

### **A lethal business model targets Middle America**

**Sugar cane farmers from a tiny Mexican county use savvy marketing and low prices to push black-tar heroin in the United States.**

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*First Of Three Parts*

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Immigrants from an obscure corner of Mexico are changing heroin use in many parts of America.

Farm boys from a tiny county that once depended on sugar cane have perfected an ingenious business model for selling a semi-processed form of Mexican heroin known as black tar.

Using convenient delivery by car and aggressive marketing, they have moved into cities and small towns across the United States, often creating demand for heroin where there was little or none. In many of those places, authorities report increases in overdoses and deaths.

Immigrants from Xalisco in the Pacific Coast state of Nayarit, Mexico, they have brought an audacious entrepreneurial spirit to the heroin trade. Their success stems from both their product, which is cheaper and more potent than Colombian heroin, and their business model, which places a premium on customer convenience and satisfaction.

Users need not venture into dangerous neighborhoods for their fix. Instead, they phone in their orders and drivers take the drug to them. Crew bosses sometimes call users after a delivery to check on the quality of service. They encourage users to bring in new customers, rewarding them with free heroin if they do.

In contrast to Mexico's big cartels -- violent, top-down organizations that mainly enrich a small group -- the Xalisco networks are small, decentralized businesses. Each is run by an entrepreneur whose workers may soon strike out on their own and become his competitors. They have no all-powerful leader and rarely use guns, according to narcotics investigators and imprisoned former dealers.

Leaving the wholesale business to the cartels, they have mined outside profits from the retail trade, selling heroin a tenth of a gram at a time. Competition among the networks has reduced prices, further spreading heroin addiction.

"I call them the Xalisco boys," said Dennis Chavez, a Denver police narcotics officer who has arrested dozens of dealers from Xalisco (pronounced *ha-LEES-ko*) and has studied their

connections to other cities. "They're nationwide."

Their acumen and energy are a major reason why Mexican heroin has become more pervasive in this country, gaining market share at a time when heroin use overall is stable or declining, according to government estimates.

The Xalisco retail strategy has "absolutely changed the user and the methods of usage," said Chris Long, a police narcotics officer in Charlotte, N.C., where competition among Xalisco dealers has cut prices from \$25 to \$12.50 per dose of black-tar heroin. "It's almost like Wal-Mart: 'We're going to keep our prices cheap and grow from there.' It works."

Xalisco bosses have avoided the nation's largest cities with established heroin organizations. Instead, using Southern California and Phoenix as staging areas, they have established networks in Salt Lake City; Reno; Boise, Idaho; Indianapolis; Nashville; and Myrtle Beach, S.C., among other places. From those cities, their heroin -- called black tar because it's sticky and dark -- has made its way into suburbs and small towns.

In Ohio, where Xalisco networks arrived around 1998, black tar has contributed to one of the country's worst heroin problems. Since then, deaths from heroin overdoses have risen more than threefold, to 229 in 2008, according to the Ohio Department of Health. The number of heroin addicts admitted to state-funded treatment centers has quintupled, to nearly 15,000.

In Denver, fatal heroin overdoses rose from six in 2004 to 27 in 2008 after Xalisco networks became established.

The dealers have been especially successful in parts of Appalachia and the Rust Belt with high rates of addiction to OxyContin, Percocet and other prescription painkillers. They market their heroin as a cheap, potent alternative to pills.

There are no official estimates of how much money Xalisco networks make, but narcotics agents who have busted and interrogated dealers say that a cell with six to eight drivers working seven days a week can gross up to \$80,000 a week.

Among the idiosyncrasies of Xalisco dealers is that they generally do not sell to African Americans or Latinos. Instead, they have focused on middle- and working-class whites, believing them to be a safer and more profitable clientele, according to narcotics investigators and former dealers. "They're going to move to a city with many young white people," Chavez said. "That's who uses their drug and that's who they're not afraid of."

Xalisco networks have expanded despite federal investigations in 2000 and 2006 that sent almost 300 people to prison.

Only in recent years have narcotics agents grasped the full reach of the system and its origins in Xalisco, which lies at the foot of volcanic mountains where opium poppies grow.

The county consists of the town of Xalisco and 20 villages with a total population of 44,000 -- about the size of Los Angeles' Silver Lake neighborhood. Landless sugar-cane workers, eager to grasp their version of the American Dream, provide a virtually endless supply of labor for the heroin networks, one reason the system has proved so hard to eradicate.

The rise of the Xalisco networks is a peculiar tale of dope, poverty and business smarts that connects a remote corner of Mexico with vast stretches of America's heartland.

### **Max tells his story**

Two pioneers of the Xalisco model met in the early 1990s in the Northern Nevada Correctional Center, where they were serving time for drug offenses. One of them agreed to discuss the system's beginnings and its spread on the condition that he be identified only as Max, an alias he said he used as a heroin dealer.

Max said he was familiar with the U.S. heroin trade and that his partner, a native of Xalisco, had access to supplies of black tar and workers from his hometown. When the two were released from prison, Max said, they set up a heroin ring in Reno.

At the time, dealers sold heroin from houses, which police could easily target. Max and his partner had a better idea: Dealers could circulate in cars and receive instructions via pager (and later by cellphone).

Soon a system evolved: Drivers carried heroin doses in their mouths in tiny uninflated balloons, each about the size of a pencil eraser. Addicts dialed a number, as if ordering pizza. The dispatcher would page the driver with a code indicating where to meet the addict.

If drivers were busted, the small amounts of heroin and the absence of paraphernalia reduced the risk of lengthy prison sentences. To avoid attracting attention, they dressed modestly, drove beat-up cars and never carried weapons.

From Reno, the partners expanded to Salt Lake City, Denver, Honolulu and other cities.

Max said the heroin was manufactured in Xalisco. According to court records, dealers and investigators, the Xalisco entrepreneurs paid the Arellano-Felix cartel for permission to take it across the border in Tijuana.

The heroin wound up in the Panorama City apartment of a couple from Xalisco, who repackaged it and sent it to the networks via courier or Federal Express, according to federal court records.

Max, who went to federal prison for his role in the scheme, said one reason the system did not evolve into a cartel controlled by one person or family is that Xalisco County is made up of *ranchos*, small villages famous for their independent spirit and intense rivalries.

"We're real envious of each other. Families cannot work together," he said.

Still the system was there for anyone to use. It also appeared in Southern California, where many Xalisco immigrants live. It's unclear whether those dealers copied Max and his partner or came up with a similar system on their own.

Returning frequently to Xalisco, immigrants compared notes on how to improve the business model. As word spread, more farm boys went north to see how it was done. Youths hired as drivers would learn the business, then go back home and secure their own supplies of black tar. They returned to the United States as crew chiefs.

"Whoever gets the customers, it's because he's got better stuff or better service," Max said. "Nobody tells anybody what to do."

### **New business model**

In the summer of 1995, Ed Ruplinger, a sheriff's narcotics investigator in Boise, noticed Mexicans tooling around town selling heroin packed in small balloons hidden in their mouths.

After arresting a few of them, Ruplinger found they were from a place he'd never heard of: Nayarit, Mexico. Tapping their phones with court approval, he discovered most of the calls were placed to a man named Cesar "Polla" Garcia-Langarica in Ontario, Calif.

"He was the first McDonald's in town, so to speak," Ruplinger said.

Almost all of his calls were to people in Xalisco, later identified as his assistants.

Ruplinger determined that Garcia-Langarica also had cells in Portland, Ore., Honolulu and Salt Lake City. He overheard him saying he'd moved into Boise because competition from other Xalisco networks had forced him out of Denver.

Boise wasn't Garcia-Langarica's for long either. One of his former drivers became a competing crew boss. Still, "they were not shooting each other in the street," Ruplinger said. "They'd know each other. It was just a job. I kept realizing that this is huge."

In 1998, officers raided apartments in Boise. Five of Garcia-Langarica's employees pleaded guilty and received prison terms. Garcia-Langarica, who was also indicted, remains a fugitive.

In Portland, black-tar heroin had been dealt on downtown streets by Hondurans or Guatemalans - until the late 1990s. Then, police noticed that new dealers, all from Nayarit, were making deliveries by car all over the city.

In 1999, Multnomah County Health Department workers, examining coroner's reports, found that deaths from black-tar heroin overdoses had more than doubled since 1996, to more than 100 a year. An ad campaign urging junkies not to shoot up alone helped drive down that figure, although lately it has crept back to the levels of the late '90s.

In Portland and elsewhere, competition among Xalisco dealers and the resulting lower prices changed the nature of the heroin trade. No longer were burglaries and holdups the measure of a city's heroin problem. Junkies could maintain their habits cheaply. A spike in overdoses was the mark of black-tar heroin's arrival.

"The classic picture of a heroin addict is someone who steals," said Gary Oxman, a Multnomah County Health Department doctor who conducted the study of overdoses. "That disappears when you have low-cost heroin. You could maintain a moderate heroin habit for about the same price as a six-pack of premium beer."

It was the same in other cities where Xalisco dealers settled. In Denver, addicts say the cost of a dose of black tar has dropped as low as \$8.

In the Utah County suburbs of Salt Lake City, it was more than \$50 a dose in the early 1990s.

"Now we're seeing it for \$10 to \$15 per balloon," said Bruce Chandler, program services manager for the county's Foothill Treatment Center.

### **Eastern expansion**

Until the late 1990s, Mexican black-tar heroin was available only west of the Mississippi. To the east, Colombian powder heroin predominated.

But over the last decade, production of Mexican heroin has climbed rapidly, reaching an estimated 18 metric tons in 2007, while Colombian output has dropped, partly because of U.S.-funded efforts to eradicate Colombian poppy fields, according to the [National Drug Threat Assessment](#) issued by the U.S. Justice Department.

As a result, "Mexican criminal groups are expanding Mexican heroin distribution in eastern states, where previously only South American heroin had been available," the report said. Estimates of Mexican and Colombian heroin production in the report suggest that black tar now accounts for two-thirds or more of the U.S. heroin market.

According to narcotics agents and former dealers, Xalisco immigrants drove black tar's eastward expansion, moving into Columbus and from there to parts of rural Ohio and Pennsylvania and to Nashville and Charlotte.

In many of these places, heroin had been rare. Addicts more commonly used prescription pain pills.

Black tar is cheaper than pain medications. Xalisco dealers exploited that advantage and pushed relentlessly for new customers. Addicts in Columbus say they offered rewards for referrals to new users: eight or 10 free balloons of heroin for every \$1,000 in sales an addict brought in.

Typical of these heroin entrepreneurs was a youth who called himself Manny Munoz-Lopez. He

began as a driver in Columbus and rose to become a cell leader when others sold their networks and returned to Mexico.

In 2006, he expanded to the suburbs of Pittsburgh, where police say he took the name Julio Ramirez. Prosecutors say he recruited junkies at methadone clinics to be salesmen as well as customers.

Gary Palacios, now serving a prison term in Pennsylvania for selling heroin, said he became Ramirez's wholesaler for north Pittsburgh. Ramirez shook up the local market, he said. Before, dealers waited for users to come to them. Ramirez's drivers actively sought out customers. For every 20 balloons an addict bought, Ramirez gave five free ones, Palacios said.

Pittsburgh junkies had been using diluted white powder from Colombia. "We brought that tar up and . . . the junkies fell in love," Palacios said in a telephone interview. "It was way cheaper and way more powerful."

In 2007, state narcotics agents [busted the ring](#), arresting Ramirez, Palacios and others. Ramirez, sentenced to seven to 15 years for conspiracy to distribute heroin, did not respond to a letter requesting an interview.

"They really created a market that didn't exist before they got here," said Marnie Sheehan-Balchon, the deputy state attorney general who prosecuted the case.

Xalisco networks soon were operating across the Eastern United States. In Charlotte, Chris Long noticed them when he became a narcotics investigator in 2001, and he has been arresting dealers ever since.

"They're all from Xalisco," Long said.

Expanding from Charlotte, they carved out territories in Greenville, N.C., and Charleston and Myrtle Beach, S.C.

"It will not go away," said Will Kitelinger, a Myrtle Beach narcotics agent. When a driver is arrested, a replacement arrives within two weeks and is quickly up to speed, he said. "They literally know where the customers live and go to their houses and introduce themselves."

Xalisco's Sanchez family turned Nashville into a distribution hub, according to federal investigators and an indictment. In 2006, they dispatched a young driver named Hector to Indianapolis to conquer new territory.

"We were looking to expand the heroin market to more places in the United States," Hector said by phone from the federal prison where he is serving time for conspiracy to distribute heroin. He was interviewed on the condition that his last name not be disclosed.

"They told me 'We're going to give you three ounces to go to Indiana.' You want to begin in a place that's clean and you make it grow."

Hector said he paid his drivers, all from Xalisco, \$1,000 a week plus expenses. He soon had dozens of customers and was ordering new supplies every four days, he said.

"It was some of the strongest I've ever seen," said Floyd Warriner, a longtime drug user from Indianapolis who is serving a 10-year federal prison term for conspiracy to distribute heroin.

More than 50 Sanchez workers were arrested in a nationwide bust in 2006. But the Xalisco networks continued to proliferate, and their product began to appear in communities where users weren't prepared for its potency.

Among them was a small town in West Virginia, 160 miles south of Columbus, where before the fall of 2007, few people had ever heard of black-tar heroin.