

GDPO Situation Analysis

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Brokering drugs: The emergence of a new breed of online dealer

The advent of online black markets has given birth to a novel shadow economy dominated by technologically proficient drug dealers who pose significant challenges to law enforcement agencies

Impact

- The Internet has enabled a new type of international drug dealer who is able to make significant profits without the risks previously associated with engaging in the trade of illicit substances.
- This will alter the way in which illicit drugs are bought and sold, further complicating enforcement.
- It is now possible for to sell narcotics internationally without ever needing to see or touch the product.
- Detailed and innovative research is essential to understanding how to engage with this new phenomenon from both a public health and enforcement perspective.

Analysis

Recent developments on the Tor Dark Net drugs markets, particularly in relation to events on the 'The Silk Road', demonstrate that online narcotics trafficking is a viable alternative to traditional approaches. The closure of the original Silk Road website by the FBI (see GDPO Situation Analysis, *Silk Road and Bitcoin*, December 2013 <http://www.swansea.ac.uk/media/GDPO%20Situation%20Analysis%20silk%20rd%20and%20bitcoin.pdf>) coupled with a security scare in December has not impeded Dark Net market operations.

The ability to trade narcotics online through the Silk Road has catalysed innovations in the way dealers behave and the way drugs are traded. Feedback systems, escrow and even customer support services all exist within the anonymous Silk Road. Its team have leveraged these features to position the Silk Road as the pre-eminent online drugs market by:

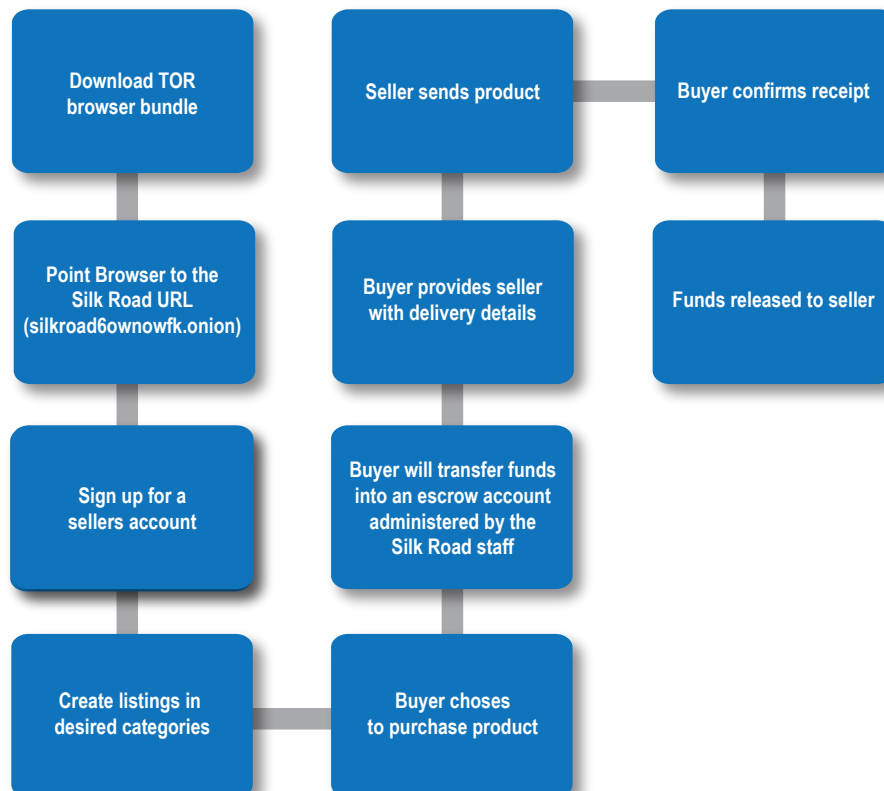
- Ensuring that customers are able to purchase quality controlled achieved through 'eBay style' feedback for each seller and their products.
- Minimising scammer activity on the site by insisting all transactions go through an escrow system (money held by a third-party on behalf of transacting parties). This ensures sellers are not paid until the buyer confirms delivery. There is an option to bypass the escrow process in order to facilitate faster payments for sellers.

- Providing effective customer service through two key mechanisms. Firstly a secure and encrypted messaging service for buyers and sellers to communicate; secondly a highly active community forum where both buyers and sellers are able to ask and answer questions ranging from best practice for packaging drugs to how to maintain online anonymity.

The relative success and stability of the Silk Road market place has meant that as of this date of publication, it has the highest number of vendors and customers on any Tor black market site. This success has created the opportunity for anyone with an Internet connection to engage in the global drugs trade.

Box 1 The Silk Road Selling Process

The process to sell drugs on the Silk Road is straight forward and akin to setting up a sellers account on any other e-commerce site.



Introducing the new drug dealer:

Online vendors have been quick to disregard traditional tools and practices commonly associated with elements of drug dealing such as customer generation, contract enforcement and market protection such as giving away free samples of substances, the formation of gangs, the use of violence and exploitative and predatory behaviour.

Instead they have taken an approach typical of several online companies emphasising ‘quick delivery’, ‘good quality products’ and ‘excellent customer service’ in order to attract customers, build a profitable market base and differentiate themselves from other sellers (See Boxes 1 & 2).

Box 2 Massive potential profit margins

‘We are in a business where demand exceeds supply and mark-up’s are in the 1,000% range for certain products’

Silk Road Vendor Angelina

While the move towards special offers, discounted delivery and communication are interesting innovations used by online vendors, it is the potential for 'brokers' that is the most fascinating.

'See no evil'

The infrastructure provided by the Silk Road and other black markets is perfect for three types of broker:

- Those able to act as middleman between a buyer and a seller. They will place listings on any given market site and add a slight mark-up on the prices offered by other sellers. Once a sale is made they are able to purchase the product from established sellers and provide their customers delivery details. These are referred to as indirect brokers.
- A second type of broker is similar to the first in placing listings on black market sites. However, instead of sourcing their drugs from another online vendor, they will have an agreement with a real world supplier who will ship drugs to any specified address.
- The third type of broker will not engage in the buying and selling of drugs but profit from a new yet to be seen side industry in providing escrow services. These services will be cheaper than those provided by market sites and will offer a quicker release of funds once delivery has been confirmed.

What next?

The development and professionalization of Dark Net drugs markets will continue to provide a significant income stream to vendors and site administrators. While some innovations may have short-term negative consequences for both buyers and sellers, it can be assumed there will be continued growth and refinement in the online narcotics trade.

- The option to bypass the escrow service provided by markets such as the Silk Road will cause an increase in the number of scams reported by buyers.
- A new market for escrow providers will emerge where the key factors will be trust and price. This will most likely exist as an inversely proportional relationship.
- Prominent members and moderators of online forums are positioned to become the leading escrow brokers.
- Both direct and indirect drugs brokers will continue to emerge on black market sites. This will make it difficult to estimate the numbers of genuine drug suppliers.
- The emergence of escrow brokers will require online narcotics markets to develop new ways to monetise their businesses. This could take the form of vendors being charged to list drugs on a per item bases, as well as a registration fee being introduced.
- Law enforcement will continue to find it difficult to engage effectively with this phenomenon, with 'successful' operations catalysing innovations.

Note: As this Situation Analysis went to press The Silk Road was hacked with an estimated \$3.2m stolen from the escrow system. These developments will be considered in a follow up publication.

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