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# AUSTIN LETTER

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Dear Client:

**Though it didn't get widespread notice, it was announced last week that a Mexican drug lord was captured in Texas. As a result, a new drug cartel battle for control of Matamoros, a Mexican city on the Texas border just a six-hour drive from Austin, could emerge.**

US authorities announced 10/26/11 they had arrested Rafael Cardenas Vela in a traffic stop in Port Isabel, the South Texas gateway to the popular South Padre Island resort area. "The arrest of Cardenas, who is also known as 'El Junior,' is significant because **he was one of the leaders of two factions that are currently fighting for control of the Gulf Cartel,**" said Stratfor's Tactical Intelligence VP, **Scott Stewart.**

The Gulf Cartel claims control of the Texas border from the Gulf of Mexico northwest toward Laredo. Another cartel that is a bitter enemy of the Gulf Cartel, Los Zetas, claims the rest of the Texas border on up past the Del Rio area. **And now two internal factions are fighting for control of the Gulf Cartel.**

Got all that? It means the violence could ratchet up dramatically. "In recent months," said Stewart, "we've been watching as that friction and tension have increased and **it appears currently that it's on the verge of breaking into an all-out war.**" This could occur just 325 miles south of Austin.

*The Austin American-Statesman* Sunday ran a front-page in-depth investigative report that concluded its "**analysis of Texas data shows statistics don't back claims of rampant drug cartel-related crime in Texas border cities.**" Even though the announcement of the arrest of "El Junior" was announced four days before the *Statesman* printed its story, there was no mention of the arrest in its report.

Stratfor, an Austin-based company that gathers security intelligence for private clients, believes **information that led to the arrest of "El Junior" was leaked by a rival faction** and the fact that "El Junior" was in custody for several days before it was announced may indicate he was cooperating with US authorities.

And Stratfor further believes that this **battle for control of drug trafficking into Texas and the US may widen** beyond the battle of the Gulf Cartel internal factions to include Los Zetas and another, even more powerful, cartel, the Sinaloa Foundation. Stay tuned.

**The use of assault weapons in Mexico's narco wars is bad enough. Now an explosive device used around the world by terrorists, detonated two weeks ago on the streets of the major industrial city of Monterey. Does this mean a major escalation of the violence?**

On October 20<sup>th</sup>, a relatively small Improvised Explosive Device (IED) placed in a parked car was remotely detonated as a Mexican military patrol chased a vehicle carrying suspected drug cartel gunmen through the streets of Monterey. **As it occurred moments before the military vehicle passed by, there were no reported injuries or deaths from the blast, but all of the gunmen in the vehicle escaped.** There have been other isolated IED explosions in Mexico within the past year or so, but this is the first inside a major city such as Monterey.

“In the aftermath of such attacks, it is tempting for observers and the mainstream media to **assume cartel violence in Mexico has reached an unprecedented level of escalation, and that an increased use of IEDs is all but certain,**” observed Austin-based Stratfor that provides global security analysis and intelligence for private clients.

“However, the October 20<sup>th</sup> ambush sophisticated though it was, actually showed some **degree of restraint** on the part of the planners, as did the IED attacks of the past year elsewhere in Mexico,” Stratfor continued. “Given the psychological impact and tactical effectiveness of IED use in a combat environment – and cartel personnel armed with the knowledge to construct sophisticated explosive devices – perhaps **more astonishing ... is the fact that cartels do not conduct them with more regularity or on a greater magnitude than they have.**”

So, what is going on here? The drug cartels have little regard for human life. They kill each other, innocent Mexican citizens, journalists, US citizens, elected civilian leaders of Mexico, the clergy, law enforcement, the military. **They regularly carry out some of the most brutal murders imaginable.** So, why the restraint on the use of very effective killing devices, IEDs?

**Stratfor believes it is fear of the United States.** Despite the availability of explosives and the prevalence of people who know how to manipulate those explosives, *large* IEDs have yet to be deployed in Mexico. Why?

“**The use of large, powerful IEDs would lead the Mexican government to designate the cartels as terrorist organizations.** Such a designation would allow US law enforcement easier access to their finances and operation, something the cartels want to avoid at every cost. **It could also lead to dramatically increased US involvement in the fight against Mexican criminal cartels,**” says Stratfor.

“**Mexico's drug cartels must weigh the tactical benefits of using IEDs with the strategic need to keep the US government off their backs.** This dynamic could possibly change should one of the cartels become desperate and believe they have nothing to lose,” concludes Stratfor.

**As we have previously reported, the Austin area and the state economies are rebounding from the recession at a reasonable rate. Can other states say the same? They can, if they have oil and gas resources.**

Texas and other states with extensive oil and gas resources are rebounding faster than the US overall from the 18-month recession that ended in June 2009. And, for Texas, this boost filters throughout much of the local and state economy. For instance, as we reported last month (click on the “Archives” button at the top to go to Volume 33, Number 28, October 7, 2011) **state sales tax collections are back to all-time high levels** – indicating strong consumer activity. And if current trends hold, the **Texas Rainy Day Fund should reach \$7 billion** by the time the next legislature convenes in Austin January 2013.

Many of the other big boy states are still not faring so well. This could really impact their budgets, **triggering rounds of cost-cutting and tax increases by state legislatures**. According to a *Bloomberg-Business Week* report, a revenue miss of \$1 billion in California would trigger automatic cuts in funding for universities and social services under the state’s 2012 budget. A \$2 billion shortfall would spur cuts to schools.

More examples. **In January the governor of Illinois signed the biggest tax increase in state history to cut the deficit, pay bills and help fund public pensions**. Yet its budget shortfall is expected to climb to \$5 billion. In New York, the State Comptroller projects state tax revenue to be weaker than estimated earlier. Florida reports revenue collections trailing forecasts. And so on.

But back to our favorite whipping boy, California, where there are 2.1 million people already out of work and with the nation’s second highest jobless rate at 11.9%. For a long time, California was the nation’s top economic story and by most measures was way ahead of Texas economically. **Now, California companies and many of its best and brightest employees are moving to Austin – mainly because the economic shoe is on the other foot.**

It’s getting a bit worse economically for California. Under a law signed in 2006, California went “all in” to become the first jurisdiction in the nation to adopt a full-scale cap-and-trade tax to combat global warming. The economic fallout will not be pretty. **Nearly every independent analysis agrees that water, electricity, construction and gas prices inside the state will rise, with the only debate about how much**, according to *The Wall Street Journal*.

The National Conference of State Legislatures, headquartered in Denver, keeps tabs on finances of state governments. And *Bloomberg-Business Week* reports the Conference indicates **states are projecting combined budget gaps of \$31.9 billion in fiscal 2013**. The financial spotlight shines brightest on Washington DC, but the nation’s fiscal health of this nation is also made up of 50 different economies. Add Washington to the State Capitals to get a true economic picture.

**One of the highlights of the Austin area's economic rebound is a segment that hasn't shown positive year-over-year growth in three years.**

The release of preliminary job payroll numbers from September by state and national agencies indicate **the Austin area construction and natural resources industry has had the largest rate of growth over the last 12 months since April 2008**, according to the Austin Chamber's VP Research, **Beverly Kerr**.

**Parking at Austin-Bergstrom International Airport (ABIA) will change somewhat starting November 13<sup>th</sup>, due to a 6% increase in passenger traffic.**

**Gone will be the 30-minute complimentary parking in the garage and parking lot A**, usually used as a waiting area for drivers picking up arriving passengers. **This will free up more spaces in those two parking areas for longer-term users.** What about the drivers picking up departing passengers? A *new* area will be located at 2801-A Spirit of Texas Drive where drivers can park free to await a cell phone call from the arriving passenger.

**Forbes magazine has included Austin in its Top Ten US cities for a weekend vacation.**

The cities were just listed, not ranked. Others on the list included Boston, Charleston SC, Denver, Indianapolis, Memphis, Nashville, New Orleans and Seattle. One aspect of Austin's attractiveness mentioned in the listing was **Austin's music scene with what it said were "more performances per capita than any city in the nation and of every musical genre."**

Even though he is not a pediatrician, **Dr. Louis Overholster** likes to point out that the sole purpose of a child's middle name is so the child can tell when he's really in trouble!

Sincerely



Editor/Publisher