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# International Narcotics Situation Report [REDACTED]

November 1989

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**International Narcotics  
Situation Report** [REDACTED]

November 1989

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*This Situation Report is prepared by the [REDACTED] with contributions from other offices. It assesses narcotics-related developments worldwide. The report leads with a short Perspective on a drug-related issue or trend that we believe is of special importance. The Perspective is intended to be speculative and to generate discussion. The Perspective is followed by feature articles, and the remainder of the report examines various dimensions of the drug problem by region. Questions and comments are welcome and should be addressed to the [REDACTED]*

## International Narcotics Situation Report ■

November 1989

Perspective

### Cocaine Traffickers: Weathering the Interdiction Threat ■

Recent unprecedented seizures underscore the potential that interdiction efforts hold, but they also reflect the resiliency and the growing efficiency of the South American cocaine industry. ■

During the past four months, enforcement authorities have confiscated some 35 metric tons of cocaine in separate operations in the United States, the Caribbean, and the Gulf of Mexico. In our judgment, the 20-ton seizure in Los Angeles in September and the 9-ton seizure in Harlingen, Texas, in October suggest that the traffickers have targeted major US distribution points in particular and that they have confidence in the security of such enterprises. ■

Although the potential revenues lost from the recent seizures are in the millions of dollars, the industry appears to have weathered these shocks easily. For example, wholesale and retail prices in the United States reportedly have not shot up, nor have prices in South America increased—signals that would indicate a scramble by traffickers to replenish supplies and recoup financial losses. Accordingly, we believe that these seizures—and, indeed, other large ones that have taken place during the past few years—reflect trends in the drug industry toward more efficient shipping and marketing operations. ■

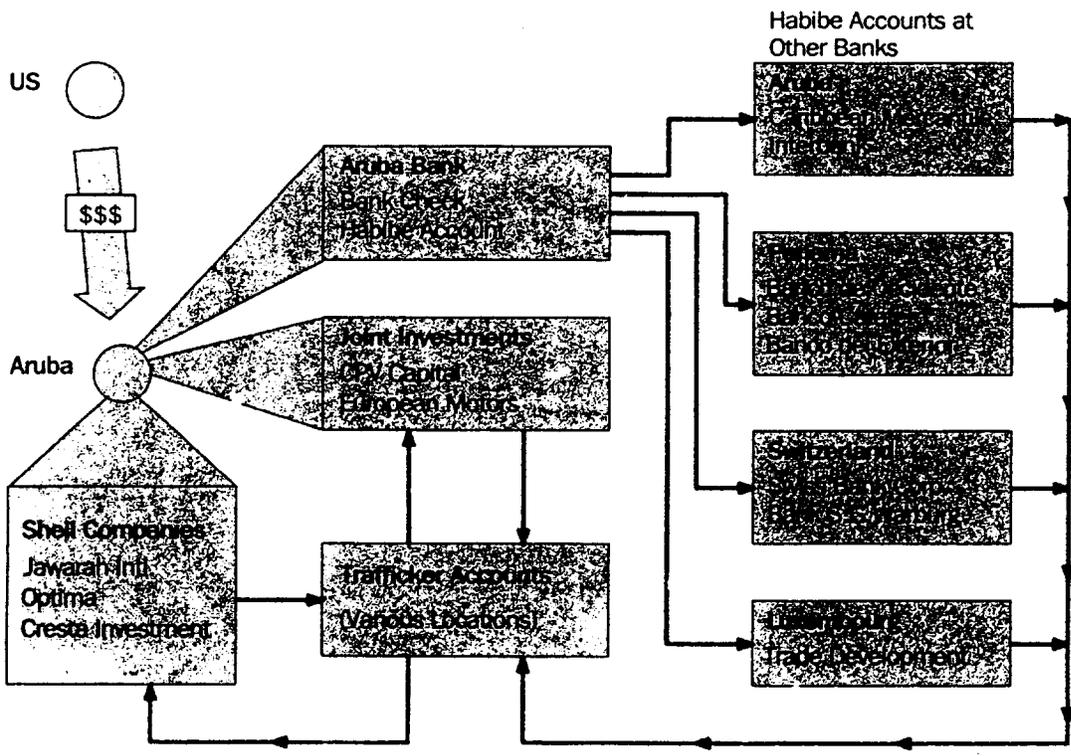
■ traffickers are capitalizing on the increasingly well-stocked cocaine pipeline by assembling joint loads and sending shipments to be stockpiled near major distribution centers. By pooling their loads and turning to large-volume shipments, traffickers are lowering their operational costs while also improving their ability to respond quickly to increased demand. ■

The increased efficiency afforded by large-volume smuggling is complemented by expanded coca cultivation, which we believe to be the traffickers' most effective weapon for countering interdiction aimed at curbing supplies. Coca cultivation, for example, more than doubled in the 1980s. Without an effective crop-control program in existing growing areas, a similar growth pattern could emerge in the 1990s. ■

As a result, we believe that the drug threat is likely to strain the interdiction effort increasingly over the next few years. While these challenges will be most pronounced for the United States, burgeoning cocaine markets in Europe and elsewhere suggest that authorities there will soon become equally hard pressed. ■

■

Habibe's Drug Money Net



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## Aruba: Drug Money Operations of Randolph Habibe [REDACTED]

Small Caribbean businesses make useful partners for major South American drug traffickers. Taken together, these businesses constitute a sizable drug service industry consisting of import-export companies, air and maritime shipping companies, and financial institutions. These companies can facilitate the transshipment of bulk narcotics destined for the United States and handle currency and chemicals en route to the drug lords. The traffickers can use the relatively untainted ownership, legitimate activities, and financial connections of these firms to perform key steps in the money-laundering cycle. [REDACTED]

Aruban Randolph Habibe exemplifies the Caribbean entrepreneur who performs a wide range of business and financial services for traffickers. [REDACTED]

[REDACTED] Habibe's dealings with many Colombian narcotics traffickers. Many of these traffickers are based in Barranquilla, Santa Marta, and Cartagena on Colombia's north coast; other trafficker contacts are in Medellin, Cali, The Bahamas, Aruba, and elsewhere in the Caribbean. In addition, Habibe has links to several companies believed to be involved in shipping cocaine in bulk to the United States and has participated in investments with reputed traffickers. [REDACTED]

### Habibe's Businesses

Most of Habibe's ties to drug traffickers are through the variety of Aruban businesses that he controls. Habibe's companies—often co-owned with traffickers—deal with a number of other firms in drug-producing or transit countries of the Caribbean and Latin America that engage in shipping, trade, and banking. The mix of legitimate and illicit activity executed through his business enterprises provides Habibe with excellent cover and great flexibility in meeting the needs of his trafficking clientele. [REDACTED]

The hub of Habibe's business network is Zunoca Freezone Aruba, an export-import firm that operates out of Aruba's free zone. Habibe is a director and the general manager of Zunoca. [REDACTED]

[REDACTED] but he shares ownership with three drug traffickers. Zunoca's—and Habibe's—chief legitimate transactions are wholesale trade in automobiles and auto parts. [REDACTED]

[REDACTED] Habibe owns all or part of other smaller or less active companies that are involved in some legitimate commercial business:

- An air transport company, Avia Air, is collocated with Zunoca Freezone Aruba. [REDACTED] Avia Air apparently has no regular flights and has only one small aircraft.
- Another Habibe company, Tabula, has been the consignee for a shipment of precursor chemicals.
- Propiedades Habibe, owned by Habibe and his wife, manages Habibe's extensive commercial real estate holdings in Aruba. [REDACTED]

Habibe also uses shell companies that allow him to distance himself and his clients from drug money while retaining direct financial control. Illicit funds can be moved easily through the accounts of these companies—which can be set up in any of several financial havens—to hide the origin of the money. An ideal shell company arrangement is Optima NV—a fiduciary services company owned by Habibe and Aruban narcotics trafficker Luis Mansur, [REDACTED]

[REDACTED] the company could be used to accept drug currency or transfers of drug money from accounts held by Habibe, Mansur, or Colombian traffickers. [REDACTED]

In addition, Habibe is an investor in several joint ventures with Colombian traffickers in Aruba. [REDACTED]

[REDACTED] they own a resort or [REDACTED]

hotel time-sharing project called Caribbean Palm Village. Habibe paid \$100,000 in September 1988, possibly as his investment share in the project. He may also be a partner in European Motors, an auto dealership owned by several traffickers. [REDACTED]

#### Diversified Laundering Network

Habibe's business network comprises everything needed to carry out sophisticated money-laundering operations for major drug traffickers. [REDACTED]

[REDACTED] Habibe uses his business and financial resources in all phases of the drug money cycle. Such activities include *cash placement* to move currency into the banking system, *layering* to protect the origin or ownership of funds from investigators, and *integration* of untraceable funds in potentially profitable legitimate enterprises. [REDACTED]

#### Cash Placement

Much of the reporting that ties Habibe to drug money laundering focuses on his role in handling drug currency. Bulk movement of currency is relatively easy to detect, and national laws are often designed to counter or identify such transactions. Traffickers therefore need to convert the incriminating drug currency into more manageable and secure financial assets to begin the laundering process. Drug service companies can arrange these placement services more easily than the trafficker by claiming an origin from legitimate transactions and by using their banking connections. [REDACTED]

Habibe uses his business status in Aruba to handle large amounts of currency—probably derived from drug transactions—without official interference. The most revealing cash transaction, [REDACTED] was the \$4 million handled by Habibe and David Cybul—another [REDACTED] Aruban money launderer—in November 1986. The two arrived at a branch of Aruba Bank with 30 suitcases containing small bills wrapped in foil and covered with powder. The bank accepted the cash and issued a check in the name of an unidentified US citizen. The check was subsequently deposited in a US bank for transfer to a Colombian trafficker. [REDACTED]

#### Layering

Habibe's network of businesses and their numerous bank accounts offer several opportunities for layering drug funds. Indeed, we believe that Habibe's financial infrastructure far exceeds the needs of his modest legitimate business holdings. [REDACTED]

[REDACTED] 13 accounts held by Habibe and his companies in banks in Aruba, Panama, Switzerland, and Luxembourg. [REDACTED]

Aruba Bank appears to play a central role in this process, but we do not know how all of the funds are subsequently laundered through the banking system. [REDACTED]

[REDACTED] the structure of Habibe's financial network, however, suggests several options:

- Deposit into any of several Habibe accounts at Aruba Bank or into accounts of traffickers at the bank.
- Wire transfer to other accounts held by Habibe at banks in several countries to accounts of the drug traffickers, or to other money launderers.
- Draw a check on Aruba Bank and physically send it to Habibe's brother's operation in Miami, to another bank—as occurred in the \$4 million transaction in 1986—or to the trafficker.
- Launder the funds through the commercial operations of one of Habibe's companies. [REDACTED]

In practice, Habibe may use any or all of these methods at different stages in the laundering process. For example, [REDACTED] Habibe arranges for money transfers through his account at the Trade Development Bank in Luxembourg by having a courier deliver a letter to the bank and return the verification to him. The "letter" could well be a bank check issued by Aruba Bank or by another bank where he has deposited currency. The funds could then be moved easily to Habibe's account at the Swiss branch of the Trade Development Bank or to any of his other accounts by wire transfer according to the instructions provided in the same letter. [REDACTED]

(REVERSE BLANK)

**Integration**

Narcotics revenues can be returned to the trafficker at any stage of the laundering cycle, but, for greater protection from law enforcement investigators, traffickers usually want to integrate the money into legitimate business operations. Traffickers can invest directly in companies owned by drug service entrepreneurs or form other joint ventures with them.

Habibe's investment partnerships—Caribbean Palm Village is the best example—are designed to return legitimized drug money to the trafficker. The investments offer the same advantages for money laundering as do Habibe's other partnerships with traffickers, and they provide a better explanation for the show of wealth and income. [REDACTED]

**Counternarcotics Problems and Opportunities**

Drug service entrepreneurs in the Caribbean have operated with relative impunity. In Habibe's case, Aruban law enforcement and government officials have long suspected him of illegal narcotics activities but have never taken action. [REDACTED]

[REDACTED] Habibe's success in avoiding prosecution results from his bribery of Aruban officials, weaknesses in Aruban laws and enforcement capabilities, his flexibility in manipulating his business empire, and his ability to distance himself from

hands-on involvement in narcotics. Although the Government of Aruba is attempting to take a tougher approach to narcotics, including pursuing new legislative initiatives, we believe its efforts will be inadequate to overcome the corruption that protects Habibe. [REDACTED]

Drug service entrepreneurs, nonetheless, incur substantial risks because they violate numerous laws of several countries—for example, the currency transactions reporting requirement—on behalf of traffickers. While prosecution of Habibe and other entrepreneurs could increase the consequences for engaging in the drug service business, we believe a comprehensive program involving improved legislation, upgraded enforcement, and regional cooperation would be needed to disrupt and ultimately reduce the size of the entire industry. [REDACTED]

[REDACTED]

## Colombia: Assessing Drug Asset Seizure Operations [REDACTED]

Large-scale seizures of drug-related assets by the Colombian Government have disrupted narcotics operations during the past few months, even though they have not crippled the drug kingpins. In our judgment, however, the disposition of assets is likely to be a source of continuing controversy for Bogota, and it may also generate more violence. [REDACTED]

The government's actions are in accordance with a 1986 Colombian drug law that contains strong provisions on asset seizure and forfeiture and even provides for the confiscation of financial assets. Nevertheless, before the crackdown was precipitated by the assassination of presidential candidate Luis Galan in mid-August, asset seizure was a little-used weapon. The process required initial investigative work by security personnel, prior judicial approval, and effective subsequent prosecution. The process was further stymied by an intimidated and corrupt judiciary and by increasingly frustrated security personnel who lacked investigative skills and resources. After Galan's death, however, President Barco issued antidrug decrees that effectively circumvented the paralyzed judiciary and paved the way for a broad campaign of asset seizures by security personnel. [REDACTED]

Especially important, we believe, were the Colombian Supreme Court's rulings in October that not only upheld Barco's decrees but, [REDACTED] went much further in support of the government crackdown than many observers had expected. In addition to sanctioning extradition, the Court approved a decree permitting the occupation of properties suspected of being used in drug-trafficking operations, or bought with narcotics proceeds, and upheld the provisional transfer of seized properties to the government for its use. The Court meanwhile struck down a decree that provided for a special tribunal to adjudicate the permanent disposition of assets. Shortly thereafter, Barco enacted a new decree responding to the Court's call to return the process to appropriate judges. Currently, authorities must present an inventory of properties within 72 hours of their seizure to Colombia's National Drug Council as well as a judge

with proper jurisdiction; the Council then decides on the provisional transfer of the properties, and the judge rules on their final disposition. [REDACTED]

### Pressure on the Traffickers

Since the crackdown began, government forces have continued harassing traffickers by seizing a wide range of their assets. [REDACTED] Colombian authorities have [REDACTED] seized more than 1,000 properties, hundreds of aircraft, and large amounts of weaponry, communications equipment, trafficking data, vehicles, cash, and jewelry. The upshot of these actions has been to force affected traffickers to replace vital facilities and equipment, as well as to alter compromised schedules and methods. The lawyer of kingpin Gonzalo Rodriguez Gacha—a primary target of the campaign—is trying to regain his properties. [REDACTED] These include a computer center in Bogota and many confiscated planes and vehicles, the loss of which has [REDACTED] hampered the Rodriguez Gacha group's operations. [REDACTED]

In our judgment, the Court's rulings have also given Bogota a psychological and, possibly, a tactical weapon if the government makes use of seized properties while awaiting judicial decisions on the final disposition of each asset. Shortly after the Court's ruling, press reports indicated that a national agrarian reform agency had received rural estates, that urban properties were given to a social welfare institute, and that vehicles were handed over to the National Police and the country's domestic security agency. Aircraft were earmarked for the military. (S NF)

[REDACTED] however, [REDACTED] such reports may have been erroneous. [REDACTED] the agrarian reform institute is still waiting for its first transfer of property. In addition, neither the police nor the armed forces are currently making use of some 100 trafficker aircraft that supposedly had been provisionally assigned to them in October. [REDACTED]

### Problems and Limitations

Guarding seized assets, including some rural trafficker estates that exceed 10,000 square hectares, is meanwhile [REDACTED] straining Colombia's security manpower. Armed Forces Commander General Mejia claims 14,000 to 15,000 of the Army's 125,000 members are guarding more than 200 confiscated properties, and [REDACTED] some 8,000 members of other services are involved. [REDACTED]

Corruption among security personnel is also hampering the campaign. [REDACTED] the National Police released a trafficker in October and let him continue processing cocaine on a farm in northern Colombia after he paid a bribe. [REDACTED] several National Police officers in the same region have extorted large sums from more than 10 traffickers to prevent confiscation of their properties. [REDACTED]

Even discounting government problems with manpower and corruption, the top traffickers are billionaires whose financial holdings and transnational narcotics operations seem impervious to asset seizures in Colombia alone. Although their business and real estate holdings are considerable, most of their money remains in foreign bank accounts or investments. [REDACTED] If Bogota keeps up the pressure, the drug lords are likely to relocate more narcotics personnel and facilities to neighboring countries. [REDACTED] many of these countries believe this is already occurring. [REDACTED]

### Outlook

We believe that the capture and extradition of drug kingpins will probably continue as the government's primary focus in the coming months, but asset seizures will remain a key part of Bogota's overall strategy. Although many Colombians still view the drug lords as invincible, local media coverage showing raids on estates once regarded as untouchable is sure to chip away at the myth. The raids and publicity will also expose the often decadent lifestyles of the top traffickers and further alienate the people from them. [REDACTED]

At the same time, however, we anticipate protracted legal battles on the final disposition of assets, with trafficker bribery and intimidation playing an integral role. Although the recent process of allocating properties provisionally may free many security personnel from guard duty, the forces' responsibilities could increase should, as is likely, drug lords turn their anger on persons using their properties. [REDACTED]

[REDACTED]

## South America: The Economic Impact of Cocaine [REDACTED]

The cocaine industry is both helping and harming the economies of South American countries—particularly in the case of Bolivia, Colombia, and Peru. Over time, we believe the negative effects—some of which are subtle and inconspicuous—will overwhelm the positive effects and threaten the region's socioeconomic development as well as the economic well-being of its people. Still, many poor South Americans have gained considerable immediate economic benefits from the industry and the sudden loss of these benefits undoubtedly would require painful adjustments for them. Moreover, the hard economic times most South American countries are currently experiencing would compound the difficulty of weaning their economies from drug incomes. [REDACTED]

### Size of the Trade

We estimate the cocaine industry in 1988 may have contributed roughly \$4 billion to the economies of the South American countries that produce and traffic coca and coca products. (The accompanying inset discusses the methodology used to estimate cocaine earnings.) Colombia received by far the largest infusion of cocaine earnings last year—an estimated \$2.2 billion, or some 5 percent of its GDP—even though it is not one of the largest cultivators of coca. Although most of their drug earnings remained offshore, powerful Colombian drug-trafficking organizations—particularly those associated with the Medellin and Cali cocaine cartels—repatriated sizable portions of the huge profits they garnered through sales to the United States and other industrial countries. [REDACTED]

Peru and Bolivia were next in rank with cocaine industry earnings in 1988 of some \$625 million and \$500 million, respectively, according to our estimates. In Bolivia, the income was equivalent to 11 percent of GDP and, therefore, a major part of the economy. By contrast, Peru's drug income was a less significant force in the national economy, representing about only 3 percent of GDP. The narcotics incomes of both countries were generated mainly through the cultiva-

tion and sale of coca leaves—together, Peru and Bolivia provided more than 85 percent of the world's coca supply—and the processing of the leaves into coca derivatives. [REDACTED]

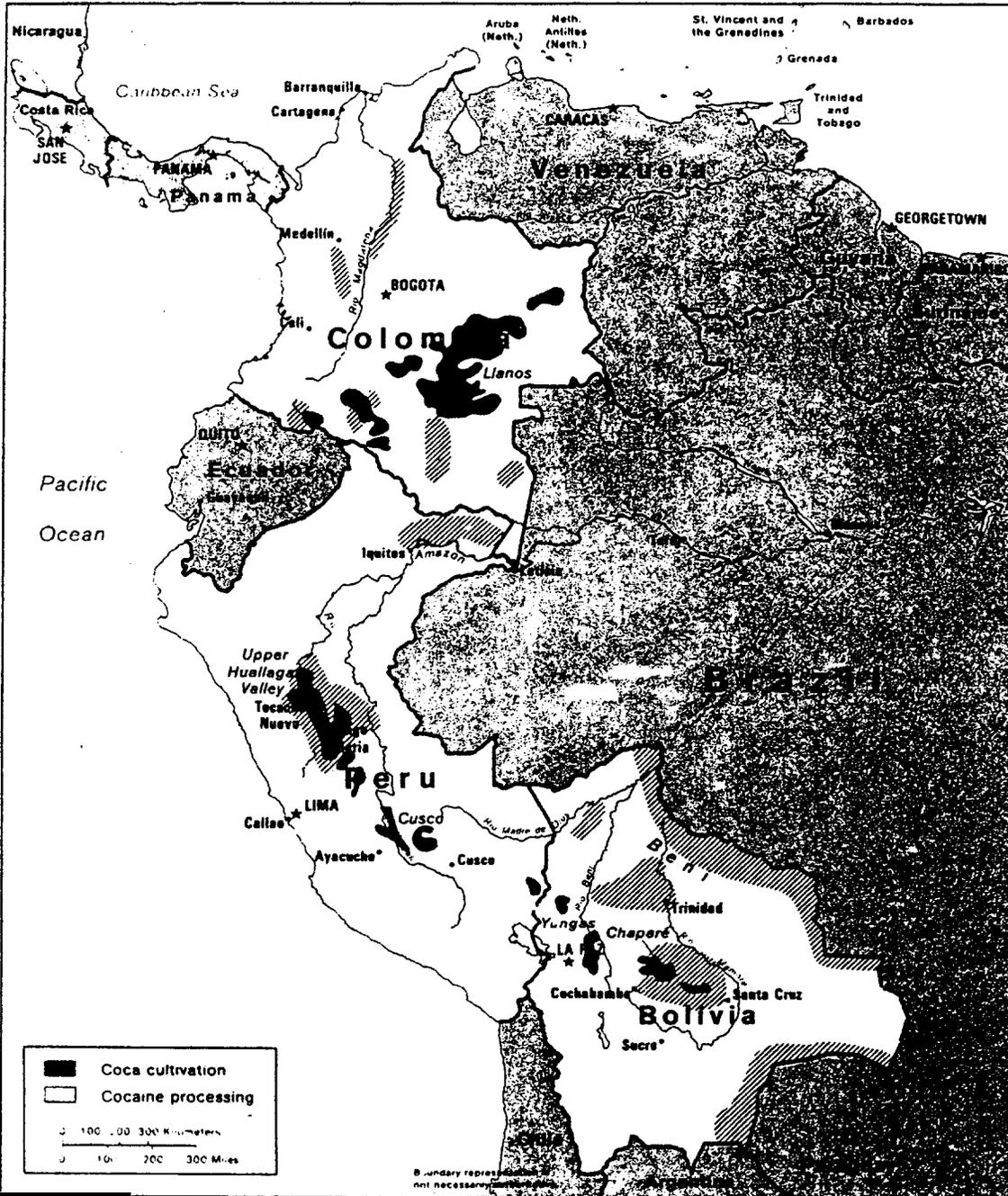
The narcotics incomes of several other South American countries may fall within a \$100-300 million range. The large amounts of coca leaf eradicated by the Brazilians last year—even if it accounted for as much as half of total coca cultivated in the country—suggest that Brazil's output was topped only by the three main Andean growers. In addition, Brazil is a significant processor of cocaine, a leading source of chemical inputs to processing, and an important transshipment route for cocaine originating elsewhere. Cocaine traffickers also transship sizable amounts of their product through Ecuador, Venezuela, and Paraguay and are known to have "laundered" some of their profits in the first two of these countries. [REDACTED]

### Who Receives the Cocaine Income

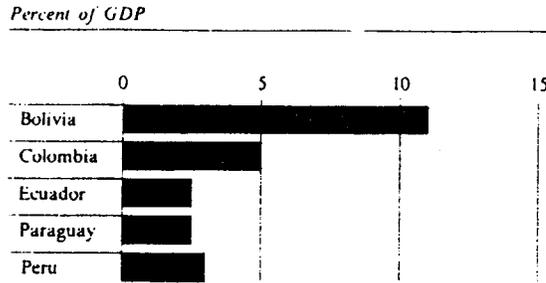
The bulk of the cocaine money injected into South America's economies represents the huge profits of the traffickers who marketed the narcotics abroad. Consequently, cocaine-related wealth has been concentrated in the hands of the principal drug organizations and has reinforced what already has been a serious maldistribution of income in the region. *Forbes* magazine, for example, has listed several of Latin America's largest cocaine traffickers—including Pablo Escobar and Jorge Luis Ochoa—among the world's richest people. [REDACTED]

Most of those in the cocaine industry who grow coca or provide lower-level coca-processing and transportation services receive only a small share of Bolivia, Colombia, and Peru's total combined cocaine-related income—about 7 percent according to our calculations. [REDACTED]

Coca and Cocaine Production in South American Andean Countries



**Latin American Cocaine-Related Income as a Share of GDP, 1988\***



\* Estimated.

324150 11 89

we estimate that some 500,000 people are employed in the three countries—mostly in Bolivia and Peru—as farmers, collectors who purchase and gather the coca leaves, truck-drivers, couriers, and other intermediaries. In Peru and Bolivia, these people account for an estimated 3 percent and 12 percent of national labor forces, respectively.

**How the Money Is Spent**

South American drug traffickers have used a major portion of their repatriated earnings to purchase real estate—including palatial homes, large cattle ranches, and modern hotels—and symbols of wealth such as artwork and luxury imports. They have also invested in high-profile entertainment industries—such as restaurants, nightclubs, or professional soccer teams—and retail businesses, including auto dealerships and drugstore chains.

A much smaller portion of the money has been invested in establishing major manufacturing or financial enterprises. Drug barons also have used part of their wealth to bribe judges and politicians and to

**Estimation Methodology**

Attempts to estimate the magnitude of cocaine-related incomes in the drug-producing countries of South America are hindered by the paucity and unreliability of data on costs and earnings for the cocaine industry process, from the cultivation of raw coca leaf through the refining of intermediate coca paste and coca base to the final manufacturing and trafficking of cocaine hydrochloride (CHCl). We believe, however, that our estimation methodology using available price and productivity data to calculate the value added at each stage of the industry can yield instructive and plausible estimates. Nevertheless, substantial parts of this underlying data are at least somewhat tenuous and even moderate modifications in their values could result in significant differences in the estimate totals. The largest uncertainties—and therefore, the most questionable links in our value-added chain—concern processing conversion ratios and the percentages of earnings that traffickers repatriate.

We believe the combined \$3.3 billion of cocaine income for Bolivia, Colombia, and Peru yielded by our methodology is a useful and plausible baseline estimate, although we recognize that it is subject to sizable change under certain alternative assumptions. For example, if average ratios of 500:1 for converting coca leaves to CHCl in Bolivia and Peru—as advocated by the US National Narcotics Committee—were used instead of 300:1, exports of cocaine for the three countries would be some 200 tons less, and income derived from the trade would be some \$1 billion less than under our baseline estimate. If a much smaller conversion ratio of less than 200:1 for all three countries were used, the table would show cocaine exports some 300 tons greater and related income some \$1.5 billion larger than our baseline totals. Likewise, the \$3.3 billion income estimate would swing \$1 billion either way by using a 50-percent plus or minus margin of error (to 13 or 37 percent) to the 25-percent profit remittance rate we chose as our baseline.

## Estimated Cocaine Income, 1988

	Bolivia	Colombia	Peru
Cocaine earnings (million US \$)	500	2,200	625
<b>Production</b>			
Coca cultivation (hectares)	49,500	27,000	110,500
Yield (kilograms per hectare)	1,400	800	1,000
Production (metric tons)	69,300	21,600	110,500
Domestic consumption (metric tons)	15,930	NEGL	10,000
Net production (metric tons)	53,370	21,600	100,500
Average price (US \$ per kilogram)	1.45	1.50	2.25
Farmers' earning (million US \$)	77	32	225
Value added (million US \$)	77	32	225
<b>Processing</b>			
Paste production (metric tons) <sup>a</sup>	712	108	1,005
Average price (US \$ per kilogram)	200	350	300
Value (million US \$)	142	38	302
Value added (million US \$)	65	6	77
Base production (metric tons) <sup>b</sup>	178	177	223
Average price (US \$ per kilogram)	900	1,100	1,200
Value (million US \$)	160	195	268
Value added (million US \$)	18	56	67
Hydrochloride production (metric tons) <sup>c</sup>	71	460	45
Average price (US \$ per kilogram)	2,000	2,200	3,500
Value (million US \$)	142	1,012	157
Value added (million US \$)	78	508	104
<b>Trafficking</b>			
Seizures (metric tons) <sup>d</sup>	12	90	7
Illicit exports (metric tons)	59	370	38
Average price abroad (US \$ per kilogram)	20,000	20,000	20,000
Hydrochloride sales (million US \$)	1,180	7,400	760
Value added (million US \$)	1,038	6,388	603
Trafficking value added (million US \$) <sup>e</sup>	260	1,597	151

<sup>a</sup> Based on leaf-to-paste conversion ratios of 75:1 in Bolivia, 100:1 in Peru, and 200:1 in Colombia.

<sup>b</sup> Based on paste-to-base conversion ratios of 4:1 in Bolivia, 3:1 in Peru, and 2.5:1 in Colombia. Cocaine base output in Colombia is increased and that produced in Peru is reduced by one-third of Peru's paste being exported to Colombia for further processing.

<sup>c</sup> Based on a universal 1:1 ratio for converting base to hydrochloride (HCl). Colombia's HCl production is increased by 60 percent of Bolivia's base and 80 percent of Peru's base being exported to Colombia for further processing. Conversely, Bolivia's and Peru's HCl outputs were 60 percent and 80 percent less, respectively.

<sup>d</sup> Roughly 15 percent of total cocaine smuggled out of producing countries was seized at or near the US border and in transit—such as on the high seas or on planes. Also, local interdiction efforts yielded seizures of 1 ton and 25 tons in Bolivia and Colombia, respectively.

<sup>e</sup> We assume that 25 percent of the traffickers' profits were remitted to each of the three countries.

manipulate government policy. And some have even procured highly trained mercenary soldiers and modern weapons to keep governments at bay. [REDACTED]

Coca farmers and lower-level middlemen, meanwhile, have probably spent most of their much smaller shares of cocaine wealth on basic consumer items such as food and clothing as well as additional agricultural inputs. According to press accounts, coca farmers typically earn some \$1,000 to \$3,000 a year, considerably more than they might earn growing legitimate crops but not enough to escape fairly austere living conditions. The US Embassy La Paz notes, for example, that coca farmers in the Chapare do not have motor vehicles, live in houses of humble construction, and generally show little evidence of means. [REDACTED]

The portion of the repatriated cocaine income that remains in South America has had multiplier ripples on domestic economies through several additional rounds of spending on goods and services. Indeed, this spending has contributed to business booms in sectors such as construction, retail trade, and banking services. Nevertheless, because a high percentage of drug income is spent on imports—including luxury consumer goods, airplanes and arms, and inputs to cocaine-processing activities—the cocaine multiplier is smaller than conventional national multipliers. In the case of Colombia, [REDACTED] more than two-thirds of the country's repatriated cocaine earnings has been spent on nonproductive imports. [REDACTED]

#### **Despite Many Harmful Economic Effects . . .**

The cocaine trade has hurt the economies of South America's drug-producing and -trafficking countries:

- The substantial inflows of cocaine money have contributed to overvalued domestic currencies and have undercut efforts to expand licit exports.
- The cocaine industry has exacerbated inflationary pressures by expanding the money supply and raising labor and land costs.

- Coca cultivation has discouraged the production of other agricultural crops and has contributed to shortages of food staples.
- The presence of traffickers in some cases has deterred investment by legitimate businessmen concerned about intimidation or drug violence; traffickers also have aggravated social instability by providing financial support to insurgents.
- The drug trade has enlarged the underground economy, causing a growing share of economic activity to be conducted beyond the authority of the government. [REDACTED]

Equally important, the cocaine industry is having a long-term malignant effect on these countries' socio-economic development. The hefty bribes that traffickers pay to protect their cocaine operations are corroding social values. Public officials on the take often betray their country's economic and social interests when these interests conflict with the needs of the drug barons. In addition, trafficker payoffs help foster acceptance of corruption as an acceptable and effective business practice. The large profits that traffickers make with relative ease also may contribute to the frequent decisions of businessmen to focus more on opportunities for quick financial gains instead of long-term investments requiring hard work and perseverance. [REDACTED]

#### **. . . Drug Money Offers Region Certain Benefits**

Despite the harmful effects, the governments of the major cocaine-producing countries have shown that they prize some of the drug trade's short-term benefits—particularly additional jobs and foreign exchange—as buffers against the harsh realities of depressed economic and financial conditions. Although cocaine production has drawn many workers away from other employment activities, it has also generated numerous employment opportunities in the Chapare and Yungas regions of Bolivia and the Upper

Huallaga Valley of Peru. Coca farming in the Yungas region, for example, provided employment for more than 5,000 Bolivian tin miners who were laid off in 1987. As a result, many coca farmers and other middlemen have been able to escape or avoid abject poverty because of the growing cocaine business.

Cocaine has been a leading export and source of foreign exchange for a few countries. Last year, for example, it yielded foreign exchange for Bolivia that far exceeded its combined earnings from natural gas and tin; for Colombia, cocaine earnings surpassed receipts from coffee exports; and, for Peru, these earnings roughly equaled copper revenues. The US Embassy in Bogota estimates that the Colombian central bank in recent years has added some \$200 million of cocaine earnings annually to its balance-of-payments' services window, widely known as the *ventanilla siniestra* or back window. Peru's central bank has periodically purchased sizable amounts of US drug dollars on the informal exchange markets this year to bolster its reserves.

#### The Difficulties of an Economic Weaning

The Barco administration's crackdown on drug traffickers that began last August has contributed to a general weakening—but not a destabilization—of Colombia's economy. the crackdown is adversely affecting domestic demand, business confidence, the balance of payments, and the budget deficit. Nonetheless, Colombia's financial reserve position remains strong, and the economy continues to grow at a 3- to 4-percent annual rate.

traffickers, in response to the government's recent large-scale seizures of their assets, may invest less of their earnings in Colombia but that this will have little economic impact. If drug violence continues, consumer confidence remains low, and coffee prices stay depressed, however, economic conditions could substantially deteriorate next year, in our judgment.

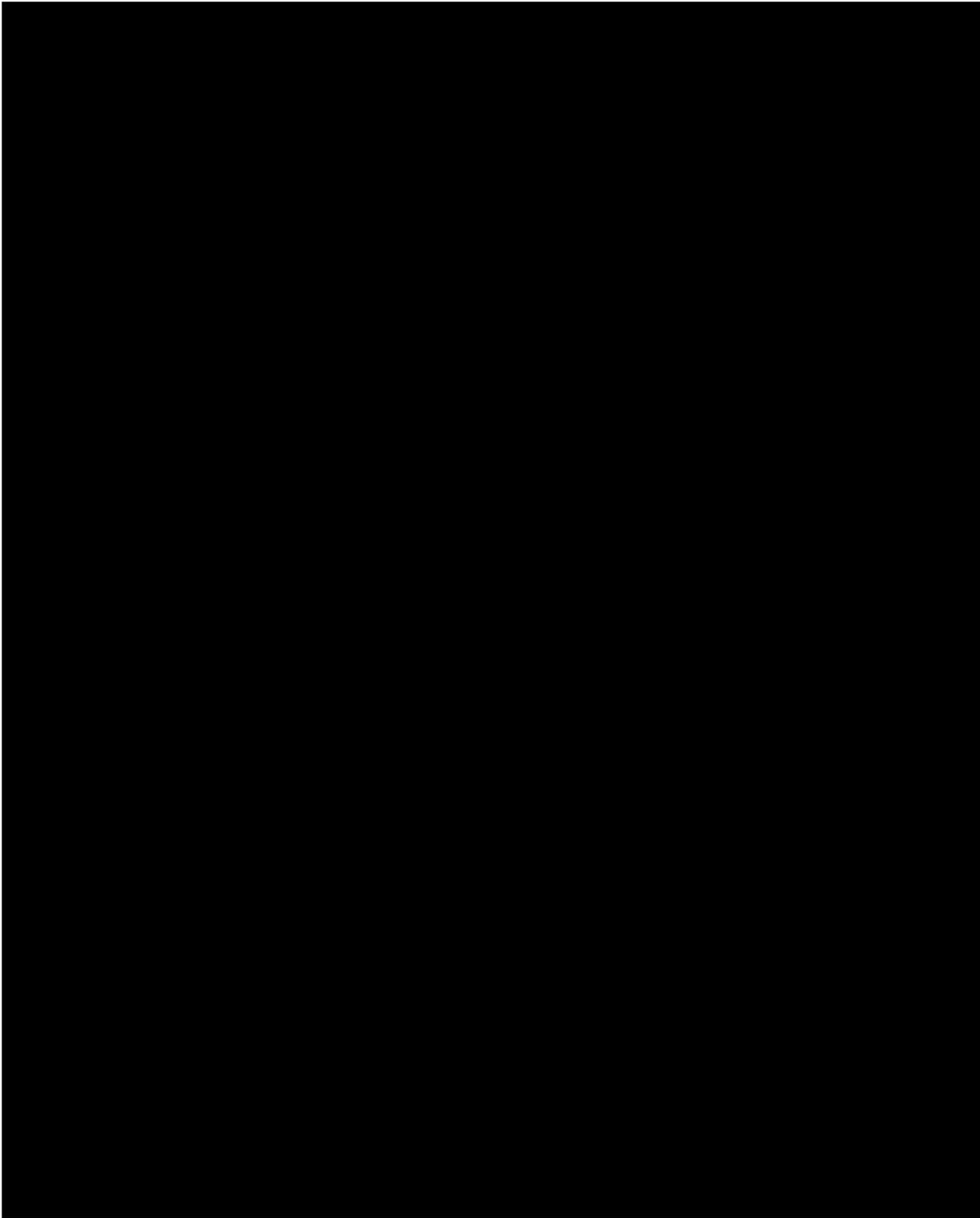
The Colombian Government's antidrug actions also have shown signs of damaging the economies of neighboring Peru and Bolivia. In Colombia the ongoing disruptions to the production and trafficking of

cocaine hydrochloride—the final product that is marketed abroad—appear to have substantially reduced the demand for coca leaves and the lower-stage processed derivatives—coca paste and base—from Peru and Bolivia.

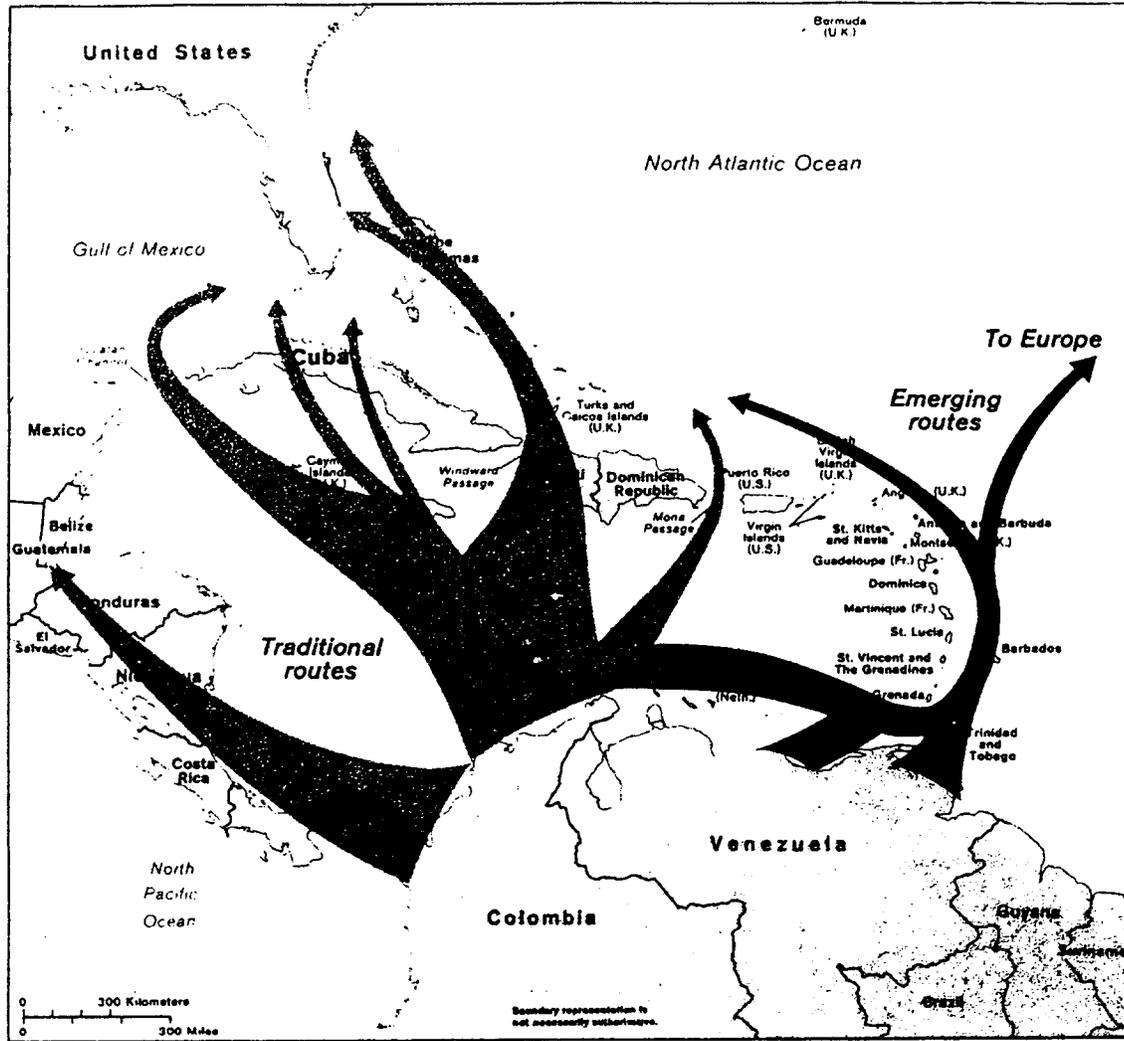
the trafficking of these drugs from Peru to Colombia has declined and the prices of both Peruvian and Bolivian coca leaf and derivatives have dropped considerably. a major decline in the flow of cocaine-related US dollars entering Peru and the resulting surge in the country's parallel exchange rate for the dollar. If sales and prices of coca products continue to slump, the coca farm earnings as well as the foreign exchange receipts of both Peru and Bolivia could suffer substantially.

Concerned about the potential social consequences of eliminating the livelihoods of large numbers of coca farmers, the Governments of Bolivia and Peru apparently are intent on shifting the focus of regional antidrug efforts from "repressive" measures such as forced coca eradication to alternative economic development strategies. President Paz Zamora stresses that Bolivia and its peasant farmers must not become poorer because of antidrug actions. Peru's President Garcia, meanwhile, says that a new antidrug campaign can succeed only if it helps coca farmers and solicits their support in combating traffickers. Both leaders urge that comprehensive crop substitution programs funded by large-scale foreign assistance serve as the centerpiece of a new international counternarcotics strategy.

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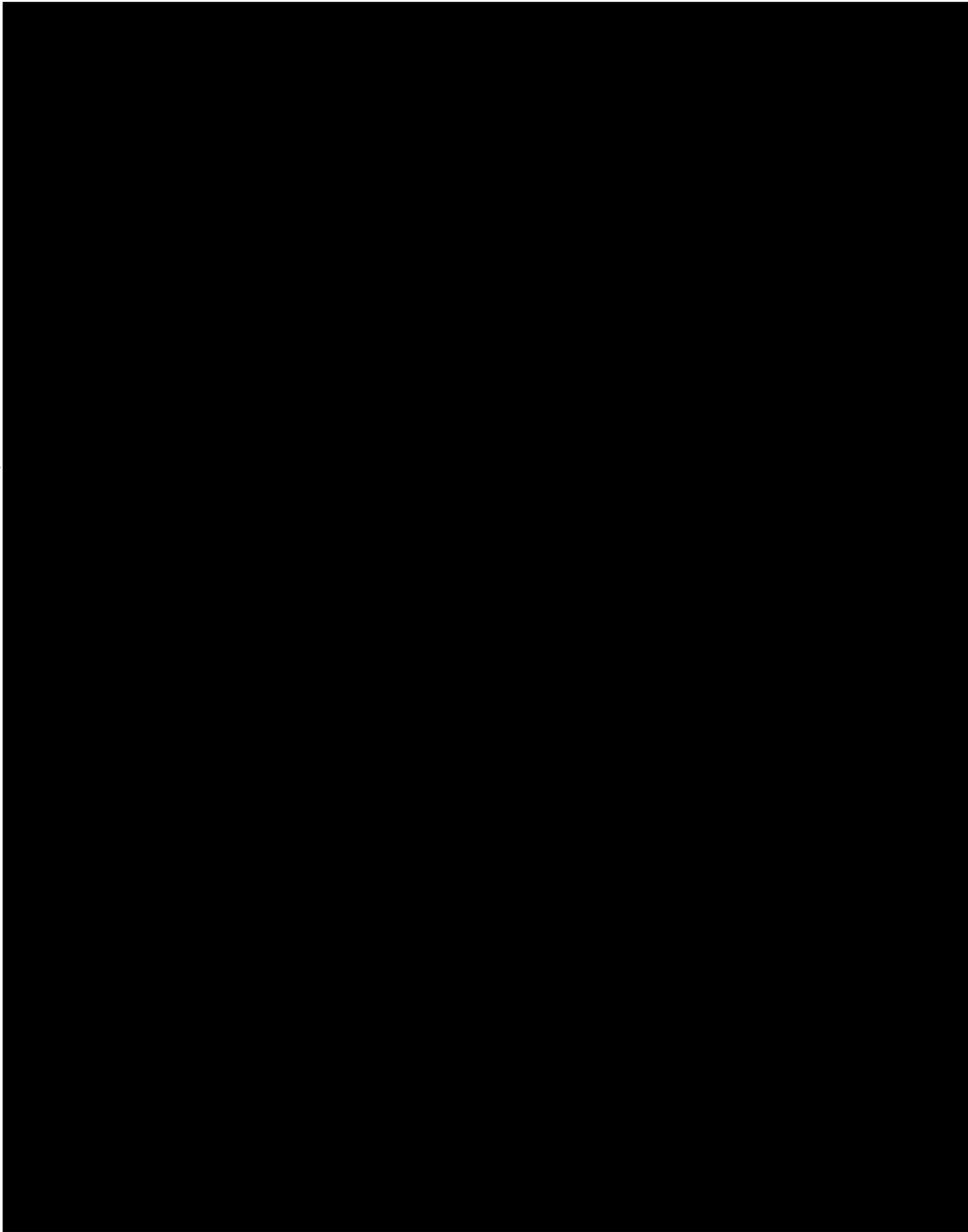
### Drug Trafficking Routes Through the Caribbean



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## Ecuador: Seeking a Niche in the Regional Antidrug Effort [REDACTED]

Ecuadorian officials are stepping up efforts to gain a role in the Andean antidrug fight. They apparently are motivated by fear that successful antidrug campaigns in Colombia, Peru, and Bolivia would increase Ecuador's vulnerability to narcotics, concern that Ecuador may not receive any new antidrug resources offered by Washington, and worry that Ecuador's exclusion from the US-backed plan will tarnish their aspirations for greater regional prominence. We believe these officials will continue pressing US diplomats for direct participation in the Andean antidrug plan, while also focusing on regional organizations as a forum to demonstrate their commitment to the war on drugs. [REDACTED]

### Trying To Exert Regional Leadership

During the past few weeks, Ecuador's leaders have sought to enhance their bona fides on the antinarcotics front by taking a leadership role on the drug issue in regional forums. In mid-September the Agriculture Minister played a key role in meetings of the Andean Pact in Lima devoted to devising plans to improve coca eradication and formulate proposals on implementing alternative crop programs. In late September, Quito hosted a meeting of the antidrug Commission of Andean Parliament—comprising legislative members from five of the region's countries—to discuss formation of a regional front against drug trafficking and abuse. The commission also called for establishing an Andean research institute on drug use and prevention and proposed that the United States help devise ways to convert the foreign debt of Andean countries to drug-fighting ventures. Ecuadorian delegates took the lead in advocating standardized sanctions against drug trafficking and money laundering. [REDACTED]

Quito also appears determined to be in the forefront of new antidrug enforcement efforts. Ecuador's Supreme Court hosted a rare summit for regional Su-

preme Court presidents in early October to coordinate judicial and penal reforms. At last month's Andean Parliament meeting, Ecuador's Attorney General generated favorable commentary on Quito's proposed new antidrug law, which he hailed as incorporating the "latest juridical and legal advances in drug control." He claimed that the law—developed in close cooperation with US AID—will provide for:

- Strict new licensing procedures on the importation of drug-refining chemicals.
- A central clearinghouse for restricted chemicals.
- A ministerial-level antidrug council to coordinate government antinarcotics efforts.
- Streamlined procedures for asset seizures.
- Tighter controls on money laundering.
- Clear definition of and penalties for narcotics crimes.
- Establishment of a small corps of judicial police to assist investigations of drug cases and ensure that judges comply with the law. [REDACTED]

Since the beginning of Bogota's recent crackdown, Ecuadorian security forces have redoubled efforts to work closely with their Colombian and Peruvian counterparts in antidrug operations. [REDACTED]

[REDACTED] Ecuadorian police in late September arrested and quickly deported Medellin cartel associate Evaristo Porras, reportedly the highest profile trafficker arrested to date. Two weeks earlier, an Ecuadorian Army unit captured and deported two Colombian traffickers whose plane had crashed in Ecuador's eastern jungle while en route to Peru to meet coca base suppliers. Ecuadorian police have joined Colombian and Peruvian security forces in long-planned border antidrug strikes backed with US financial and material support. The missions are intended to destroy coca plantations and processing labs, and to interdict drug-refining chemicals and processed cocaine. [REDACTED]

### Expected Results

We believe Quito faces an uphill struggle in its effort to persuade other countries in the region to treat Ecuador as a key player in the Andean antidrug fight. Although they will applaud Ecuador's attitude on countering the drug trade and welcome the assistance it is extending, they will probably continue to look on Ecuador as a marginal actor. The Andean groupings, which have little financial backing and virtually no enforcement capabilities, are weak institutions through which to institute regional antidrug operations. Member states like Colombia—jealous of their national prerogatives—will almost certainly be unwilling to subsume their antinarcotics strategy under one dictated by regional groups. Moreover, Peru's President Garcia—taking his cue from US plans to focus antidrug resources on Peru, Colombia, and Bolivia—probably will not promote Ecuador's inclusion in the regional drug plan. He limited invitations to an antidrug summit on 10 October to Colombian President Barco and Bolivian President Paz Zamora.

Nevertheless, we believe Ecuador's leaders—who undoubtedly realize the limitations of regional forums—will persist in trying to gain a role as a regional antidrug player. They probably will concentrate on seeking to convince Washington that Ecuador's position amid the world's largest coca-growing and-processing countries requires that it be included in the US antidrug initiative. President Borja may point to the capture and deportation of Porra to support this argument and to assert that he stands ready to aid the regional narcotics fight.

Borja evidently is genuinely convinced that Ecuador is vulnerable to a spillover from antidrug campaigns in Colombia and Peru; he also probably worries that his exclusion from the US antidrug plan will damage his credibility as a respected statesman. Therefore, Borja can be expected to push hard to be included directly in the new US plan and to gain additional antinarcotics assistance from Washington.

as part of this effort he has begun a campaign to arrange for high-level bilateral exchanges designed to provide public recognition of Ecuador's importance as an antidrug player and to establish new avenues for cooperation in the regional war on drugs.

## Argentina: Menem's Antinarcotics Drive [REDACTED]

During his first four months in office, Argentine President Menem has launched an aggressive domestic antinarcotics campaign and taken an active role in promoting regional counternarcotics cooperation. While sincere in his desire to curtail drug use and trafficking in a country still on the periphery of the Latin American drug trade, Menem also hopes to use his campaign to polish his image at home and abroad and to procure foreign financial assistance. The success of his domestic as well as regional efforts, however, will be constrained by limited government resources, chronic bureaucratic inefficiencies, and growing corruption among a public-sector work force that is experiencing a sharp erosion in real wages. [REDACTED]

### Menem's Program

Menem's decisive moves against domestic narcotics use and trafficking have both surprised and impressed political pundits. He used valuable political capital early on—when his administration was pressing Congress to pass emergency economic laws—to also lobby for a tough antinarcotics law. Last September, the Senate approved a bill with stiff penalties for drug traffickers and users, including a controversial provision criminalizing possession of small amounts of narcotics for personal use. Menem appointed one of the authors of the bill—Eduardo Alberto Lestelle—to head a new antinarcotics secretariat responsible for coordinating government efforts against drug abuse, production, and trafficking. He also launched an offensive against international drug traffickers by strengthening security along Argentina's porous northern border and by promising to seek legislation providing for the death penalty for traffickers. Most recently, Lestelle announced a new national drug control plan that will focus on prevention—including education at all school levels—rehabilitation, and illegal drug trafficking control. [REDACTED]

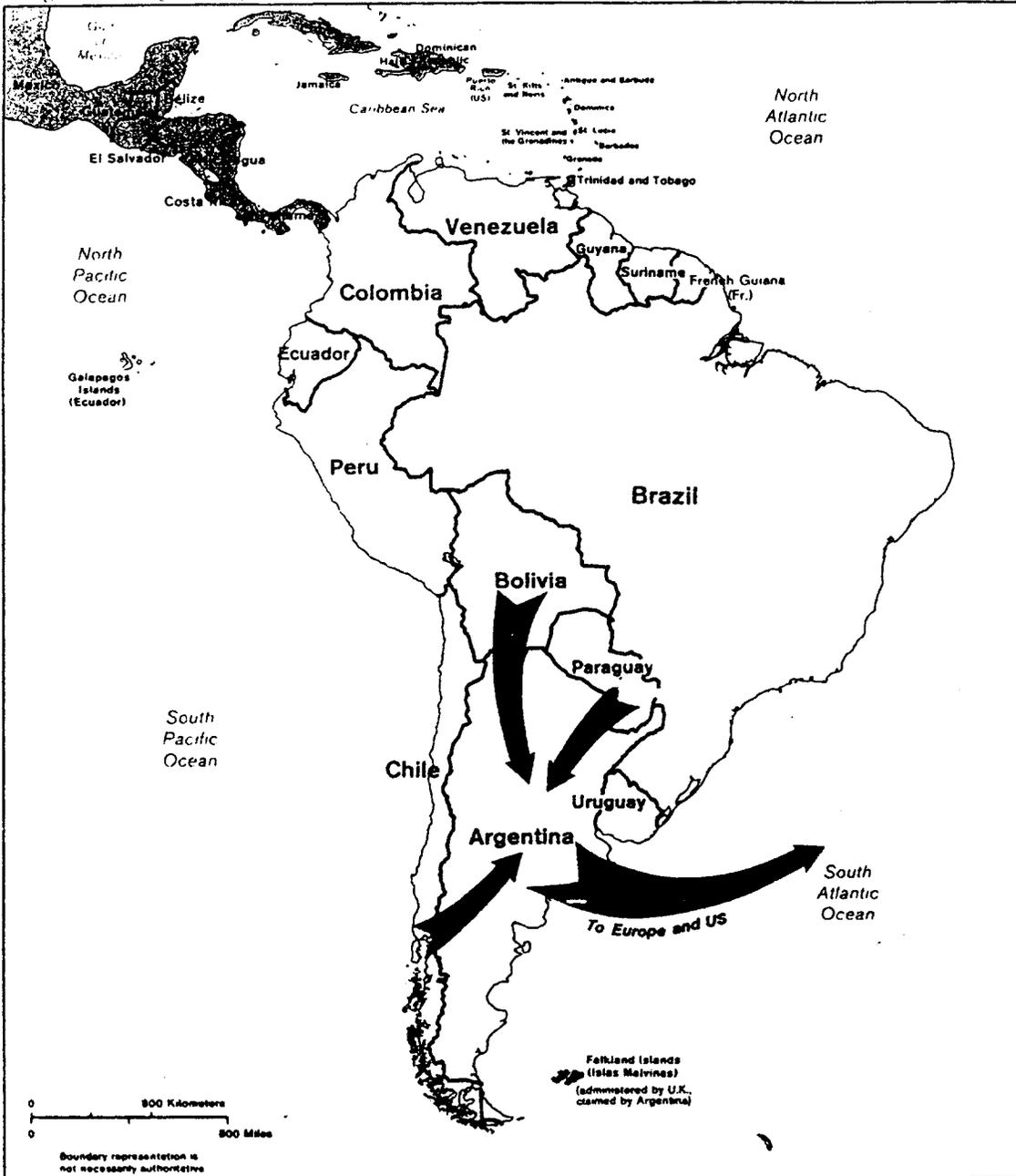
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### New Antinarcotics Law

Passage of the antinarcotics bill by the Senate last September was a major victory for the Menem administration's more activist approach to drug issues. The bill emerged after more than three years in Congress with significantly stronger penalties for the production, trafficking, and export of narcotics than its earlier versions and with controls on precursor chemicals. [REDACTED] the final draft of the bill emerged weaker in two significant respects: coca chewing was decriminalized and provisions for more lenient treatment of cooperative defendants were removed. Major points in the final legislation include:

- Those convicted of trafficking, producing, or possessing narcotics and precursor chemicals for illegitimate purposes will receive four 15-year prison terms and a fine. Financing or organizing these activities will draw eight- to 20-year terms in prison and a fine.
- Those convicted of providing an area for production, distribution, storage, or use of narcotics will receive three- to 12-year prison sentences and a fine. Businesses where such activity occurs will be closed.
- Investment, sale, purchase, or transfer of assets or profits produced or acquired through trafficking will be punished with two- to 10-year prison terms and a fine.
- Assets produced or acquired through narcotics trafficking will be seized and used for narcotics enforcement and rehabilitation programs.
- Individual enforcement entities may enforce the law anywhere in Argentina, regardless of jurisdiction. [REDACTED]

### Drug Trafficking Via Argentina



At the same time, Menem and Vice President Duhalde—author of a book on the drug problem—as well as Narcotics Secretary Lestelle, have sought to make Argentina a player in the region's high-profile antinarcotics war:

- In a well-publicized move in September, Menem offered Colombia three IA-58 (Pucara) aircraft worth some \$10 million as well as the exchange of legal and information services to help in its drug war.
- In the same month, Argentina signed an agreement with Peru that included an exchange of technical assistance, information links, and assistance on drug rehabilitation.
- Buenos Aires has outlined a plan for increased antinarcotics cooperation with Bolivia, including joint training operations and the exchange of legal services.
- The Chilean and Argentine Governments are analyzing joint policies to fight drug trafficking along their common border, according to press reports.
- Argentina and Uruguay are discussing joint coast guard operations against trafficking.

In addition to these bilateral programs with neighboring countries, the Menem administration has used multilateral forums, such as the Nonaligned Movement, the United Nations, and the Latin American Group of Eight, to repeat calls for regional cooperation. Menem however, has stopped short of proposing detailed regional initiatives.

#### On the Periphery of the Latin Drug Trade

Menem's initiatives appear to be driven by a sincere desire to stem drug use and trafficking in Argentina, despite its relatively limited drug problems, and by a fear that drug wars heating up elsewhere in Latin America could push traffickers to seek refuge in Argentina. Drug use and cultivation in Argentina are small by regional standards. The government has

estimated that there are 100,000 drug users among the country's 32 million people. While narcotics cultivation is outlawed, production may be limited more by the poor quality of indigenous coca and the relative accessibility of cocaine from Bolivia and marijuana from Paraguay. Open source and Embassy reporting indicate that 2.5 metric tons of marijuana were imported last year for Argentine consumption.

domestic cocaine abuse has increased steadily since 1985, particularly among the middle class and affluent sectors, and along the Bolivian border. Chemical abuse, including alcohol and inhalants, reportedly exists largely among the young and poor, while hashish and opium derivatives are almost totally absent.

Drug officials recognize, nevertheless, that Argentine involvement in drug processing and transshipment is on the upswing. The availability of precursor chemicals, such as ether, acetone, HCL, and sulfuric acid from its well-developed chemical industry, has made Argentina an attractive site for drug processing activities. 4 metric tons of cocaine HCL—about 1 percent of South American production—was processed in Argentina last year. At the same time, the country's poorly patrolled northern border, combined with its developed air and shipping links, have made Argentina a tempting transshipment point for Bolivian cocaine and Paraguayan marijuana destined for the United States and Europe.

9 metric tons of Bolivian cocaine passed through Argentina on its way to the United States last year, a 50-percent increase over 1987.

Argentine drug officials are worried that Argentina will attract international traffickers fleeing increasingly hostile environments elsewhere in Latin America. major Bolivian traffickers already are establishing trafficking routes through Argentina to offset the recent loss of traditional Colombian routes. According to an Argentine press report, there is evidence suggesting that traffickers operating in Argentina have connections to the Medellin cartel and even to Colombia's M-19 guerrilla movement.

### Angling for Recognition and Support

In addition to an apparently sincere interest in combating drugs, we believe Menem's antinarcotic campaign has been designed to boost his image by winning the respect of observers at home and abroad. Menem's tough drug stance, his ability to win final passage of the antinarcotics bill, and his prominence on the international antinarcotics stage have added to the President's strong domestic popularity. He may hope that spotlighting his drug campaign from time to time will help offset criticism of his economic reform program in the coming months. [REDACTED]

Menem's antinarcotics campaign complements a broader foreign policy agenda of signaling Argentina's desire for closer alignment with the West and positioning his government for foreign financial assistance. He has made a number of overtures to the West, including the opening of negotiations with the British on the Falklands and discussing US concerns related to Argentina's missile and nuclear development program. As with these other issues, Buenos Aires has been quick to link an expanded antinarcotics drive, including provision of more planes for interdiction efforts, to requests for foreign financial support. So far, the Menem administration has supplemented foreign antinarcotics assistance by signing two new agreements with Washington for technical assistance to Argentina's federal police and other security organizations. [REDACTED]

### Outlook

Despite Menem's best efforts, the success of his antinarcotics drive will be limited by a shortage of government funds, bureaucratic inefficiencies, and corruption. Government coffers will not be able to finance sufficient surveillance and drug testing equipment for provincial police, for example. Drug czar Lestelle will face an uphill battle in coordinating antinarcotics forces, including four federal agencies, three separate ministries, and 22 provincial police forces. In addition, the decline in real salaries—50 percent for public-sector workers during the first eight months of this year—will increase incentives for Argentines to become involved in the lucrative drug trade. [REDACTED]

While Menem's regional antinarcotics rhetoric is likely to remain strong, Buenos Aires will be wary of appearing to be closely involved in the military and domestic security affairs of its neighbors, or of getting too far ahead of other governments in cooperating with Washington. Menem has refused to detail Argentine military technicians abroad to train the Colombian military on the donated Pucara aircraft and has stated that it is too early to create a joint military antinarcotics force in Colombia. In our judgment, these positions reflect both constraints on Argentine military resources and a hesitation to become involved in a foreign military adventure. [REDACTED]

[REDACTED]

## Highlights [REDACTED]

### Latin America

#### Bolivia: Mixed Signals on the Drug War [REDACTED]

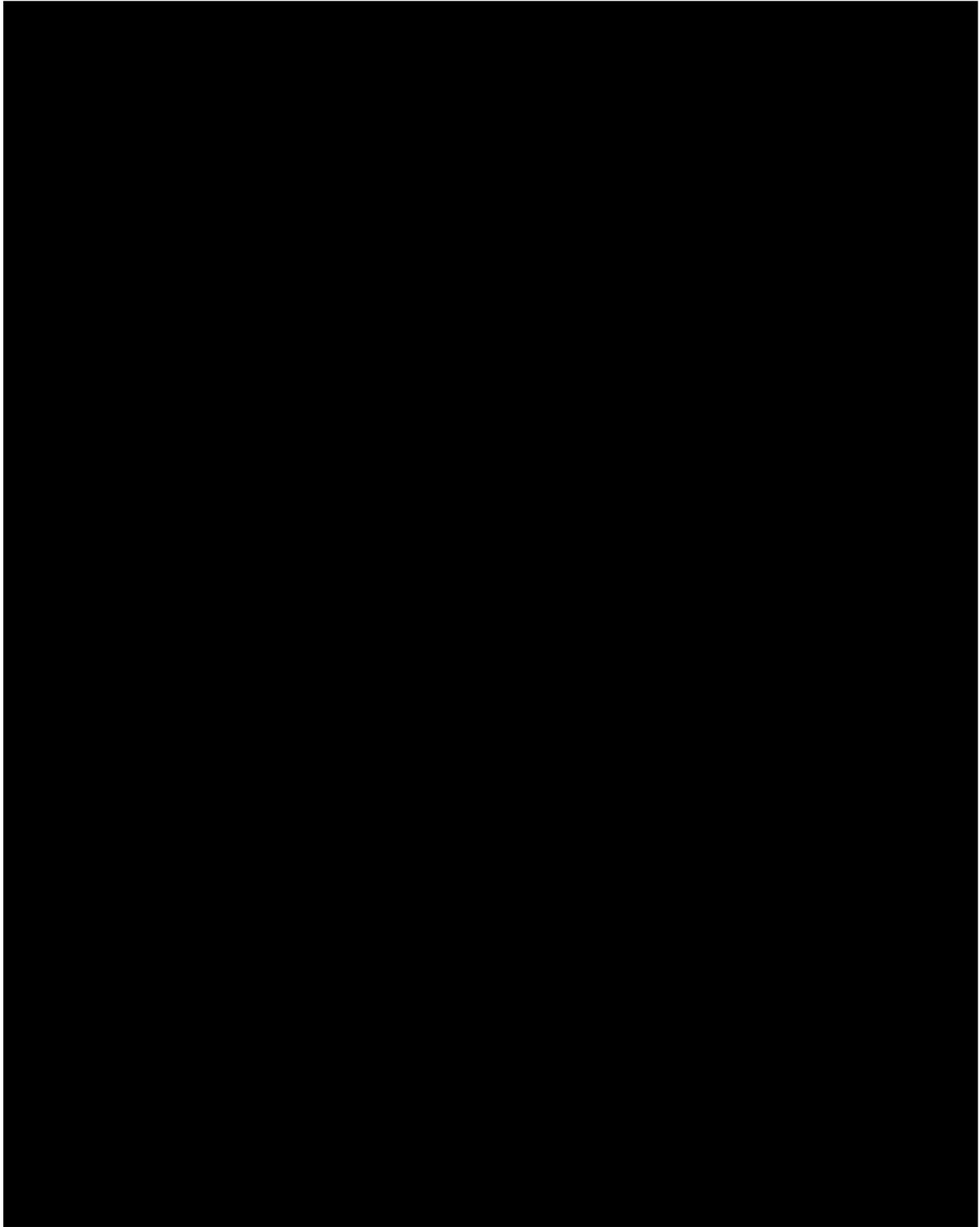
The Bolivian Government is sending conflicting signals regarding its antidrug strategy. According to [REDACTED] press reports, a 330-man police force raided a trafficker stronghold in early November, arresting 23 but missing the primary target, a top Bolivian trafficker. At about the same time, a government official stated that La Paz hopes to triple its counternarcotics police force—to some 5,000 personnel—and [REDACTED] President Paz Zamora also intends to have the military assume a counternarcotics function. These positive signs were tempered, however, by Paz's assertion [REDACTED] that Bolivia will not push an aggressive antinarcotics program until the United States accepts the "global" plan he intends to unveil at the Andean summit. La Paz is meanwhile also failing to act on information [REDACTED] that some newly appointed officials responsible for antinarcotics operations have ties to traffickers. [REDACTED]

We believe the positive steps taken toward fighting the narcotics industry reflect a desire on the part of La Paz to ensure that it receives its share of the counternarcotics assistance it anticipates as part of the US Andean Initiative. At the same time, Paz Zamora's grandstanding and his reluctance to replace corrupt officials point to his resentment of US pressure for stronger action. Paz is likely to remain particularly resistant to entreaties for stepped up eradication operations, fearing that such actions would generate violent protest from coca growers and traffickers. [REDACTED]

#### Chile: Cocaine Processing Lab Discovered [REDACTED]

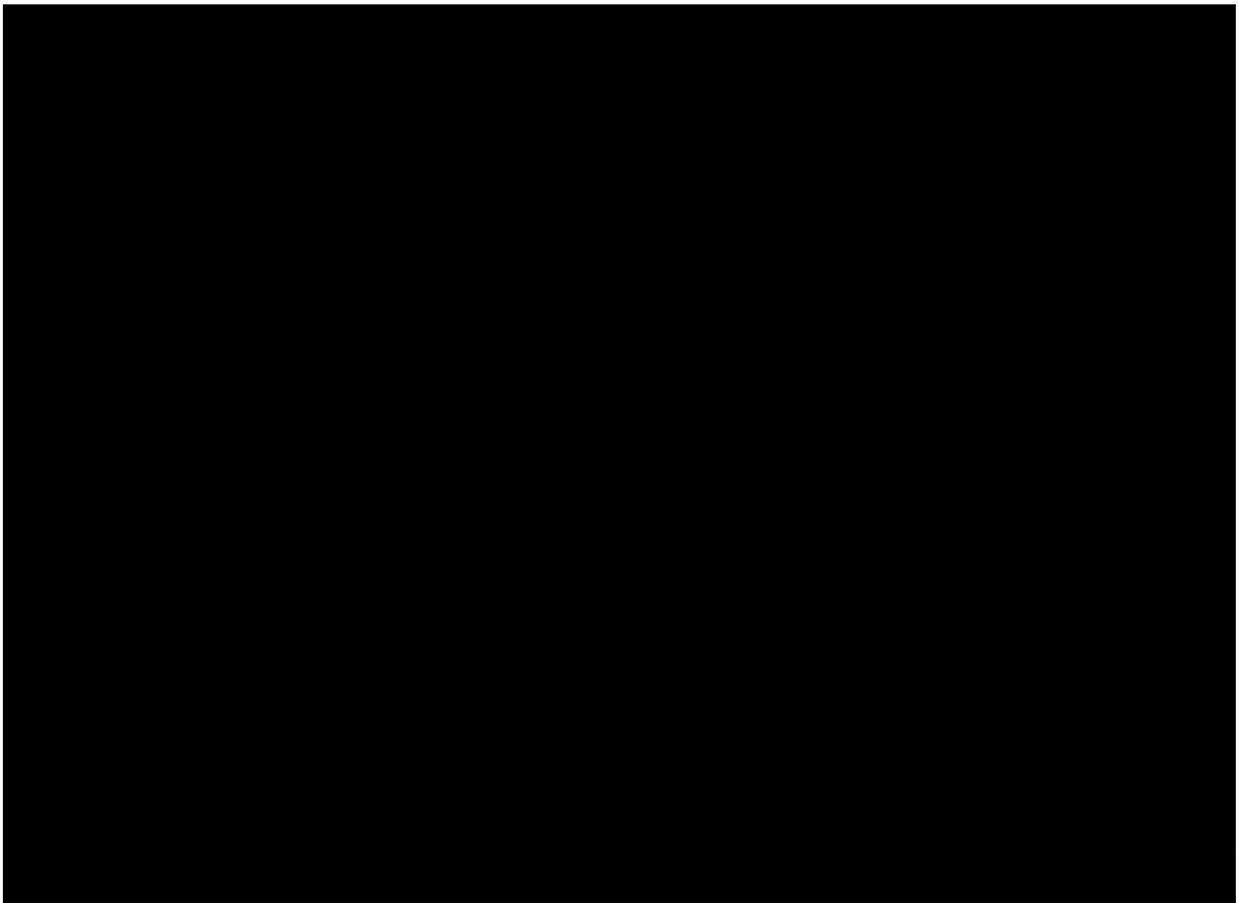
Chilean police recently discovered a cocaine refining facility in a house in northern Chile, underscoring Chile's utility to the Andean drug traffickers as an alternative processing site. According to press reports, the police arrested three people involved in the conversion of coca leaf—which almost certainly originated in Bolivia or Peru—into cocaine hydrochloride and seized 50 kilograms of coca leaf, kerosene, and other laboratory materials. Antidrug officials also recovered two new military uniforms, possibly implying trafficker use of military cover for their activities. At a time when Colombian traffickers are coming under increasing pressure from government forces, we believe that Chile will be viewed as a particularly attractive processing site and export route for Andean cocaine given its sophisticated chemical industry and international transportation network. [REDACTED]

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