



Beyond Operation Blast Furnace: Bolivia's Struggle Against Narcotics

An Intelligence Assessment

This paper was prepared by [redacted] Office
of Global Issues, and [redacted] Office
of African and Latin American Analysis, with a
contribution from [redacted]

It was
coordinated with the Directorate of Operations

Comments and queries are welcome and may be
directed to the Chief, International Narcotics
Division, OGI, [redacted] or the
Chief, South America Division, ALA, on [redacted]

Approved for Release
Date

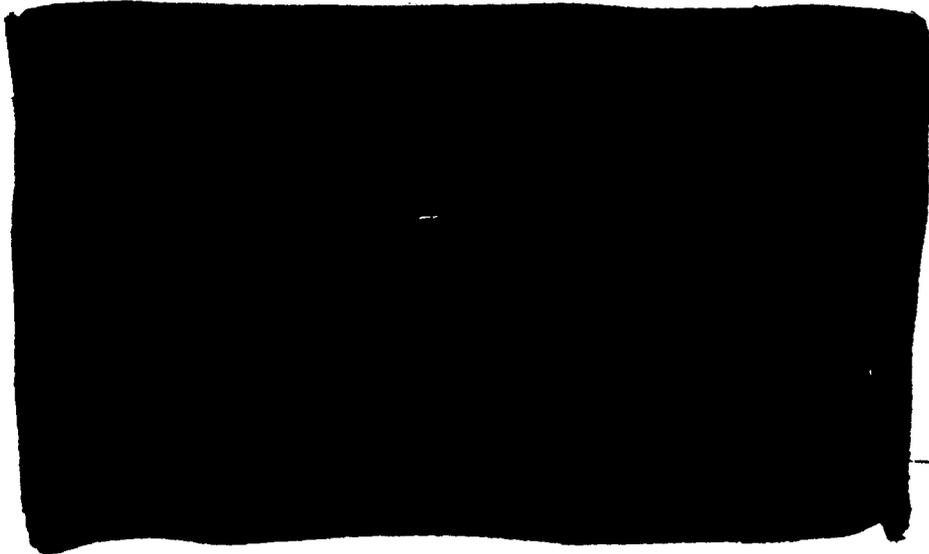
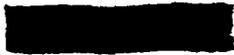
(S)(u)(S)(b)

Warning Notice

Intelligence Sources
or Methods Involved
(WNINTEL)

National Security
Information

Unauthorized Disclosure
Subject to Criminal Sanctions





Directorate
Intelligence

~~Secret~~

Beyond Operation Blast Furnace: Bolivia's Struggle Against Narcotics [REDACTED]

An Intelligence Assessment

~~Secret~~

GI 88-
ALA 88-0007
February 1988

81-88-0100

Beyond Operation Blast Furnace: Bolivia's Struggle Against Narcotics (C NF)

Key Judgments

*Information available
as of 21 December 1987
was used in this report.*

Once primarily a source of intermediate coca products for Colombian trafficking organizations, Bolivia has emerged as a major supplier of cocaine to the international market. The expanding cocaine trade has spawned a new generation of powerful trafficking organizations that are threatening Bolivia's economic and political stability and fueling narcotics activity in other South American countries. [redacted]

[redacted]

[redacted] President Paz Estenssoro's government has drafted a detailed three-year plan to expand interdiction and coca eradication efforts and signed a bilateral narcotics agreement with the United States guaranteeing financing, training, and equipment. The strategy depends on sustained interdiction to curtail coca processing, thereby reducing both the demand for coca leaf and the price peasants can obtain for their product. With other cash crops competitive with coca, the stage would be set for eradication and crop substitution programs. La Paz intends to improve the plan's legal foundation with a new omnibus drug law that consolidates previous narcotics decrees, increases punishment for drug crimes, and delineates legal coca growing areas. [redacted]

Bolivia's counternarcotics program is likely to move slowly in the near term. [redacted]

[redacted]

As long as coca farmers earn high profits, the crop control effort is unlikely to keep up with expanding cultivation. [redacted]

Secret



Secret



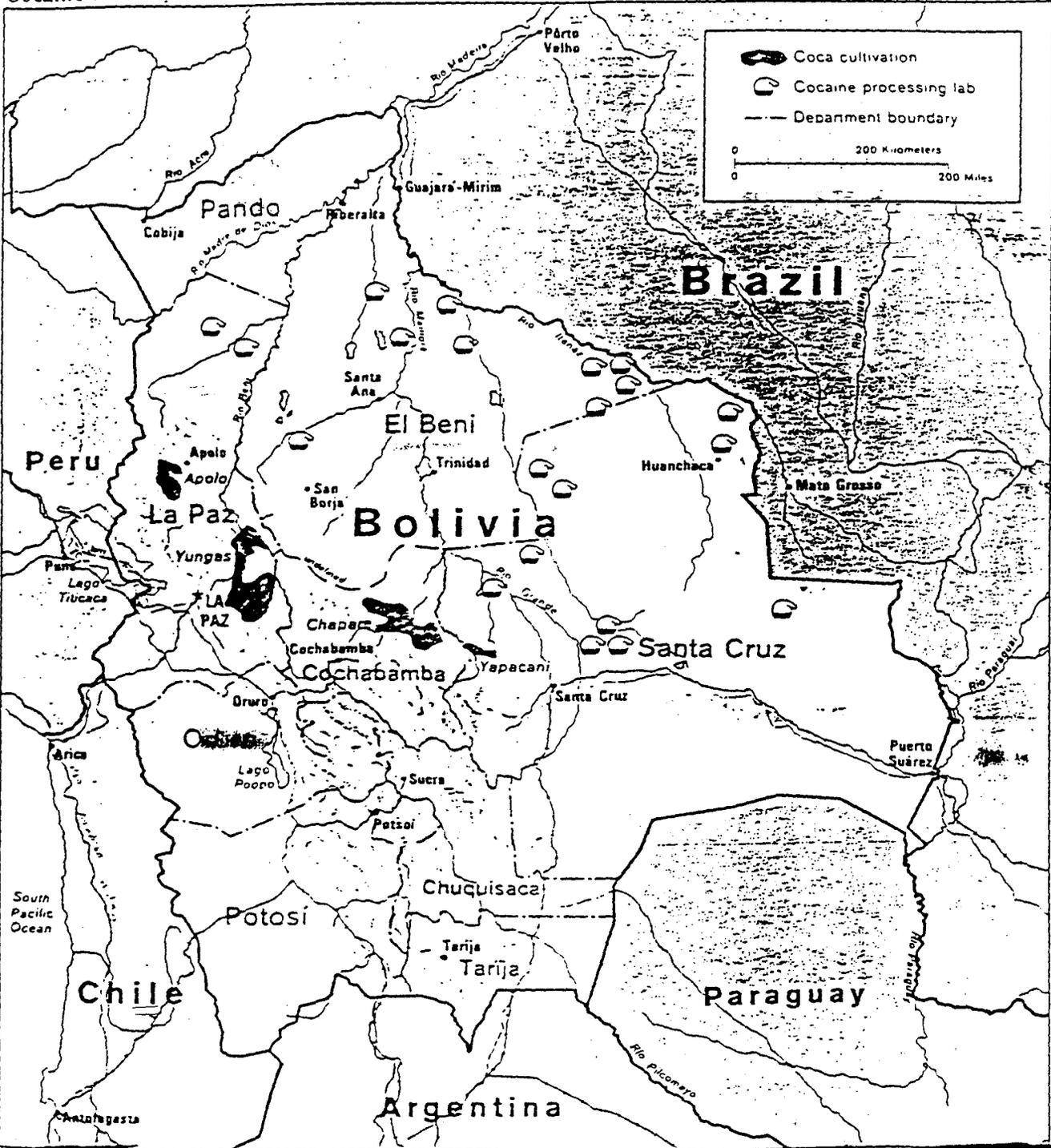
Contents

	<i>Page</i>
Key Judgments	iii
Introduction	1
The Drug Trade in Perspective: Gaining Wealth and Influence	1
Countering the Cocaine Trade: Developing a Strategy	5
New Drug Law	10
Financial Role of the United States	10
Implementing Drug Control: A Difficult Task	10
Narrow Support at the Top	10
Administering the Program	11
Preparing for Interdiction: An Uphill Battle	12
Resources and Training: The US Contribution	12
	12
The Opposition Grows Stronger	12
Crop Reduction: Success More Remote	13
Prospects for the Near Term	13
The Long-Term Outlook	16
Opportunities for Countering the Expansion	16

Appendixes



Figure 1
Cocaine Industry



Beyond Operation Blast Furnace: Bolivia's Struggle Against Narcotics

Introduction

Coca cultivation in Bolivia, once the domain of subsistence farmers supplying the domestic chewing market, has been transformed over the past 15 years into a multibillion dollar business that supplies the international cocaine market. By 1982 Bolivia was a major supplier of coca paste to Colombian cocaine refineries, and it subsequently has emerged as a major cocaine refining and export center in its own right. In 1987, we estimate [redacted] hectares of coca were under cultivation, making Bolivia the second-largest coca grower in South America behind Peru. Most of the crop supplies illicit markets.

[redacted] equivalent to the entire estimated annual demand in the United States. The illicit cocaine industry is broadly established throughout Bolivia and trafficking organizations continue to grow in size, wealth, and influence.

Facing US pressure to implement effective drug control measures, in July 1986 President Paz Estenssoro asked for US military assistance to crack down on the illicit cocaine industry.

[redacted] Operation Blast Furnace stirred enough anti-drug sentiment in Bolivia to permit La Paz to develop a longer term drug control strategy addressing US requirements for antidrug progress.

The Drug Trade in Perspective: Gaining Wealth and Influence

Bolivia has emerged over the past five years as South America's second most important center of cocaine exports—after Colombia—partly because of the steady increase in coca cultivation but largely because of the rise of trafficking groups capable of competing with the leading Colombian network.

[redacted]

networks are vertically integrated, controlling all activities from buying coca supplies for drug factories to overseeing distribution of cocaine in the United States. Reporting [redacted] paints a picture of extensive networks of drug brokers, pilots, guards, lawyers, accountants, and money launderers directed by a core of managers.

[redacted]

While Bolivia's formal economy was contracting over the past five years, the cocaine business was burgeoning, and it has become the country's strongest industry and the source of income for thousands of impoverished farmers and unemployed workers. Proceeds from illicit cocaine sales totaled about [redacted] billion in 1986. Some [redacted] million entered the country as wages, luxury goods, imports, and investments in real property and legitimate business concerns; the rest is secreted in foreign banks or is used to cover the overseas costs of the traffickers' operations. Nevertheless, even this fraction of drug profits exceeded the total value of legitimate exports in 1986.

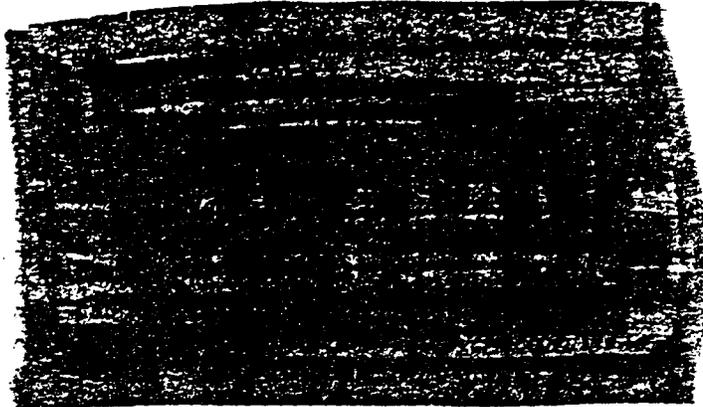
[redacted]

[redacted]

[redacted]

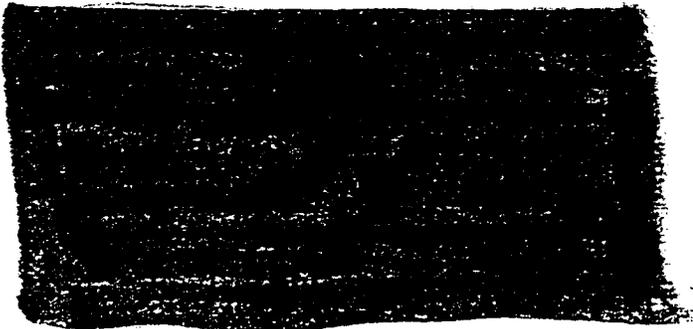
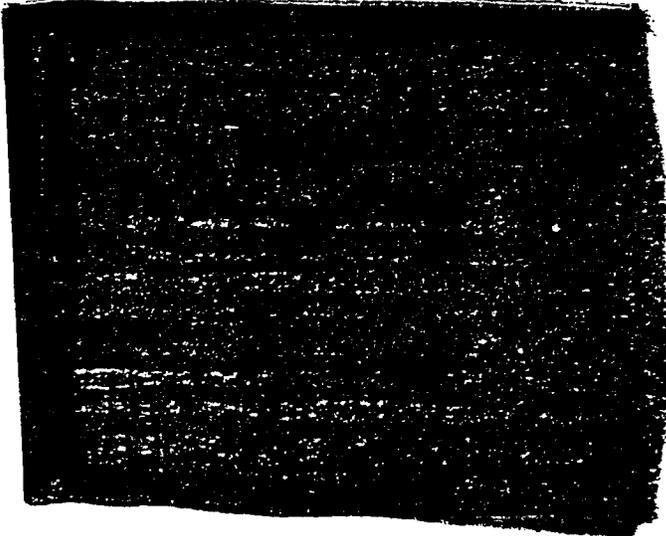
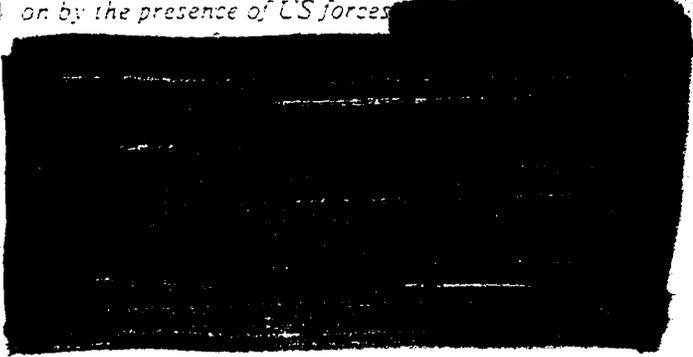
Operation Blast Furnace

Although few arrests and drug seizures were made, Operation Blast Furnace briefly disrupted the drug trade and challenged the relative freedom of traffickers to conduct illegal activities. Blast Furnace—a four-month joint U.S.-Bolivian narcotics interdiction operation that ended in November 1986—consisted of raids by narcotics police on suspect drug facilities in remote areas of northern and eastern Bolivia.



The most noticeable effect of the raids was the sharp drop in the market price for coca leaf in the Chapare region, where nearly three-fourths of the Bolivian coca crop is grown. We believe this decline was caused in part by a reduction in processing brought on by the presence of US forces.

Blast Furnace was only partially successful. Some traffickers shut down during the operation; others continued drug transactions, abandoning their laboratories only hours before the antinarcotics police arrived.



Increased cocaine production in Bolivia is fueling the expansion of narcotics activity throughout southern

PAGE 3 IS BLANK
(b)(1) (b)(3)

PAGE 4 IS BLANK
(b) (1) (b) (3)

PAGE 5 IS BLANK
(b) (1) (b) (3)

of cocaine refineries raided during Operation Blast Furnace surprised police officials. The murders of a prominent Bolivian who innocently wandered into a laboratory site and a congressional deputy investigating the case highlighted the growing narcotics threat, undercut the arguments of opponents who perceived the drug trade as an economic necessity, and gave Paz the opening he needed to respond to US pressures and develop a comprehensive three-year narcotics strategy.

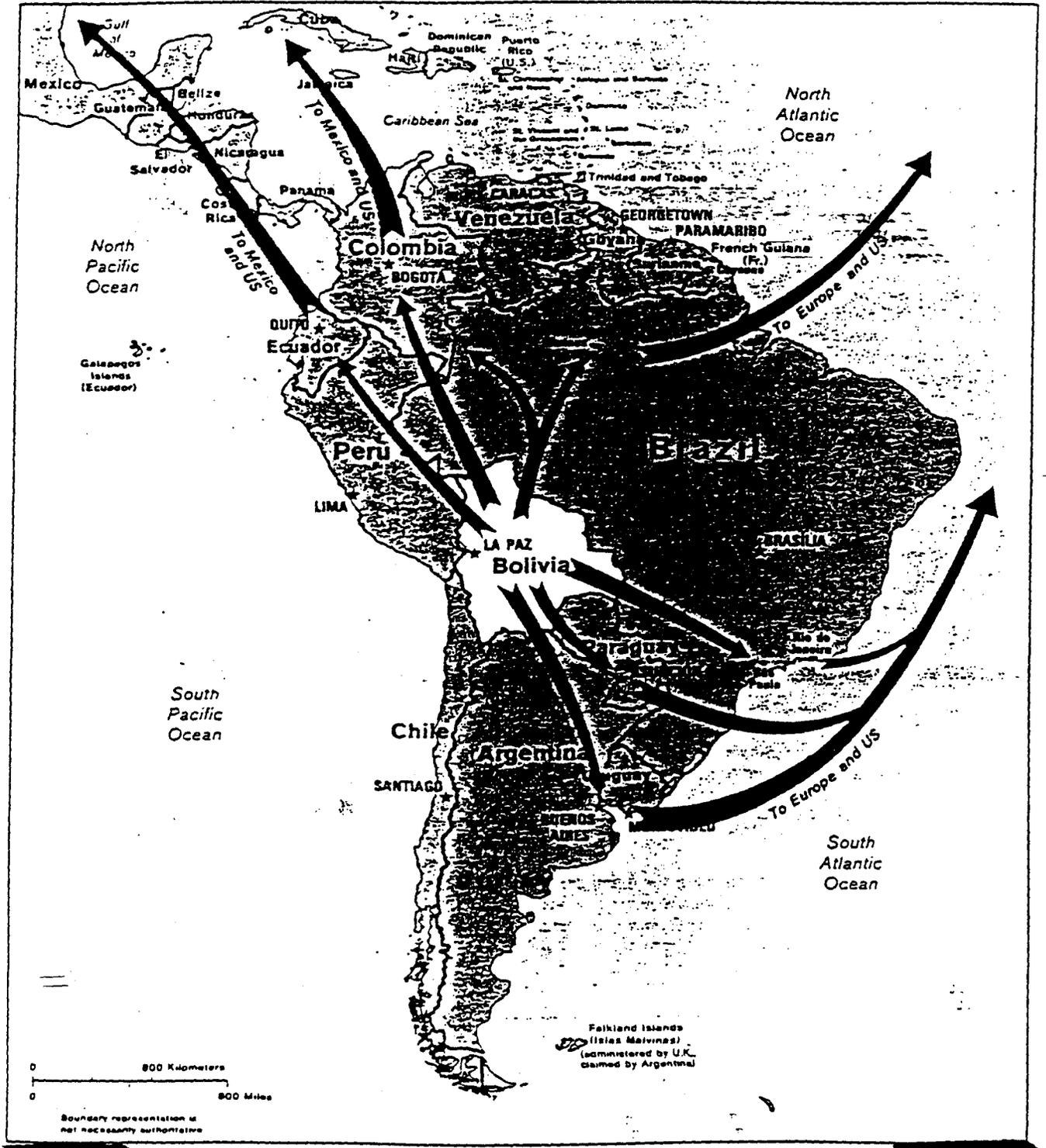
La Paz's plan to counter the drug trade depends on sustained interdiction operations to depress coca processing, drive down the demand for coca leaf, and set the stage for eradication of illicit coca crops. Farmers who find the price of coca has fallen below the cost of production will be offered direct financial assistance and access to crop substitution programs in exchange for eradicating their coca fields. Coca growers who uproot their fields during the first year of the program will be eligible for a variety of benefits—including training, credit, and cash payments—intended to ease their transition from coca cultivation to alternative

[REDACTED]

The importance of foreign financing to Bolivia's economy is reflected in the fiscal budget deficit for 1987, 72 percent of which will be financed by foreign credits and contributions. They also understand that, if Bolivia's commitment to anti-narcotics filters, continued harmonious diplomatic relations with the United States—La Paz's most important foreign policy objective in our view—would suffer.

Events in Bolivia provided an additional boost to Paz's attempts to respond to US pressure. The large number

Figure 5
Cocaine Trafficking Routes From Bolivia



Regional Impact of the Drug Trade

The Chapare: Center of the Coca Boom

Nowhere is the coca boom more evident than in the Chapare, an important agricultural area and the focus of a major land colonization project in the 1960s. The government-sponsored project inadvertently spurred coca cultivation by providing roads and other improvements that encouraged settlement. Now, [redacted] as much as 70 percent of the work force in the Chapare area is directly or peripherally involved in the cocaine industry, and the area produces 75 percent of Bolivian coca. The coca plant grows well in the poor Chapare soil, and leaf yields per hectare are higher than anywhere else in Bolivia. As a result, coca also has a more favorable rate of return than traditional agricultural crops: it has a higher value per unit weight, is less labor intensive, and is less perishable. Coca production has attracted some 75,000 families to the Chapare, an area whose licit agriculture, [redacted], could support only 25,000 families.

Cochabamba: The Commercial Gateway to the Chapare

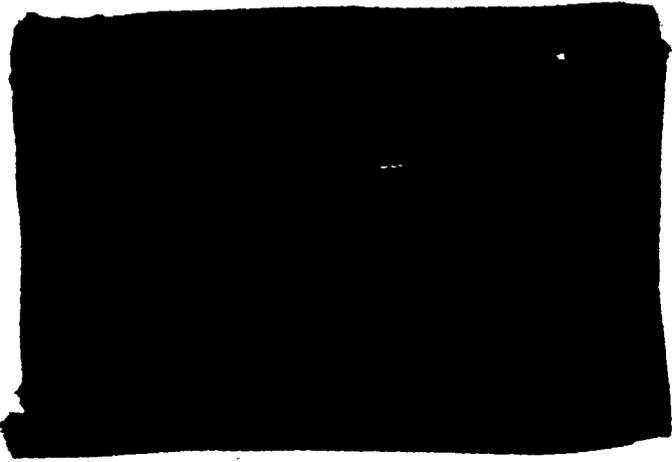
Cochabamba, located at the southwest edge of the Chapare on the only road into the region, illustrates how the burgeoning cocaine industry is disrupting regional economies and leading to increased violence in Bolivian society. The city, which serves as both a market and supply center for coca growers and drug processors, has witnessed an influx of Colombians and people from Santa Cruz all hoping to participate in the cocaine boom. [redacted], there is no other business or financial reason for outsiders to move into Cochabamba except to participate in the drug industry. [redacted] crime and violence are increasing and drug addiction is on the rise. The narcotics industry has become so entrenched and influential that Cochabamba's representatives in the nation's Congress have hesitated to support legislation aimed at halting the drug trade for fear of losing the support of their peasant constituency and provoking the anger of narcotics traffickers. [redacted]

On the other hand, legitimate business in Cochabamba is in a crisis: years of hyperinflation and statist protectionism decapitalized and severely weakened legitimate businesses, and President Paz's new policies have forced them to deal with unaccustomed free market import competition. [redacted] trafficker payments to campesinos

for growing coca and producing paste are so high that licit businesses are unable to retain critically needed skilled and unskilled laborers. In addition, thousands of unemployed miners have migrated to Cochabamba in search of jobs only to find none, and, as a result, have begun to stir up trouble, putting pressure on city coffers at the expense of already unemployed factory workers in Cochabamba. [redacted]

Santa Cruz: The Hub

Many traffickers have their homes and business headquarters in Santa Cruz, a booming metropolis, which in recent years has overtaken Cochabamba as the second most populous city in Bolivia. This city also is an anomaly to Bolivia's general economic decline. Long a prosperous community, Santa Cruz's growth has been fueled by the department's rich agricultural lands and hydrocarbon industry, which produces oil for domestic consumption and natural gas for export. Its many banks, modern transportation facilities, and cosmopolitan nature have made Santa Cruz a popular center for traffickers. They launder their money through its banks, which have subsidiaries in Panama and Miami, ship their drugs and coca products through its international airports—the most modern in Bolivia—and use its restaurants, hotels, and nightspots to make deals. The city's many moneychangers and black market provide additional opportunities for money laundering. [redacted]



Narcotics Chronology

1986

July. Operation Blast Furnace began as a 60-day joint US-Bolivian counternarcotics operation involving six US Blackhawk helicopters and their support personnel to transport Bolivian police on raids against remote cocaine laboratories.

September. A prominent naturalist, Noel Kempf, and two companions were murdered at the remote Huanchaca cocaine refinery and a special congressional committee was assigned to investigate the case. Blast Furnace was extended for an additional 60 days.

October. The US-Bolivian Commission on Narcotics Interdiction and Coca Eradication and Development concluded a draft report on a comprehensive three-year antidrug strategy.

November. A leftist congressional deputy and member of the special committee investigating the Huanchaca murders, Edmundo Salazar, was murdered by unknown assailants, presumably drug traffickers. Blast Furnace ended and the Blackhawk helicopters and support troops were withdrawn. Six US-loaned Huey helicopters were delivered for exclusive use in drug control.

December. Antinarcotics activity slowed as a result of heavy seasonal rains and the reorganization of Bolivian counternarcotics forces to continue Blast Furnace-type operations.

1987

January. Bolivia's Senate began deliberations on the new narcotics law.

February. Bolivia and the United States signed the Declaration of Principles of Narcotics Cooperation, an umbrella agreement adopting the three-year strategy to be followed by annexes on specific actions. President Paz named a new cabinet, replacing the Ministers of Interior and Agriculture, both rumored to be on the payroll of narcotics traffickers.

March. Bolivian Senate approved narcotics bill and sent it to the Chamber of Deputies for consideration.

April. The Bolivian Government, assisted by United Nations Fund for Drug Abuse Control (UNFDAC) and the World Bank, hosted a meeting in Vienna of potential donors for antidrug programs. Potential West European donors indicated their support for Bolivia's strategy but refrained from making concrete commitments to contribute to the program.

May. Peasants, possibly incited by traffickers, blocked roads in the Chapare for two days in protest of government coca reduction plans. US Army instructors began training UMOVAR, Bolivia's specialized police narcotics strike force.

June. Government and peasant unions signed an agreement on coca substitution in which La Paz promises to give growers a role in formulating development projects. Bolivian political leaders sponsored a seminar to discuss the antidrug plan and the proposed narcotics law.

July. La Paz created the National Council Against Drug Abuse and Illegal Drug Trafficking and subsecretariats for crop reduction and interdiction. A new police-military counternarcotics structure headed by a retired army general and a special Air Force support group are formed.

August. La Paz signed the two annexes to the February bilateral narcotics agreement, beginning the one-year period for destroying 1,800 hectares of coca. The Bolivian Congress returned from its annual recess; the Chamber of Deputies formed a new narcotics committee to review the drug bill.

September. Bolivia began a last-minute effort to satisfy US eradication requirements but failed to meet the mid-month deadline and lost \$8.7 million in economic and military funding.

October. US border patrol advisers began working with UMOVAR troops at Chapare checkpoints.

November. Congress recessed for six weeks to allow members to campaign for municipal candidates, further delaying the drug bill. Bolivian coca reduction officials claimed that some 550 hectares of coca had been eradicated since September.

agricultural activity. La Paz, hoping to lure more farmers away from coca, also will rely on regional development projects—sponsored by USAID in the Cochabamba area and the United Nations in the Yungas region of La Paz Department—to improve agricultural markets and related infrastructure. The three-year program stipulates that those farmers growing coca in unauthorized areas will forfeit benefits and will have their crops forcibly destroyed by the government.

New Drug Law

Before La Paz can proceed fully with its intensified drug control program, it will need to improve the plan's legal foundation by passing a revised narcotics law. Last March, Bolivia's Senate approved and sent to the Chamber of Deputies an omnibus drug bill that consolidates previous narcotics decrees, increases punishment for drug crimes, and specifies legal coca growing areas. If passed, the bill would empower the Bolivian Government to use force to eradicate illicit coca crops. At present no existing laws distinguish legal coca growing areas from illegal ones; the proposed law is expected to limit crops to centuries-old growing areas in the Yungas and a small traditional zone in the Chapare.

Debate over the bill will be contentious, as it runs counter to centuries of legal coca growing tradition and seeks to eliminate a major source of income for tens of thousands of Bolivian farmers.

trafficking, which many deputies believe is a menace to Bolivian society, or pass the law and risk reprisals from traffickers and powerful peasant unions.

Others who are in no way dependent on the cocaine industry may resist the law because they genuinely feel Bolivia's economy and democracy cannot survive without coca dollars.

Nevertheless, we believe the Chamber of Deputies ultimately will approve a modified version of the current legislation.

Financial Role of the United States

The bilateral agreement signed in August guarantees the United States will assist La Paz in implementing the three-year drug control strategy. The program—estimated to cost some \$300 million over three years—will be funded largely by the United States, which has agreed to finance most of the interdiction costs and a large portion of crop substitution. Furthermore, the United States has emphasized the importance it places on drug control in Bolivia by tying present and future economic assistance—important in strengthening Bolivia's balance-of-payments position—to La Paz's progress in meeting the objectives of the narcotics control plan included in the bilateral agreement. According to the agreement, La Paz must destroy 1,800 hectares of coca by mid-August 1988 as well as pass a stronger drug law or it could lose a large portion of 1988 US economic and military assistance.

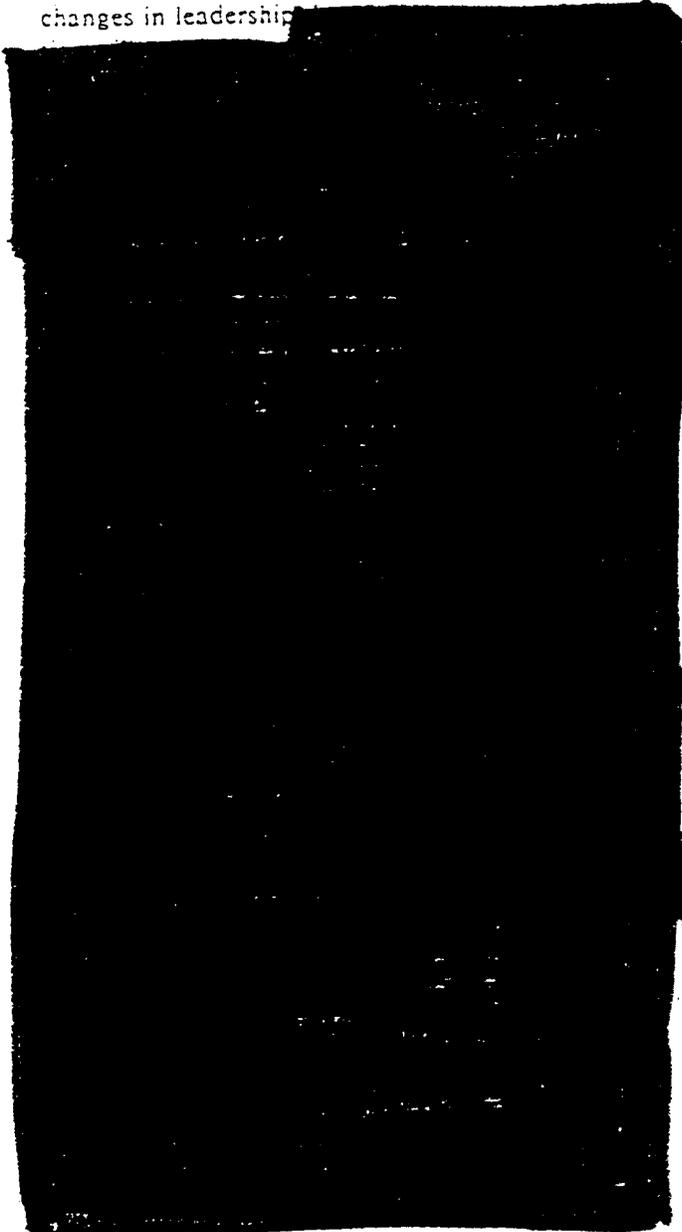
Implementing Drug Control: A Difficult Task

Narrow Support at the Top

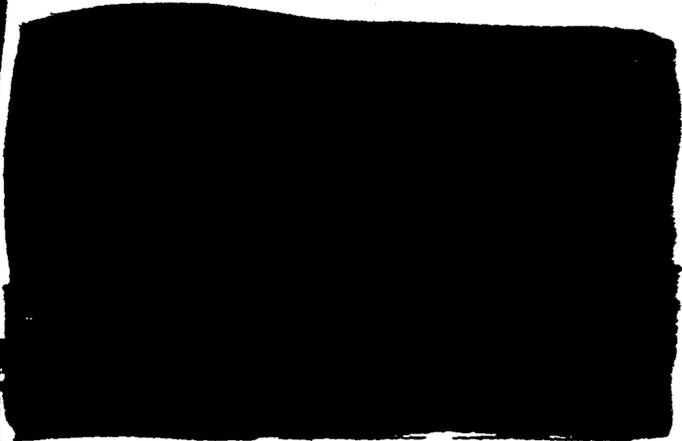
Regardless of the final provisions of the drug bill, the strategy will be difficult to implement. There is no strong antidrug consensus in Bolivia.

Therefore, the narcotics control plan will need to have broad support within the

cabinet and the lower echelons of the Bolivian bureaucracy if the program is to be implemented successfully during the current administration as well as endure changes in leadership



minister antidrug council—The National Council Against Drug Abuse and Illegal Drug Trafficking—to provide direction and make policy decisions on drug control matters. Responsibility for program implementation resides primarily within the Ministries of Interior and Agriculture, however, and two new subsecretariats have been established to keep government assets focused on drug control. The subsecretariat in the Interior Ministry will manage and execute policies and actions involving drug interdiction, while the subsecretariat under the Ministry of Agriculture will, among other things, orchestrate coca eradication and crop substitution.



Administering the Program

Bolivia has taken measures to create the civilian administration necessary to manage narcotics control and to ensure that the responsible ministries continue to focus on drug interdiction and eradication. In July, La Paz announced the formation of a new five-



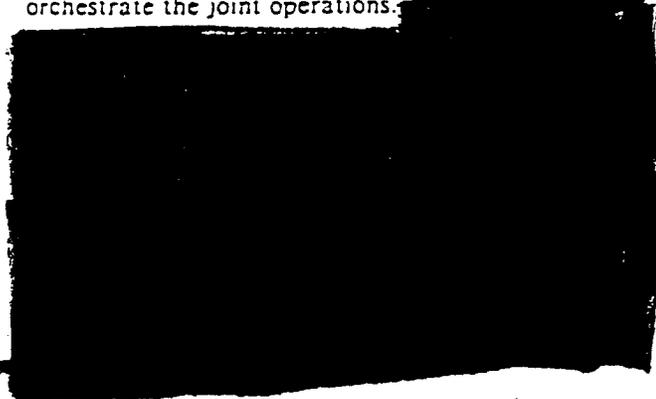
- Funded projects to upgrade facilities used by enforcement units and is providing supplies, tactical intelligence, and technical guidance to forces conducting counternarcotics missions.

Preparing for Interdiction: An Uphill Battle

The Bolivian Government's strategy to crack down on drug trafficking emphasizes joint police and military operations. The military is expected to provide logistic support for police antidrug operations, assuming the role that US military forces filled during Operation Blast Furnace.



La Paz also has assembled a new command structure, subordinate to the new subsecretariat in the Ministry of Interior, to orchestrate the joint operations.



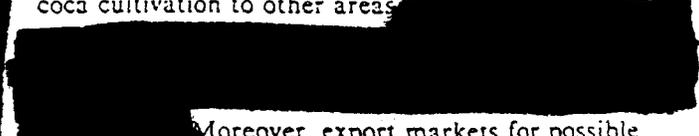
Resources and Training: The US Contribution

We believe La Paz will continue to rely heavily on the United States to supply the resources and training needed by its counternarcotics force to carry out expanded operations. The United States has:

- Loaned six Huey helicopters to the Bolivian Air Force and plans to provide eight river patrol boats to the Bolivian Navy, expressly for use in drug interdiction.
- Trained the Bolivian armed forces in air and river operations and aviation mechanics and will train about 450 officers and troops from UMOPAR—the specialized narcotics police strike force—in basic and advanced infantry tactics.



ed by large capital facilities such as transportation, irrigation, and electrification. In addition, the government must have the capability to prevent the spread of coca cultivation to other areas.



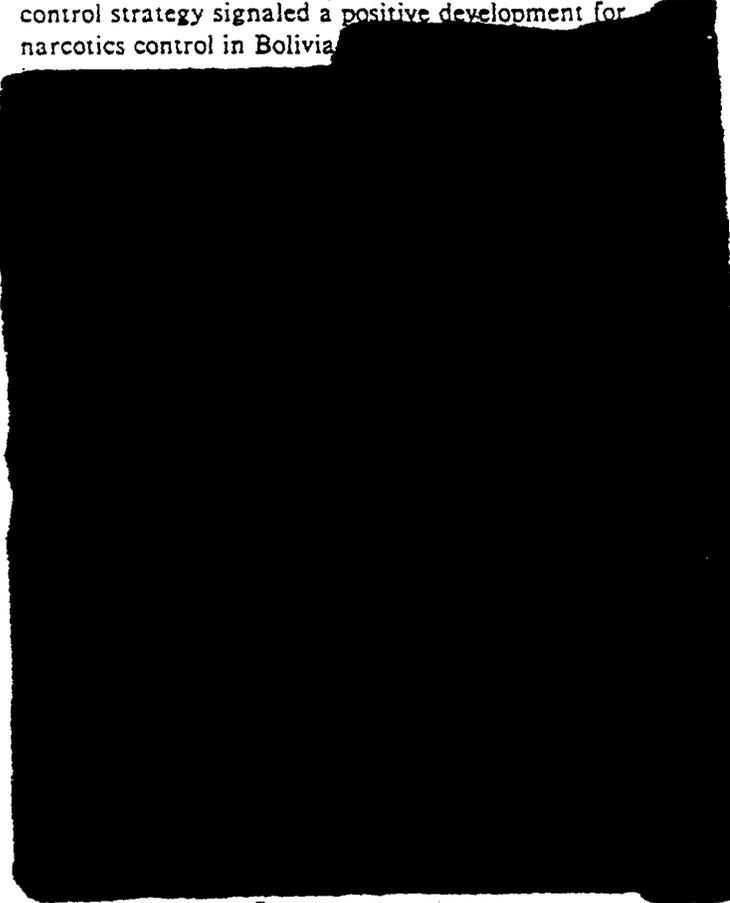
Moreover, export markets for possible substitute crops—rice, coffee, or soybeans for example—are untested, and some commodities face international restrictions or are uncompetitive because of high production or transportation costs.

Prospects for the Near Term

President Paz Estenssoro's cooperation with the United States in Operation Blast Furnace and his willingness to approve Bolivia's most comprehensive drug control strategy signaled a positive development for narcotics control in Bolivia.

Crop Reduction: Success More Remote

Bolivia's antidrug strategy relies on eradication—the destruction of coca fields—in conjunction with crop substitution—replacement of illegal crops with legal ones—to cut back illicit drug crops and prevent new coca plantings. In our view, both components of coca reduction must proceed in tandem, making eradication a long-term proposal that could face many obstacles. Eradication of coca in the absence of crop substitution or some other alternative form of employment almost certainly will be economically and politically disruptive, possibly forcing farmers to migrate to cities where they will exacerbate existing unemployment and overwhelm social service programs. The prospects for such disruption, the likelihood of intense resistance from growers who stand to lose their income, and the difficulty of carrying out and administering manual eradication probably will deter La Paz from wholeheartedly pursuing coca reduction until viable economic alternatives are available.



current crop substitution programs will be only marginally successful in providing alternative employment for producers during the next year. Crop substitution is by nature a long-term endeavor that takes many years to implement. In order for such programs to take hold, projects must be backed by extensive financial resources and technical expertise in remote and backward areas and establish extensive marketing and distribution systems support-

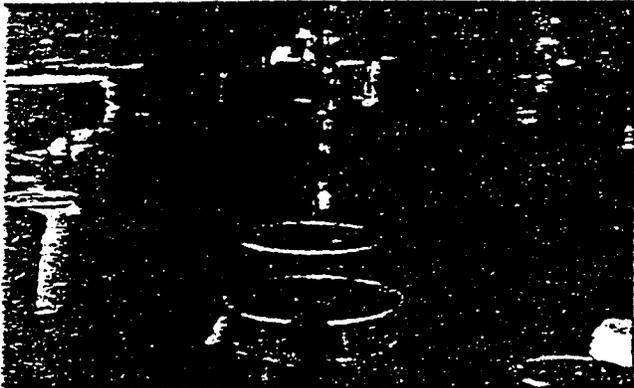
PAGE 14 IS BLANK
(b) (1) (b) (3)



During Operation Blast Furnace, Bolivian narcotics police were transported to suspected cocaine laboratories aboard US-piloted helicopters. The joint US-Bolivian counternarcotics team raided the Madari laboratory on 23 July 1986.



The laboratory was capable of refining some 2 tons of cocaine per week when operating at full capacity. The complex had been active since 1982 and was abandoned only about three days before the raid.



After being dissolved in ethyl ether, cocaine base is filtered to remove solid impurities. A mixture of ether, acetone, and concentrated hydrochloric acid is added to the filtered product to produce cocaine hydrochloride.



The refinery included three drying rooms where heat lamps were used to evaporate solvent vapors from the cocaine before final packaging and shipment.



Large diesel generator—main manufacturing equipment—used at Madari cocaine laboratories to provide power to various processing equipment and living quarters. The generator at the Madari complex powered 17 buildings, including sleeping and living quarters for some 40 to 50 workers.



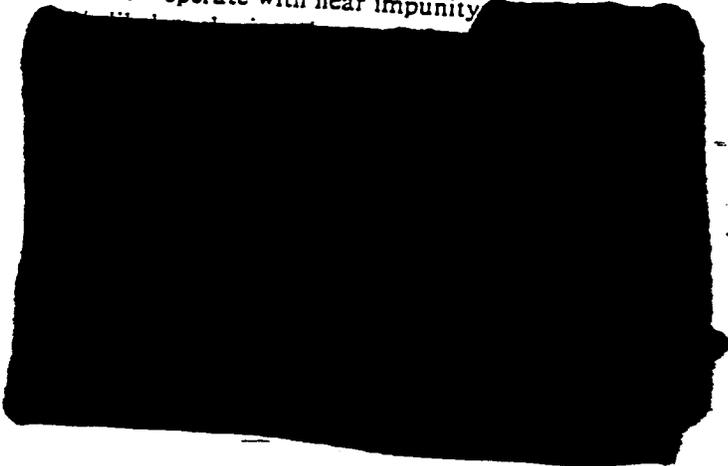
After removing drug-processing equipment, Bolivian police set fire to the wooden structures. Inspections since the operation indicate that traffickers are rebuilding at least some of the seized laboratories.

PAGE 16 IS BLANK
(b) (1) (b) (3)



The Lima-Bonina Treaty on narcotics cooperation signed by Andean countries in 1986 and conferences held under the Organization of American States and the South American Narcotics and Psychotropics Agreement also are avenues of cooperation available to Bolivia. ()

We believe that La Paz could disrupt the expansion of the cocaine trade by focusing on components of its strategy aimed at combating trafficking organizations that now operate with near impunity



PAGES 19 THROUGH 23
BLANK
(b)(1) (b)(3)