By Scott Stewart and Fred Burton

On June 26, the small Mexican town of Apaseo el Alto, in Guanajuato state, was the scene of a deadly firefight between members of Los Zetas and federal and local security forces. The engagement began when a joint patrol of Mexican soldiers and police officers responded to a report of heavily armed men at a suspected drug safe house. When the patrol arrived, a 20-minute firefight erupted between the security forces and gunmen in the house as well as several suspects in two vehicles who threw fragmentation grenades as they tried to escape.

When the shooting ended, 12 gunmen lay dead, 12 had been taken into custody and several soldiers and police officers had been wounded. At least half of the detained suspects admitted to being members of Los Zetas, a highly trained Mexican cartel group known for its use of military weapons and tactics.

When authorities examined the safe house they discovered a mass grave that contained the remains of an undetermined number of people (perhaps 14 or 15) who are believed to have been executed and then burned beyond recognition by Los Zetas. The house also contained a large cache of weapons, including assault rifles and fragmentation grenades. Such military ordnance is frequently used by Los Zetas and the enforcers who work for their rival cartels.

STRATFOR has been closely following the cartel violence in Mexico for several years now, and the events that transpired in Apaseo el Alto are by no means unique. It is not uncommon for the Mexican authorities to engage in large firefights with cartel groups, encounter mass graves or recover large caches of arms. However, the recovery of the weapons in Apaseo el Alto does provide an opportunity to once again focus on the dynamics of Mexico's arms trade.

White, Black and Shades of Gray

Before we get down into the weeds of Mexico's arms trade, let's do something a little different and first take a brief look at how arms trafficking works on a regional and global scale. Doing so will help illustrate how arms trafficking in Mexico fits into these broader patterns.

When analysts examine arms sales they look at three general categories: the white arms market, the gray arms market and the black arms market. The white arms market is the legal, aboveboard transfer of weapons in accordance with the national laws of the parties involved and international treaties or restrictions. The parties in a white arms deal will file the proper paperwork, including end-user certificates, noting what is being sold, who is selling it and to whom it is being sold. There is an understanding that the receiving party does not intend to transfer the weapons to a third party. So, for example, if the Mexican army wants to buy assault rifles from German arms maker Heckler & Koch, it places the order with the company and fills out all the required paperwork, including forms for obtaining permission for the sale from the

German government.

Now, the white arms market can be deceived and manipulated, and when this happens, we get the gray market — literally, white arms that are shifted into the hands of someone other than the purported recipient. One of the classic ways to do this is to either falsify an end-user certificate, or bribe an official in a third country to sign an end-user certificate but then allow a shipment of arms to pass through a country en route to a third location. This type of transaction is frequently used in cases where there are international arms embargoes against a particular country (like Liberia) or where it is illegal to sell arms to a militant group (such as the Revolutionary Armed Forces of Colombia, known by its Spanish acronym, FARC). One example of this would be Ukrainian small arms that, on paper, were supposed to go to Cote d'Ivoire but were really transferred in violation of U.N. arms embargoes to Liberia and Sierra Leone. Another example of this would be the government of Peru purchasing thousands of surplus East German assault rifles from Jordan on the white arms market, ostensibly for the Peruvian military, only to have those rifles slip into the gray arms world and be dropped at airstrips in the jungles of Colombia for use by the FARC.

At the far end of the spectrum is the black arms market where the guns are contraband from the get-go and all the business is conducted under the table. There are no end-user certificates and the weapons are smuggled covertly. Examples of this would be the smuggling of arms from the former Soviet Union (FSU) and Afghanistan into Europe through places like Kosovo and Slovenia, or the smuggling of arms into South America from Asia, the FSU and Middle East by Hezbollah and criminal gangs in the Tri-Border Region.

Nation-states will often use the gray and black arms markets in order to deniably support allies, undermine opponents or otherwise pursue their national interests. This was clearly revealed in the Iran-Contra scandal of the mid-1980s, but Iran-Contra only scratched the surface of the arms smuggling that occurred during the Cold War. Untold tons of military ordnance were delivered by the United States, the Soviet Union and Cuba to their respective allies in Latin America during the Cold War.

This quantity of materiel shipped into Latin America during the Cold War brings up another very important point pertaining to weapons. Unlike drugs, which are consumable goods, firearms are durable goods. This means that they can be useful for decades and are frequently shipped from conflict zone to conflict zone. East German MPiKMS and MPiKM assault rifles are still floating around the world's arms markets years after the German Democratic Republic ceased to exist. In fact, visiting an arms bazaar in a place like Yemen is like visiting an arms museum. One can encounter century-old, still-functional Lee-Enfield and Springfield rifles in a rack next to a modern U.S. M4 rifle or German HK93, and those next to brand-new Chinese Type 56 and 81 assault rifles.

There is often a correlation between arms and drug smuggling. In many instances, the same routes used to smuggle drugs are also used to smuggle arms. In some instances, like the smuggling routes from Central Asia to Europe, the flow of guns and drugs goes in the same direction, and they are both sold in Western Europe for cash. In the case of Latin American cocaine, the drugs tend to flow in one direction (toward the United States and Europe) while

guns from U.S. and Russian organized-crime groups flow in the other direction, and often these guns are used as whole or partial payment for the drugs.

Illegal drugs are not the only thing traded for guns. During the Cold War, a robust arms-for-sugar trade transpired between the Cubans and Vietnamese. As a result, Marxist groups all over Latin America were furnished with U.S. materiel either captured or left behind when the Americans withdrew from Vietnam. LAW rockets traced to U.S. military stocks sent to Vietnam were used in several attacks by Latin American Marxist groups. These Vietnam War-vintage weapons still crop up with some frequency in Mexico, Colombia and other parts of the region. Cold War-era weapons furnished to the likes of the Contras, Sandinistas, Farabundo Marti National Liberation Front and Guatemalan National Revolutionary Unity movement in the 1980s are also frequently encountered in the region.

After the civil wars ended in places like El Salvador and Guatemala, the governments and the international community attempted to institute arms buy-back programs, but those programs were not very successful and most of the guns turned in were very old — the better arms were cached by groups or kept by individuals. Some of these guns have dribbled back into the black arms market, and Central and South America are still awash in Cold War weapons.

But Cold War shipments are not the only reason that Latin America is flooded with guns. In addition to the indigenous arms industries in countries like Brazil and Argentina, Venezuela has purchased hundreds of thousands of AK assault rifles in recent years to replace its aging FN-FAL rifles and has even purchased the equipment to open a factory to produce AK-103 rifles under license inside Venezuela. The Colombian government has accused the Venezuelans of arming the FARC, and evidence obtained by the Colombians during raids on FARC camps and provided to the public appears to support those assertions.

More than 90 Percent?

For several years now, Mexican officials have been making public statements that more than 90 percent of the arms used by criminals in Mexico come from the United States. That number was echoed last month in a report by the U.S. Government Accountability Office (GAO) on U.S. efforts to combat arms trafficking to Mexico.

According to the report, some 30,000 firearms were seized from criminals by Mexican officials in 2008. Out of these 30,000 firearms, information pertaining to 7,200 of them, (24 percent) was submitted to the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) for tracing. Of these 7,200 guns, only about 4,000 could be traced by the ATF, and of these 4,000, some 3,480 (87 percent) were shown to have come from the United States.

This means that the 87 percent figure comes from the number of weapons submitted by the Mexican government to the ATF that could be successfully traced and not from the total number of weapons seized by the Mexicans or even from the total number of weapons submitted to the ATF for tracing. The 3,480 guns positively traced to the United States equals less than 12 percent of the total arms seized in 2008 and less than 48 percent of all those submitted by the Mexican government to the ATF for tracing.

In a response to the GAO report, the U.S. Department of Homeland Security (DHS) wrote a letter to the GAO (published as an appendix to the report) calling the GAO's use of the 87 percent statistic "misleading." The DHS further noted, "Numerous problems with the data collection and sample population render this assertion as unreliable."

Trying to get a reliable idea about where the drug cartels are getting their weapons can be difficult because the statistics on firearms seized in Mexico are very confusing. For example, while the GAO report says that 30,000 guns were seized in 2008 alone, the Mexican Prosecutor General's office has reported that between Dec. 1, 2005, and Jan. 22, 2009, Mexican authorities seized 31,512 weapons from the cartels.

Furthermore, it is not prudent to rely exclusively on weapons submitted to the ATF for tracing as a representative sample of the overall Mexican arms market. This is because there are some classes of weapons, such as RPG-7s and South Korean hand grenades, which make very little sense for the Mexicans to pass to the ATF for tracing since they obviously are not from the United States. The ATF is limited in its ability to trace weapons that did not pass through the United States, though there are offices at the CIA and Defense Intelligence Agency that maintain extensive international arms-trafficking databases.

Mexican authorities are also unlikely to ask the ATF to trace weapons that can be tracked through the Mexican government's own databases such as the one maintained by the Mexican Defense Department's Arms and Ammunition Marketing Division (UCAM), which is the only outlet through which Mexican citizens can legally buy guns. If they can trace a gun through UCAM there is simply no need to submit it to ATF.

The United States has criticized Mexico for decades over its inability to stop the flow of narcotics into U.S. territory, and for the past several years Mexico has responded by blaming the guns coming from the United States for its inability to stop the drug trafficking. In this context, there is a lot of incentive for the Mexicans to politicize and play up the issue of guns coming from the United States, and north of the border there are U.S. gun-control advocates who have a vested interest in adding fuel to the fire and gun-rights advocates who have an interest in playing down the number.

Clearly, the issue of U.S. guns being sent south of the border is a serious one, but STRATFOR does not believe that there is sufficient evidence to support the claim that 90 percent (or more) of the cartels' weaponry comes from the United States. The data at present is inclusive — the 90 percent figure appears to be a subsample of a sample, so that number cannot be applied with confidence to the entire country. Indeed, the percentage of U.S. arms appears to be far lower than 90 percent in specific classes of arms such as fully automatic assault rifles, machine guns, rifle grenades, fragmentation grenades and RPG-7s. Even items such as the handful of U.S.-manufactured LAW rockets encountered in Mexico have come from third countries and not directly from the United States.

However, while the 90 percent figure appears to be unsubstantiated by documentable evidence, this fact does not necessarily prove that the converse is true, even if it may be a logical conclusion. The bottom line is that, until there is a comprehensive, scientific study conducted on

the arms seized by the Mexican authorities, much will be left to conjecture, and it will be very difficult to determine exactly how many of the cartels' weapons have come from the United States, and to map out precisely how the black, white and gray arms markets have interacted to bring weapons to Mexico and Mexican cartels.

More research needs to be done on both sides of the border in order to understand this important issue.

Four Trends

In spite of the historical ambiguity, there are four trends that are likely to shape the future flow of arms into Mexico. The first of these is militarization. Since 2006 there has been a steady trend toward the use of heavy military ordnance by the cartels. This process was begun in earnest when the Gulf Cartel first recruited Los Zetas, but in order to counter Los Zetas, all the other cartels have had to recruit and train hard-core enforcer units and outfit them with similar weaponry. Prior to 2007, attacks involving fragmentation hand grenades, 40 mm grenades and RPGs were somewhat rare and immediately attracted a lot of attention. Such incidents are now quite common, and it is not unusual to see firefights like the June 26 incident in Apaseo el Alto in which dozens of grenades are employed.

Another trend in recent years has been the steady movement of Mexican cartels south into Central and South America. As noted above, the region is awash in guns, and the growing presence of Mexican cartel members puts them in contact with people who have access to Cold War weapons, international arms merchants doing business with groups like the FARC and corrupt officials who can obtain weapons from military sources in the region. We have already seen seizures of weapons coming into Mexico from the south. One notable seizure occurred in March 2009, when Guatemalan authorities raided a training camp in northern Guatemala near the Mexican border that they claim belonged to Los Zetas. In the raid they recovered 563 40 mm grenades and 11 M60 machine guns that had been stolen from the Guatemalan military and sold to Los Zetas.

The third trend is the current firearm and ammunition market in the United States. Since the election of Barack Obama, arms sales have gone through the roof due to fears (so far unfounded) that the Obama administration and the Democratic Congress will attempt to restrict or ban certain weapons. Additionally, ammunition companies are busy filling military orders for the U.S. war effort in Iraq and Afghanistan. As anyone who has attempted to buy an assault rifle (or even a brick of .22 cartridges) will tell you, it is no longer cheap or easy to buy guns and ammunition. In fact, due to this surge in demand, it is downright difficult to locate many types of assault rifles and certain calibers of ammunition, though a lucky buyer might be able to find a basic stripped-down AR-15 for $850 to $1,100, or a semiautomatic AK-47 for $650 to $850. Of course, such a gun purchased in the United States and smuggled into Mexico will be sold to the cartels at a hefty premium above the purchase price.

By way of comparison, in places where weapons are abundant, such as Yemen, a surplus fully automatic assault rifle can be purchased for under $100 on the white arms market and for about the same price on the black arms market. This difference in price provides a powerful economic

incentive to buy low elsewhere and sell high in Mexico, as does the inability to get certain classes of weapons such as RPGs and fragmentation grenades in the United States. Indeed, we have seen reports of international arms merchants from places like Israel and Belgium selling weapons to the cartels and bringing that ordnance into Mexico through routes other than over the U.S. border. Additionally, in South America, a number of arms smugglers, including Hezbollah and Russian organized-crime groups, have made a considerable amount of money supplying arms to groups in the region like the FARC.

The fourth trend is the increasing effort by the U.S. government to stanch the flow of weapons from the United States into Mexico. A recent increase in the number of ATF special agents and inspectors pursuing gun dealers who knowingly sell to the cartels or straw-purchase buyers who obtain guns from honest dealers is going to increase the chances of such individuals being caught. This stepped-up enforcement will have an impact as the risk of being caught illegally buying or smuggling guns begins to outweigh the profit that can be made by selling guns to the cartels. We believe that these two factors — supply problems and enforcement — will work together to help reduce the flow of U.S. guns to Mexico.

While there has been a long and well-documented history of arms smuggling across the U.S.-Mexican border, it is important to recognize that, while the United States is a significant source of certain classes of weapons, it is by no means the only source of illegal weapons in Mexico. As STRATFOR has previously noted, even if it were possible to hermetically seal the U.S.-Mexican border, the Mexican cartels would still be able to obtain weapons from non-U.S. sources (just as drugs would continue to flow into the United States). The law of supply and demand will ensure that the Mexican cartels will get their ordnance, but it is highly likely that an increasing percentage of that supply will begin to come from outside the United States via the gray and black arms markets.