afghanistan was the largest driver of this increase from 2016 to 2017, however, this global increase has not been linked to a growth or price fluctuation in the Canadian heroin market.

Mexico is becoming a source country due to its increased levels of opium production, rising levels of heroin quality, and its close geographic proximity to Canada. Opium production levels in Mexico rose to record levels in 2017, and subsequently, the potential pure heroin production in Mexico also rose by 37 percent (81-111 metric tonnes) during this time period. Additionally, Mexican cartels now use more refined processing methods to produce a higher quality white powder strain of heroin known as China White<sup>4</sup>. Due to Canada's close geographic proximity to the U.S., and the rising quality of Mexican heroin, it is expected that Mexican heroin will be increasingly be seized within Canada.

<sup>4</sup>China White is believed to have purity levels up to 98 percent.



Afghan heroin, known to be of high quality, is likely being adulterated by Canadian drug traffickers after arriving into Canada. In contrast, Mexican heroin has a greater potential for being adulterated or contaminated with fentanyl within its country of origin. This suggests that Mexican heroin could present greater safety risks to users than Afghan heroin as it is likely to have been contaminated with fentanyl prior to entry into Canada.

**Transportation and Distribution**

**Smuggling Routes**

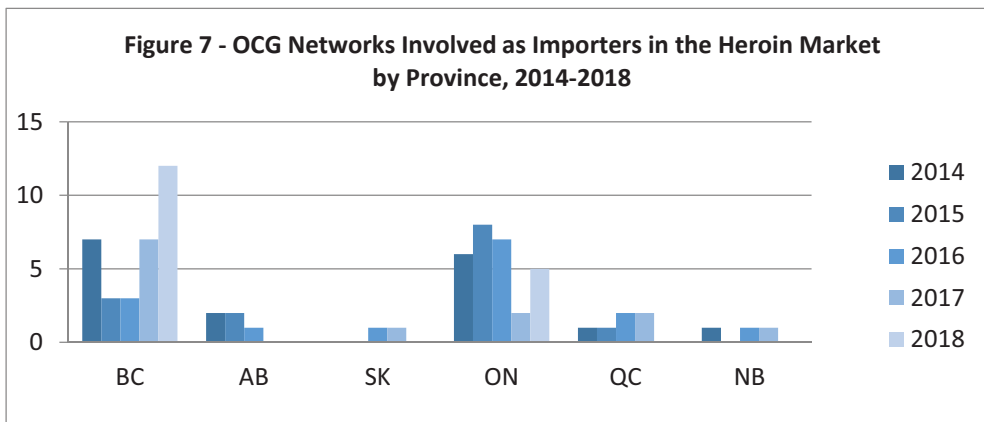
South Africa continues to be a key transit point for heroin to Canada. Afghan heroin typically arrives in South Africa via the “southern route” of heroin trafficking through East Africa. According to the UNODC, traffickers are likely to increasingly shift heroin landing points in Africa in order to avoid law enforcement activity around Kenya and Tanzania. Other common heroin transit countries include Malaysia, India, and Pakistan.

Canadian OCGs importing heroin via Sub-Saharan Africa could become increasingly difficult to disrupt due to technological advances within this region. In 2018, approximately 18 percent of Canadian OCGs involved in importing heroin were linked to African countries or regions. In northern Mozambique, the growth in the number of users of mobile software and encrypted message systems have led to the creation of networks of freelance drug traffickers. This creates additional challenges for the disruption of Canadian OCGs involved in heroin due to their evolving and increasingly anonymous heroin supply chain.

Additionally, Mexican cartels, or Canadian OCGs with connections to them, can increasingly push Mexican heroin into Canada via well-established cocaine trafficking routes. Direct travel links and lifted visa restrictions, coupled with the increased level of heroin production in Mexico and saturation of the U.S. market, may increasingly make Canadian cities along direct flight paths as entry points for Mexican heroin.

**Canadian Organized Crime Group Involvement**

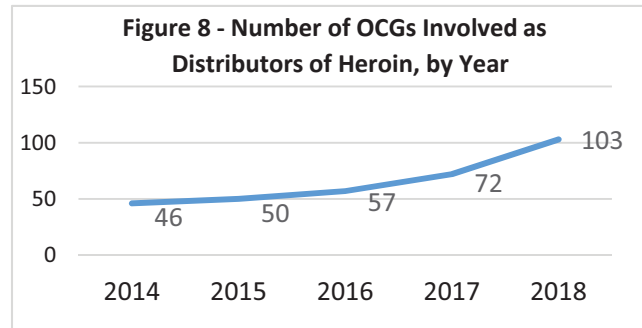
In 2018, a total of 17 OCGs were assessed as being involved in the importing of heroin, with the majority based in British Columbia, followed by Ontario and Quebec. Figure 7 shows the provinces that have OCGs that are involved in heroin importing.





OCG networks based in western and central Canada likely source heroin from differing countries of origin. The OCGs reported as importers based in British Columbia are most commonly linked to the U.S. and Mexico, whereas those based in Ontario are linked to Pakistan and India. This suggests that Ontario-based OCGs are sourcing heroin predominately from Afghanistan via their Southwest Asian connections, and British Columbia-based OCGs may be sourcing Mexican heroin via well-established drug supply lines, and transiting through the U.S.

The targeting of groups involved in distributing illicit opioids contributes to the higher number of reported and assessed OCGs in the heroin market. In 2018, there were 103 OCGs assessed to be involved in distributing heroin versus 72 in 2017 (see Figure 8). Similar to importers, most distributors are reported as being based in British Columbia, with 55 OCGs having this role in 2018, which is up from 38 OCGs in 2017. Of note, 66 percent (21 groups) of the newly reported OCGs involved as distributors of heroin in British Columbia were also involved in the fentanyl market. Thus, the reported increase in number of British Columbia-based OCGs involved as heroin distributors is likely due to enhanced discovery of groups involved in fentanyl.

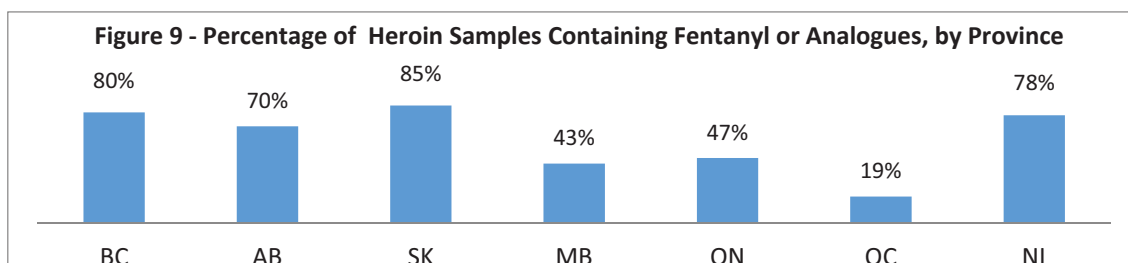


### Regional Markets

The introduction of fentanyl into the heroin supply has created distinct regional heroin markets within Canada. In British Columbia, the market is already saturated with heroin adulterated with fentanyl, and some western provinces are already following this trend (i.e. Alberta and Saskatchewan). There continues to be a market for heroin in central Canada, however, there are reports of a trend of heroin laced with fentanyl already occurring in Ontario, albeit at a slower rate than British Columbia. It is expected that heroin laced with fentanyl will continue to spread west to east across the country, infiltrating the heroin market within central Canada. (See Figure 10 on the next page for an overview of adulteration rates per province).

### Western Canada

The heroin market in British Columbia has already experienced displacement, and Alberta and Saskatchewan will likely follow this trend as the prevalence and purity levels of heroin are becoming increasingly lower, and the majority of heroin in these provinces now contains fentanyl or analogues. In urban centres such as Vancouver, the reported opioid market of choice by users is now fentanyl and pure heroin is rare and difficult to find. In Alberta and Saskatchewan, a total of 70 percent or higher of heroin samples analyzed by Health Canada contained fentanyl or analogues (see Figure 9).

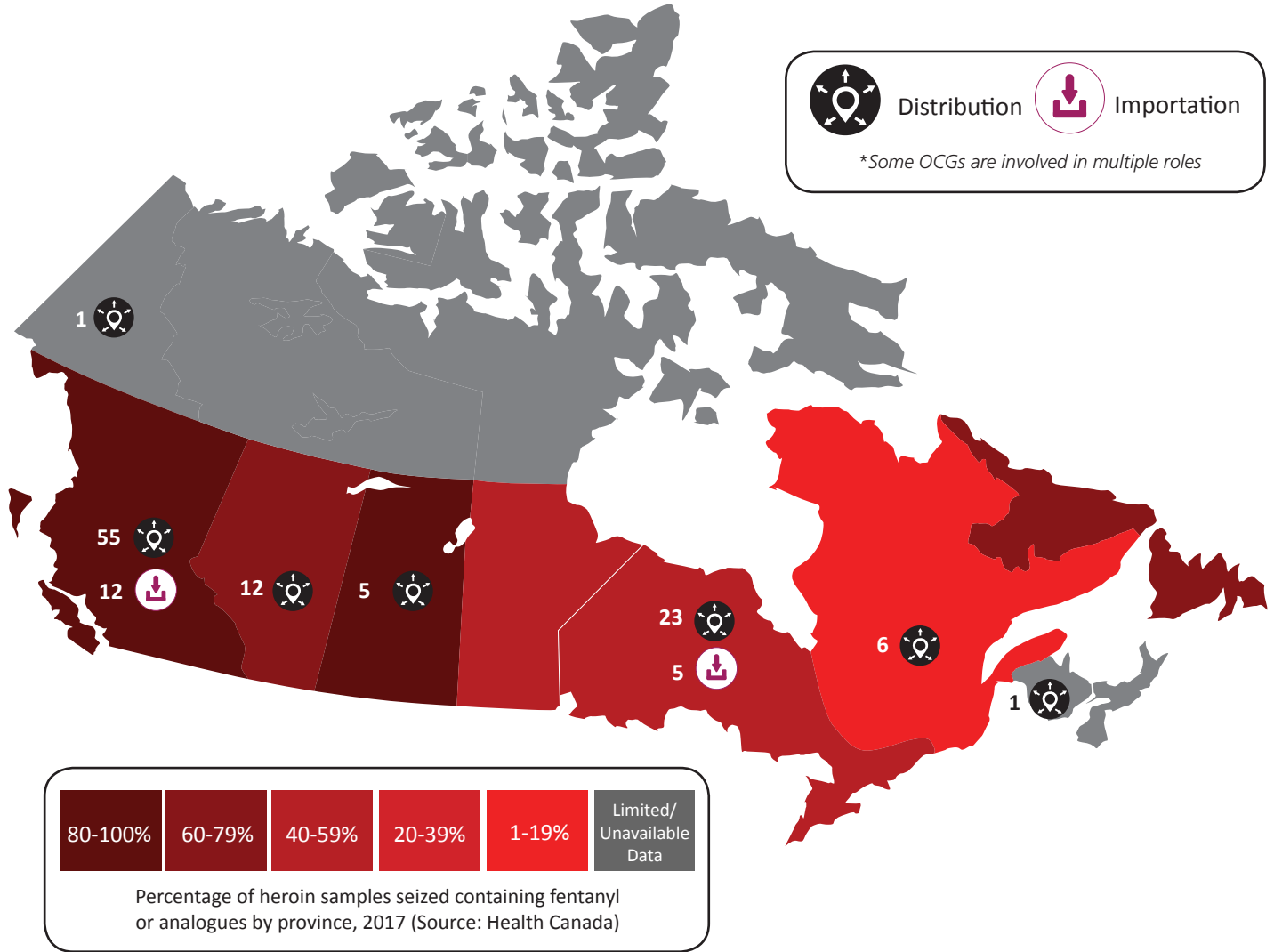


(Source: Health Canada)



**Figure 10 - Heroin Market in Canada by Adulteration Rate and Organized Crime Involvement**

2018-19 NCIE ILLICIT DRUGS



**Central Canada**

In central Canada (i.e. Ontario, Quebec), the heroin market continues to be present due to higher availability and purity levels, but this market will likely follow trends seen in western Canada in coming years, especially if OCGs distribute Mexican heroin.

Over half of the samples analyzed in central Canada did not contain adulterants such as fentanyl or analogues. Further, heroin remains competitively priced with fentanyl in certain cities within Ontario and Quebec, ranging roughly from \$30-40 per point (0.1 grams) for both substances. This is likely due to these provinces having an established heroin user base, and receiving low priced, quality Afghan heroin from OCGs having ties to Southwest Asia.



The heroin market in Ontario is experiencing the spread of a strain of heroin called “purple heroin”. The street name is “purple pebbles” and it is a mixture of heroin and fentanyl or analogues, which is then dyed with purple food colouring. The colour is sometimes used as an indicator of purity and the presence of fentanyl. While this has been increasingly available in Ontario, this type of heroin has been declining in British Columbia over the past year, further demonstrating the regional differences within Canada. Purple heroin overdose alerts to the public were issued within several jurisdictions in Ontario, and a large seizure of this type of heroin has occurred. As the user base for purple heroin grows, this will likely lead to fentanyl more highly infiltrating the heroin market within this province in the medium to long-term.

Quebec has the lowest reported adulteration rates for heroin within Canada. Montreal has a unique market that consists mostly of white or pale powder, with the main substances used to cut the heroin being powdered sugar, acetaminophen powder, and to lesser degree, caffeine and Dextromethorphan. There were a few reported cases where fentanyl and carfentanil were used as a cutting agent, and this is believed to be due to the smaller opioid consumer market within Quebec. However, due to the ease at which OCGs can obtain fentanyl via the dark web and use it as a cutting agent to enhance profits, it is likely that there will be a shift to increasingly using this drug as an adulterant over time.

### **Atlantic Canada**

In Atlantic Canada, heroin is likely supplied by OCGs based in Ontario and Quebec, but user demand is low. The market for heroin in this region is expected to remain limited for the foreseeable future due to the well established illicit pharmaceutical opiates market. Users in this region traditionally use pills and they are not likely to seek alternative opioids such as heroin. OCGs in this region have been involved in the distribution of OxyCodone (e.g. OxyContin) and Hydromorphone (e.g. Dilaudid) for the past decade, without disruption.

### **Future Considerations**

As OCGs are driven by user demand together with drug availability, they will continue to be involved in the heroin market in central Canada. Should OCGs and local traffickers follow the trends in British Columbia, the highly profitable, well-established, affordable, and quality heroin supply from Afghanistan could see more competition from Mexican heroin. This could result in the heroin supply being increasingly adulterated with fentanyl and its analogues.

OCGs based in Central Canada with direct links to countries involved in heroin manufacturing or distribution will likely seek to expand their illicit activities by targeting ethnic communities via shared cultural ties. It is likely that OCGs such as these will leverage their cultural connections to exploit growing cultural diasporas within Canada that are familiar with Afghan heroin.

Dominance over the heroin market in the GMA is in transition due to law enforcement’s targeting of Montreal-based heroin trafficking groups that had a former monopoly over this market, and this could potentially lead to growing conflict.



## Cannabis

### Overview

Cannabis was legalized for recreational use on October 17, 2018. The Cannabis Act is intended to create a competitive legitimate market and displace opportunities for OCGs to profit from this industry. Such displacement will largely depend on the availability, quality, and cost of cannabis produced and distributed legally.



To date, given the varying provincial regulatory restrictions in regards to the sale and availability of cannabis – such as price, source, supply, quality, and consumer age – OCGs have unlikely experienced a measurable impact to their market share and are not likely to in the near future. Legalization may, in the short-term, actually place OCGs in an advantageous competitive position by creating increased consumer demand that cannot be met due to shortfalls in the legal cannabis supply, thereby allowing OCGs to maintain a significant presence in this market.

If the legitimate market does begin to displace illicit activities in the longer term, OCGs can be expected to continue to exploit implementation challenges, demand-management issues, and regulatory loopholes to push illicitly-sourced cannabis products into the marketplace. They may also increase their activities in other illicit markets; the majority of OCGs involved in cannabis are also involved in other illicit drug markets, and are unlikely to be disrupted by diminished returns in one commodity. Moreover, higher-potency cannabis products, such as shatter and a cannabis concentrate called THCA, remain illegal. While marijuana constitutes the bulk of cannabis manufactured and trafficked by OCGs, these products will continue to provide an alternate sale venue for involved groups.

### Pre-Legalization

#### Organized Crime Landscape

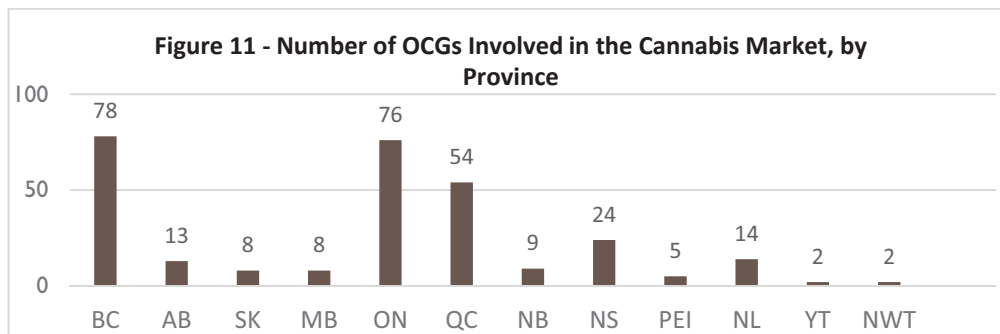
The proportion of OCG involvement in the cannabis market has remained relatively stable over the past five years. Approximately 44 percent of OCGs were reported to be involved in the cannabis market leading up to the implementation of the Cannabis Act, primarily as marijuana manufacturers and distributors. Almost all of these OCGs are also involved in at least one other criminal drug market, such as cocaine, methamphetamines, fentanyl, and pharmaceutical opiates.

Numerous illicit cannabis dispensaries were operating in various provinces without licenses leading up to the implementation of the Cannabis Act. Several of these dispensaries have been linked to OCGs, and are reported to have provided extremely lucrative revenues.





While present in every province, the highest concentrations of OCGs involved in cannabis were in Ontario, British Columbia, and Quebec (see Figure 11), which correlates with Canada’s primary criminal hubs and the largest proportion of overall OCG involvement. Although the modus operandi may shift to adapt to new regulations, their illicit cannabis activities are unlikely to cease. The same can be stated for cannabis exporters, although there is limited information in regards to OCG involvement in cannabis exports; only 10 OCGs were reported to be involved in this activity. Similarly, only a few OCGs were reportedly involved in cannabis importation, primarily in niche submarkets such as hashish (predominantly imported into Nova Scotia) and resin from Jamaica, Morocco, and Afghanistan.



### **Key Assumptions of Legalization**

One of the stated goals of the Cannabis Act was to combat the illegal market; it was enacted with the aim of removing an illicit and highly-profitable venue for criminals, and ultimately disrupting OCG operations. As such, the government has established a framework intended to control the production, distribution, sale, and possession of cannabis across Canada. The legitimate market was also intended to be competitively priced, easily accessible to consumers 18 years of age or older (subject to provincial or territorial restrictions, of high quality, and readily available – provisions intended to provide incentive to customers who purchase it illegally to acquire cannabis via legal means.

### **Post-Legalization**

#### **Exploiting Regulatory Variances and Undercutting the Legal Market**

Cannabis legalization is unlikely to disrupt poly-drug OCGs, as their involvement in other markets secures an alternate stream of revenue. As almost every OCG reported to be involved in cannabis is also active in other drug markets, their diversity ensures continued profit in the event that the legitimate industry cuts into their illicit cannabis market share. Moreover, in the short-term, the current shortfall in the legitimate cannabis supply in Canada provides OCGs with a favourable competitive edge, whereby they continue to supply illicit cannabis to meet demand, at least until legitimate stock becomes more readily available.

Despite the large number of licensed producers, demand is exceeding supply and OCGs with existing grow operations are well-placed to fill this production gap. Given the delays in establishing licensed retailers in some provinces, OCGs are also likely to maintain their profit margins and shares in illicit retail cannabis sales while new licensing applications and approvals await processing. According to intelligence reporting, the current cannabis supply is unable to meet the projected demand. The limited number of approved retail establishments have already reported shortages in stock as initial consumer demand has exceeded expectations,



and delivery delays have resulted in some consumers turning to the illicit market to purchase cannabis. If intelligence reporting remains unchanged, the legitimate supply will not be able to meet demand until 2020. OCGs with an established grow operation, including those that have been using medical marijuana production licenses, are likely to be best-positioned to exploit any continued shortfall in the legitimate supply. As of September 2018, 118 producers were licensed by Health Canada under the Access to Cannabis for Medical Purposes Regulations (ACMPR), with the majority located in Ontario and British Columbia. The number of licensed producers nearly doubled since 2017.

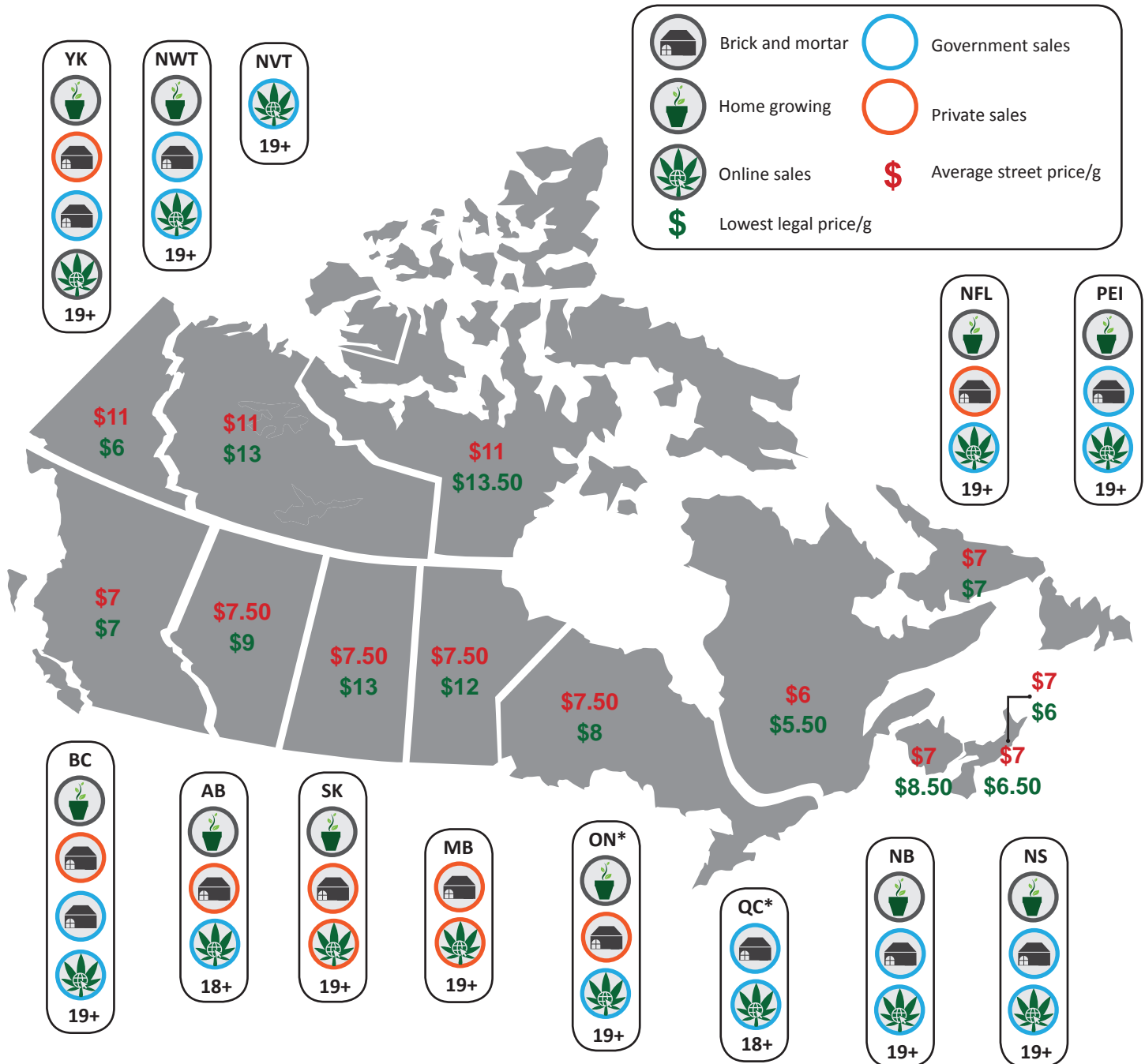
The multiple stakeholders involved in large-scale licensed production may create some confusion and jurisdictional overlap in the early stages of implementation, which could leave the legitimate supply chain vulnerable to criminal infiltration. Although OCGs have dominated illegal large-scale cannabis production for many years, government-regulated production under the Cannabis Act now allows large corporate wholesale producers to supply cannabis for recreational use. The oversight of the cannabis supply chain is shared across federal, provincial, and territorial governments, municipalities, industry, and other stakeholders. Through the Cannabis Tracking and Licensing System (CTLS), Health Canada is responsible for tracking the movement of cannabis in order to prevent diversion from the regulated supply. Despite restrictions regarding licensing and regulations intended to secure licensed cultivation sites and prevent infiltration by organized crime, associates or nominees of several OCGs were believed to hold such licenses in 2017-2018. Moreover, the online sale of cannabis provides additional opportunities for criminal elements to fraudulently advertise illicit drug distribution websites as approved cannabis retail sites, and profit from consumers seeking convenient door-to-door delivery, those that are underage, and those who want to avoid face-to-face contact.

OCGs are undercutting the legitimate market price for cannabis in some jurisdictions, ensuring a continued illicit market share. The price of legal cannabis needs to ensure profitable tax revenue while also preventing the illicit market from undermining/destabilizing sales by offering significantly cheaper product. Provincial, territorial, and federal governments intend to keep duties low (10 percent of the product price, in addition to provincial taxes) to discourage contraband. However, if priced too low, it may encourage higher consumption rates, which present challenges to health care costs as well as to contributing to future supply shortfalls. According to some estimates, 63 percent of cannabis products are expected to be purchased through legal channels in Canada once licit cannabis supply meets demand. However, these estimates vary by province, and less than half (47 percent) of Quebec consumers are reported to be likely to shift into legal purchase channels leaving a significant percentage of Quebec consumers to sustain illicit cannabis markets in that region. In cases where legal cannabis proves to be more expensive than illicitly-sourced cannabis, or when legitimate supplies have run dry, consumers have reportedly been inclined to purchase their supply from illegal sources, driven by familiarity with the quality, price, and accessibility of their illicit source.

OCGs are likely to exploit variations in provincial legislation (see Figure 12), such as the limited accessibility of cannabis storefronts and the disparity between the legal age of consumption, to cater to consumers who feel underserved by the legal supply and to consumers, such as youth, who are excluded from legitimate sources. With the exception of Alberta and Quebec, where the legal age to purchase cannabis is 18 years, every province has deemed that the legal age for purchasing cannabis is 19 years. Although consumers over these ages now have a legitimate option to purchase cannabis products, underage consumers will continue to present a profitable consumer-base for OCGs. Moreover, some jurisdictions offer a limited number of centrally located storefronts, which leaves rural or remote areas underserved and provides lucrative opportunities to illicit suppliers. Some municipalities are moving to prohibit the sale of recreational cannabis entirely, which will remove much of the competition for illicit suppliers.



Figure 12 – Breakdown of Provincial Regulations



\*There will be no brick and mortar stores in Ontario until 2019  
 \*Quebec will potentially increase minimum age of consumption to 21



The rapid appearance of illicit dispensaries on First Nations Territories across the country, similar to the development of “smoke shacks” for tobacco in Southern Ontario and Quebec, points to the illicitly-sourced cannabis market emulating the contraband tobacco market by exploiting the tax exemptions extended to Indian Status card-holders and cannabis businesses. Although the illicit tobacco market is primarily concentrated in Southern Ontario, there is a strong potential for this production and distribution trend in the illicit cannabis market to expand to a national scale, due to the fact there are little geographical constraints and growing limitations for manufacturing cannabis plants, unlike tobacco plants. In addition, there will be a sizable portion of cannabis consumers who are price-sensitive and will sustain a demand for cheaper, tax-free cannabis products, similar to what drove the growth of the illicit tobacco market, and illicit retailers will respond to this demand.

With a lack of regulatory framework and jurisdictional conflicts for law enforcement, some First Nations Territories will likely be infiltrated by OCGs to exploit the manufacture and distribution of illicit cannabis. Several Indigenous groups have expressed their right to self-determination to oversee their own manufacture, distribution, and sale of cannabis outside of federal and provincial jurisdiction.

#### **Exploiting the Continued Illegality of Higher-Concentration THC Products**

OCGs will continue to profit from the sizeable portion of consumers who will seek to purchase higher-concentration THC cannabis products that remain illegal under current legislation. The growing popularity around higher THC products, such as concentrates, will continue to drive black market sales ahead of plans to introduce them into the legal market in the latter half of 2019. Solvent-based cannabis concentrates, which are currently illegal, will continue to be produced in clandestine labs by criminal elements. The volatility of solvents, like butane, that are used in the production of these types of concentrates poses significant dangers to public safety and has led to serious injuries, death, fires, and explosions in residential areas where some labs have been located.

The demand for higher-concentration THC products – such as Tetrahydrocannabinolic Acid (THCA) Crystalline – is likely to drive product innovation in underground spheres. Because of its high market price, Canadian OCGs and criminal entrepreneurs may expand into this market and begin to experiment with manufacturing to create THCA or products with similar purity levels, as cannabis concentrates with high purity levels remain illegal in Canada. In such cases, law enforcement may begin to encounter illicit cannabis clan labs. However, given that the process to manufacture THCA requires the use of large equipment, several steps that can take a number of days, and substantial quantities of cannabis to yield the purest concentration of THCA in copious amounts, only a limited number of Canadian OCGs may expand into its manufacture. OCGs are more likely to develop distribution networks to introduce and disseminate this new product across the country.

#### **Exploiting Continued International Demand**

In the longer term, OCGs producing cannabis with established export routes may increase the amount of cannabis shipped outside Canada to countries where cannabis is illegal and has a higher value, particularly if production exceeds domestic demand or if domestic demand of illicitly-sourced product decreases following legalization. Such high profits may also attract other OCGs not currently involved in illicit cannabis, thereby expanding the market.



As regulatory loopholes are closed and opportunities to exploit the legitimate market are minimized, the trend toward transnational OCGs establishing networks and bases of operation in jurisdictions in which cannabis is legal, such as was reported in Colorado, U.S., may be mitigated in Canada by the prevalence of licensed producers and the availability of legal cannabis in all provinces and territories. One of the key points of exploitation of legalized marijuana in the U.S. centers on the number of states where cannabis remains illegal. Transnational groups that move into states where cannabis is legal to set up production sites benefit from selling to an existing illicit market within the U.S., avoiding the risks associated with international cross-border smuggling. The export of marijuana from Canada remains illegal, unless a special permit is obtained; cross-border interdictions and seizures still present a risk to OCGs and criminal entrepreneurs exporting marijuana to the U.S. and other countries.

### Future Considerations

Reporting on OCG involvement in the cannabis market over the next year will be complicated by a general shift from policing to regulation, with cannabis now classified as a controlled, legal substance. With this shift, a significant drop in reporting is anticipated from the law enforcement community as members adapt to their new roles. Additionally, other enforcement priorities may take precedence, which may further result in underreporting of OCG involvement in the cannabis market, in order to accurately assess the impact of cannabis legalization. However, criminal involvement in the cannabis market will require continued monitoring and assessment in order to ensure compliance with the legal regime and minimize the threat of OCG infiltration and exploitation.

In the short term, OCGs will continue to fill the shortfall in the legitimate supply, try to undercut legal pricing, manufacture and traffic prohibited high-THC products, and increase exports to countries where cannabis remains illegal and more profitable. They are also likely to continue to sell cannabis illicitly via the dark web, exploit jurisdictional differences, fraudulently obtain cannabis licenses using nominees and proxies to produce and sell under the legal regime, and launder money through cannabis businesses they control. For those OCGs whose potential losses drive them away from the cannabis market, they are likely to continue to operate in the criminal marketplace in some other manner, given their propensity for already being involved in other drug markets.



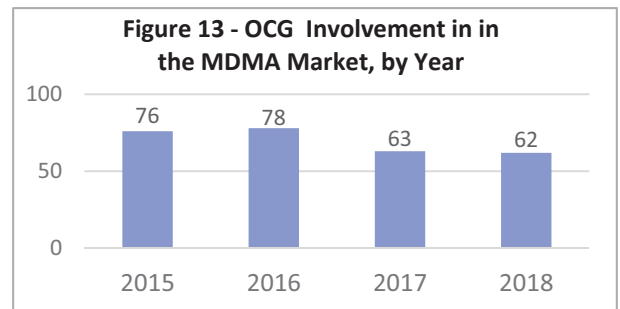
In the longer term, if the regulatory framework surrounding cannabis is adjusted to prevent OCGs from exploiting vulnerabilities, it may result in a reduction in domestic illicit market share, although OCGs will continue to profit from the ensuing contraband cannabis market. If not, more OCGs may be attracted to the Canadian illicit cannabis market, opting to become involved in order to profit from higher demand for cannabis products, both domestically and internationally.



## Other Illicit Drug Markets

### MDMA

3,4-methylenedioxy-methamphetamine (MDMA) is a synthetic drug commonly known as “ecstasy” or “molly” which produces stimulant like and psychedelic effects. As a result MDMA is prominent in nightclubs and all night dance parties (“raves”). While MDMA is present across the country it remains a relatively small market and OCG involvement is on the decline (see Figure 13). Criminal groups are concentrated in British Columbia, Ontario and the Atlantic Provinces. Since the majority of these OCGs are involved in poly drug markets, MDMA is rarely the only drug being distributed. With the demand and profitability of other drugs, it is not anticipated this market will grow in the short-term.



MDMA is produced in Canada for both domestic consumption and for international distribution, primarily to the U.S. According to the DEA’s 2018 National Drug Assessment, Canadian OCGs collaborate with U.S.-based Asian OCGs. There are also reports that Canadian OCGs will exchange MDMA for drugs like cocaine.

It is expected that Canadian OCGs will continue using precursors obtained domestically and internationally to produce MDMA and similar forms of it. For example, MDP2P is a common precursor chemical used in the production of MDMA. Despite increasing regulations on precursor chemicals, MDP2P and other MDMA precursors continue to make its way into Canada from China, Vietnam, and India.

### Hydromorphone

Hydromorphone is the sixth controlled substance most often identified in Health Canada’s DAS<sup>6</sup>. It is commonly sold under the brand name Dilaudid and is a semi-synthetic prescription opioid that is prescribed as a pain reliever that is five times more powerful than morphine. While hydromorphone is a pharmaceutical drug, it has become a popular street drug in some regions, mainly Saskatchewan, Quebec and Atlantic Canada, due to its high potency.

Canadian OCG involvement in hydromorphone is stable (approximately 16 assessed groups) with the majority of groups based in Atlantic Canada, where the user base is well-established and will likely continue to be in the medium-to long term. For example, OCGs in this region have successfully trafficked hydromorphone (e.g. Dilaudid) in Nova Scotia for the past decade without significant disruption. As such, this region continues to have a relatively stable supply of pharmaceutical opiates with users not likely to transition to alternative forms of opioids, including heroin or fentanyl. In Saskatchewan, the number of hydromorphone overdoses (83) have been approximately twice as high as the number of fentanyl-related deaths. Similarly, hydromorphone is the opioid most commonly identified in Quebec by Health Canada. However, the extent of OCG involvement in these provinces remains an intelligence gap.

Nonetheless, CISC does not consider this market to represent a significant threat and assesses OCG involvement to be minimal.

<sup>6</sup> See footnote on page 10.



## New Psychoactive Substances

NPS are constantly evolving which presents new potential avenues for OCG and criminal entrepreneur involvement, as well as increased health and safety risks to users. NPS, also referred to as ‘designer drugs’ or ‘legal highs’, are synthetic substances that have been designed to mimic the effects of existing controlled substances. There are over 500 types of these substances and they are often unregulated and marketed as safe alternatives, counterfeited, contaminated or mixed into other substances without users’ knowledge, which presents increased health risks to users. However, due to the diverse and quasi-legal nature of these substances they remain an intelligence gap.

The main source and transit countries for NPS are the Netherlands, China and Peru. However, these substances are difficult to detect and source as they are trafficked via the web (both dark and clear) and postal mode. Seizures are usually via postal (78 percent) and from the Netherlands (38 percent); potentially due to a large amount of dark web vendors operating in this country.

While NPS seizures have doubled in Canada from 2016 to 2017 and continue to increase in 2018, they remain low compared to other illicit drugs. The number of NPS seizures has increased 22 percent in 2018 in comparison to 2017 mid-year figures, and already exceeded 2017 year-end seizures. This increase in NPS could be explained by a lack of an illicit substance or precursor chemical for an illicit drug, more dealers targeting low income regions or users seeking less expensive non-scheduled alternative drugs that offer similar effects of illicit substances.

Dimethyltryptamine (DMT) and Harmaline accounted for the greatest proportion of sizeable NPS seizures in 2018, which suggests that these substances are being trafficked and may have OCG involvement. Most forms of NPS are seized in small quantities (averaging 16 grams or 22 doses) suggesting that they are predominantly used for personal consumption, rather than for trafficking purposes. Although there is a low number of seizures, the volume of these seizures exceeds the amount typically used for personal consumption suggesting that DMT and its additives are being trafficked into Canada.

## Steroids

Steroids are generally prescribed to treat hormonal issues or to treat diseases that cause muscle loss, of which there are two types: corticosteroids and anabolic steroids. The most commonly abused steroids are anabolic. The muscle-building effects of these drugs make them appealing to athletes and bodybuilders. China is considered to be the world’s main supplier for steroids, and the majority is imported into Canada via the postal mode. Law enforcement reporting on this market, however, is scant. While there has been a 33 percent increase in the number of OCGs (26 assessed groups) involved in this market between 2015 and 2018, the number of groups remains low. Most are poly-drug groups and steroids smuggling or trafficking is likely not their primary focus.



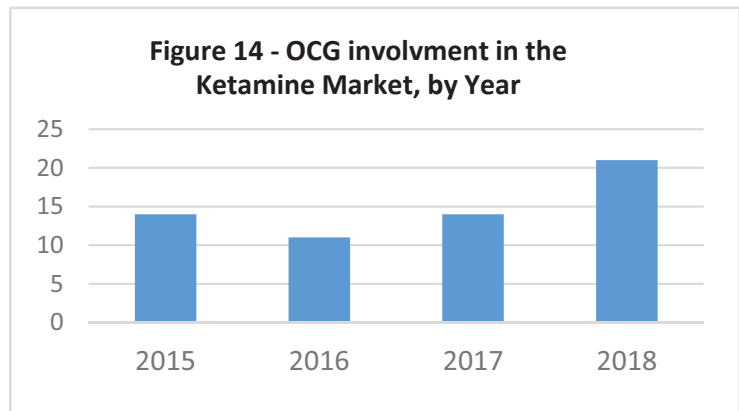
## Ketamine

Ketamine, also known by street names Special K, Vitamin K, Ket, and Ketty is a fast-acting anesthetic and mind-altering drug which is used for medical purposes but also has become a popular recreational street drug. When sold illegally it often comes in a powder form that can be sniffed, smoked, dissolved into a liquid and injected, or mixed with a liquid and drunk. It may also be sold in tablet or capsule form.

There are currently 21 profiled OCGs involved in the ketamine market with most of these groups being concentrated in British Columbia, and to a lesser extent in Ontario and Quebec (See Figure 14). Notably, OCGs involved in this market within British Columbia have doubled over the past year with the number of reported groups increasing from 5 to 10. However, OCG involvement and the production of ketamine in clandestine labs remains an information gap due to law enforcement's focus on and targeting of larger drug markets such as fentanyl, cocaine and methamphetamine.

Most OCGs involved in ketamine are also involved in other illicit drug markets (e.g. methamphetamine, MDMA, cocaine, cannabis) and have numerous international and domestic connections.

Further information is required to accurately forecast the scale of this market. However, its reach, the degree of OCG involvement, seizure data and Health Canada reporting suggest that it poses a lesser threat than other illicit drug markets.



## GHB

Gamma hydroxybutyrate (GHB) acts as a depressant, slowing down activity of the nervous system. It is commonly referred to as the “date-rape drug” since the sedative component prevents victims from resisting the sexual assault. One trend that was reported was the use of GHB by methamphetamine users as a way to sleep following the alertness caused by the stimulant. Similarly, GHB is being increasingly seen as a “party” drug, which could present a health risk to users when mixing drugs and due to possible contamination from poly drug distributors. In 2018, there are only currently 18 assessed OCGs involved in the GHB market with most groups operating in Quebec, representing a slight increase from 2017. Nonetheless, this market is not assessed as a significant illicit drug market. Should OCG involvement become more pronounced and the threat increase in a measurable manner, separate standalone assessments or bulletins will be produced.





## Opium

Opium is a highly addictive natural plant-based drug derived from the opium poppy plant and can be smoked, injected or taken in pill form. It was commonly used in Canada in the 1920s but is now supplanted by more potent opioids, such as morphine, heroin and fentanyl.

According to the UNODC, global opium supply increased by 65 percent from 2016 to 2017, primarily due to the rise in opium cultivation in Afghanistan. This growth will not impact the Canadian market, which does not represent a significant threat at this time. Opium's domestic user base, largely made up of diasporas based in British Columbia and Ontario, will remain relatively small, and it is unlikely that additional Canadian OCGs will shift to importing opium in the foreseeable future.

OCGs involved in importing opium are typically involved in importing heroin and rely on the same well-established transportation routes, modes and concealment methods. India is the main transit point for opium coming into Canada due to its proximity to major opium source countries, Afghanistan and Myanmar, and transit countries, Pakistan and Iran. Turkey is also a key opium transit point to Canada as it is located along the Balkan Route, which remains the most prominent opium and heroin trafficking route. The air cargo and postal modes are the venues most abused by OCGs to smuggle opium into Canada.