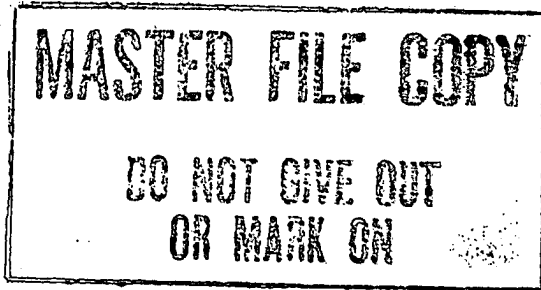


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IMPLICATIONS FOR THE
UNITED STATES OF THE
COLOMBIAN DRUG TRADE

VOLUME I—THE ESTIMATE

Information available as of 16 June 1983 was
used in the preparation of this Estimate.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State and the Treasury.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps

Intelligence units in the Drug Enforcement Administration, Department of Justice, and in the United States Customs Service, Department of the Treasury, also contributed heavily in the preparation of this Estimate.

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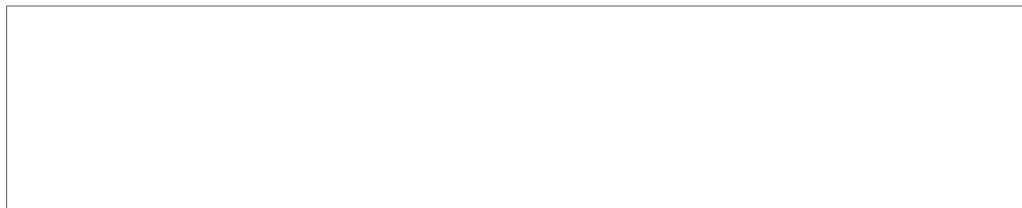
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SCOPE NOTE

This Special National Intelligence Estimate assesses the economic and political impact of the drug trade on Colombia and examines impediments and potential inducements that will affect the Colombian Government's willingness to take more effective measures to suppress it. The outlook and implications of this trade for the United States are also analyzed.

The data on quantities and prices of drugs produced or trafficked in Colombia are particularly soft; all figures used in this Estimate should be treated as rough approximations at best. But this softness does not affect the basic analysis and conclusions of the Estimate.

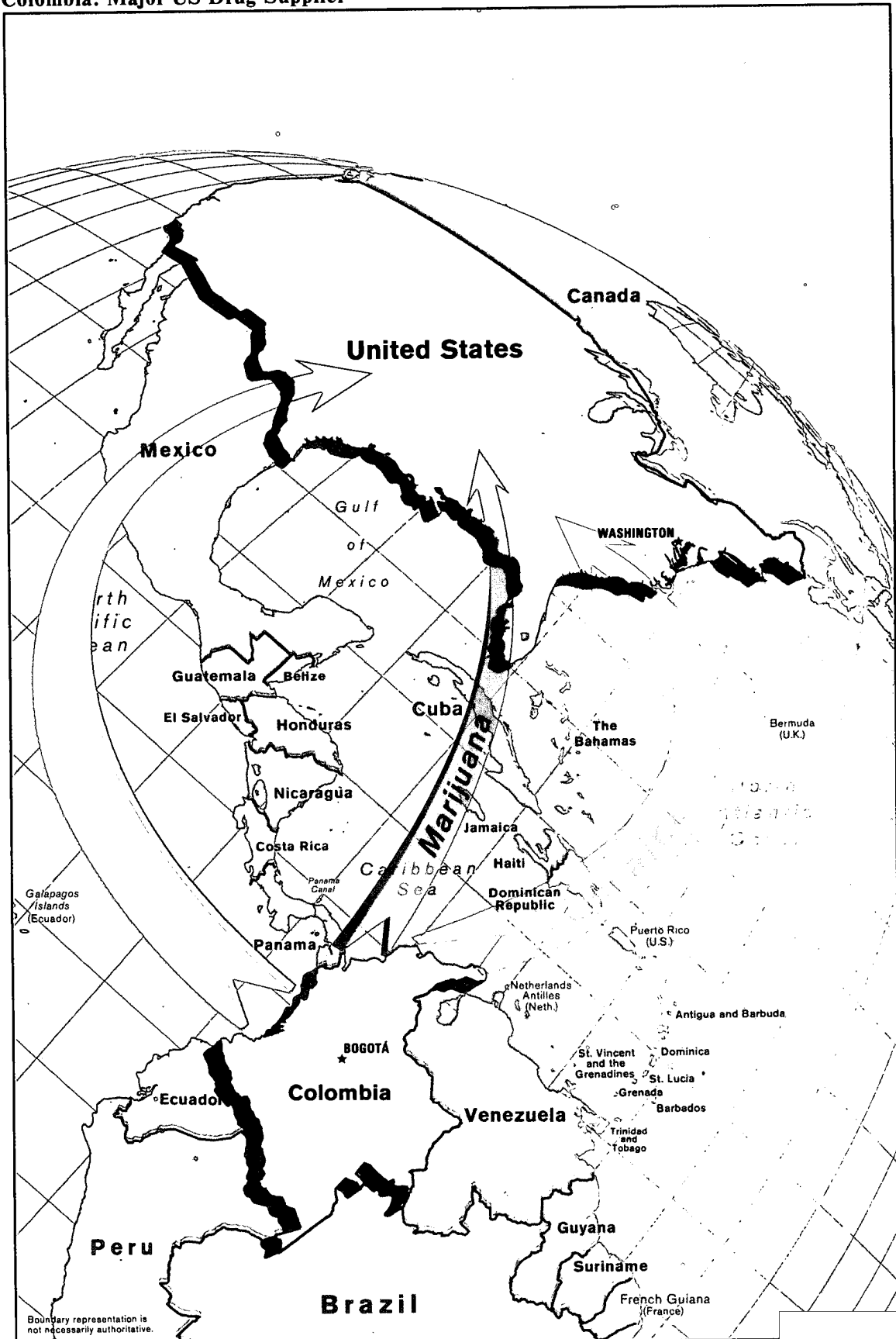
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Figure 1
Colombia: Major US Drug Supplier



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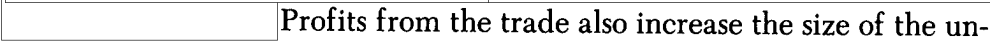
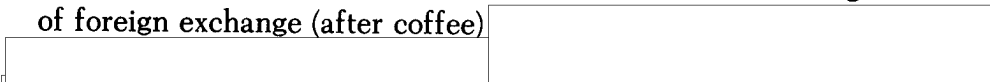
KEY JUDGMENTS

We judge that the factors impeding more forceful and effective efforts against the narcotics trade in Colombia will continue to outweigh those favoring such measures, at least for the next several years. Colombia will nevertheless continue to cooperate with the United States in suppressing the traffic at about the same level of effort it now exerts. We doubt that President Betancur will agree to a large and sustained program to eradicate the drug crops through aerial spraying.

Colombia now supplies one-half to three-fourths of the marijuana, about three-fourths of the cocaine, and much of the methaqualone smuggled into the United States each year. This trade generates enormous profits for everyone involved, but particularly for the major exporting and importing organizations that assume the greatest risks.

Perhaps the most basic impediment to more forceful action is that Colombians remain apathetic about narcotics suppression and see it as a problem for the United States but not for themselves. The need to control narcotics thus ranks low on their list of priorities, well behind coping with the worsening economic and internal security problems.

In addition, this trade constitutes Colombia's second-largest source of foreign exchange (after coffee)



Profits from the trade also increase the size of the underground economy that is beyond government controls. On balance, it constitutes a net economic plus for the country, and this probably contributes to Colombian reluctance to take more vigorous action.

With the tremendous resources at their disposal,



But, thus far, the traffickers have made few efforts to influence or control political events on the national level, at least partly because they have procured adequate freedom for their operations at the local level.

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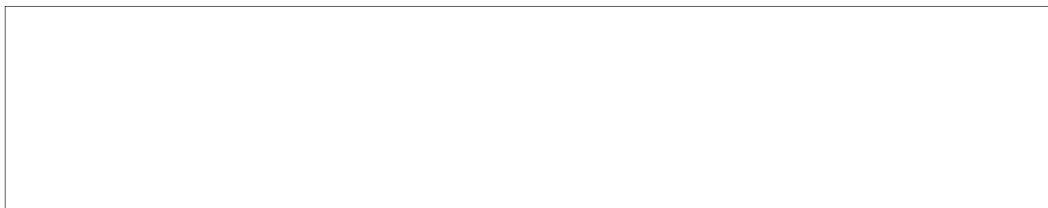
There are, nevertheless, some factors that could in the longer run induce Bogota to take stronger antinarcotics measures: the growing number of narcotics abusers and addicts in Colombia, which may increase local concern about the trade; the possibility that the traditional elites will come to fear and resent the power of the trafficking families; and the possibility that the involvement of local guerrilla groups in narcotics trafficking for arms will raise the threat they pose to the Colombian Government's control of the country.

Cuba has long supported insurgent activity in Colombia.



While there are a number of other reports indicating Cuban complicity in smuggling drugs from Colombia and elsewhere, we do not know the full extent of such Cuban activity. The efficient trafficking networks, however, offer great potential for moving arms as well as drugs whenever Cuba chooses to use them.

Given the size of the potential growing areas and the profitability of the trade, we see no chance that the growing and trafficking of narcotics in Colombia could be suppressed—and kept suppressed—without massive spraying or a bloody, expensive, and prolonged coercive effort. We judge that Bogota will remain unwilling to accept this cost. Even if Colombian drugs were cut out of the international narcotics trade, these same factors—profits and ease of production—would work to induce substitute flows from neighboring states.



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DISCUSSION

A Long History of Smuggling and Narcotics

1. Chewing coca and smuggling contraband both have had a long and, for the most part, honorable history in Colombia and neighboring states. The Andean Indians chewed coca leaf as early as 3000 BC, and coca played an important religious role among the Incas. By the time of the Spanish conquest (mid-16th century), coca use had spread from Argentina to the Caribbean Islands, an indication of the vast range of this tough and adaptable plant. As for smuggling, ever since Spain imposed restrictive trade policies on its American colonies, contraband has flowed both ways across Colombia's borders. Public attitudes still are deeply affected by this tradition of defying trade controls. As illicit drugs became an increasing part of this contraband, they were perceived as simply lucrative adjuncts to the age-old practice.

2. Colombia's spectacular rise over the past decade to dominate cocaine and marijuana smuggling into the United States was aided by several other major factors:

- Geography. Colombia lies between the main coca growers (Bolivia and Peru) and the sea routes through the Caribbean; it has long and little-patrolled Atlantic and Pacific coastlines, a good communications system, numerous uncontrolled private landing strips, and lots of privately owned small planes.
- Colombia's large, sophisticated, and aggressive underworld. Colombians are said to dominate the South American criminal world; [redacted]

- An understanding of the intricacies of big business as conducted by Americans and the presence of a large contingent of Colombians in the United States—a number of whom have family and/or criminal ties with smugglers in Colombia.

Colombia's well-established smugglers could readily expand their existing system to include drug trafficking. By the late 1960s, Colombians were importing coca base and paste from Bolivia and Peru, converting it to cocaine hydrochloride, and exporting it to the United States and elsewhere by the same routes they had established for other contraband.

3. Colombians moved rapidly into marijuana production, rather than just processing and transporting of illicit drugs, when they took advantage of the paraquat scare among US users as Mexico began spraying paraquat on its marijuana fields. Colombia began to grow increasing quantities of marijuana in the early 1970s. In the mid-1970s, Colombian traffickers began to promote the cultivation of coca in Colombia for processing into cocaine. (For estimated trends in production and exports of these drugs over the past decade, see annex A.)

Recent Trends in Production, Imports, and Exports of Illicit Drugs

4. Colombia now supplies one-half to three-fourths of the marijuana, about three-fourths of the cocaine, and much of the methaqualone smuggled into the United States. (See figure 1 on page 2.) It also grows a small amount of opium poppy but, so far as we know, this does not figure in the heroin trade with the United States.

5. Marijuana is grown in almost all departments of Colombia [redacted] but production for export is centered in the poor and underdeveloped northern part of the country. Colombia probably prepares more than 13,000 metric tons for shipment each year, of which some 7,000 to 11,000 tons reach US shores, according to estimates of the National Narcotics Intelligence Consumers' Committee (NNICC).¹ Accidents, seizures, and sales to other markets are thought to account for the difference.

¹ This committee is composed mainly of US Government agencies with enforcement, policy, treatment, and research responsibilities in the field of drug abuse and trafficking.

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thought to be one reason behind the establishment of coca plantations in Colombia over the past few years, another being the additional profit gained by cutting out the middlemen.

12. Most of the marijuana exported to the United States is moved by ship, while most of the cocaine is thought to go by airplane. (Routes used by traffickers are shown in figure 3.) Methaqualone is shipped, often with these other drugs, in both ships and planes. We know much less about how all these drugs move to other importing countries, but suspect the pattern is similar.

Risks and Markups

13. The profits garnered by narcotics traffickers are enormous. In 1980 and 1981, for example, an average 20-ton shipment of marijuana worth less than \$200,000 to the growers brought more than \$9 million—of which close to \$6 million was clear profit—to the importer in the United States. From the field to the streets in the United States, marijuana increases in value from about \$4 per pound to \$680 per pound, as illustrated in table 1.

14. The largest markups are taken by the Colombian exporters and by the importers into the United States. These are the two most complex phases of the trafficking and bear the greatest risk of failure. The large organizations have developed risk-sharing mechanisms, however, that go a long way toward ensuring their survivability, even in the face of high rates of interdiction

exporters often extend credit or ship on consignment to major and trusted importing organizations; and, at least in some cases, dependable importers are not obliged to pay more than a fraction of the value of the shipment if it is interdicted or otherwise

Table 1

Value of Marijuana From Growers to US Retailers
(dollars per pound)

| | 1980/81 (mean) | 1983 (range) |
|------------------|-------------------|-----------------|
| Grower | 4 | 2-4 |
| Middleman/broker | 16 | |
| Exporter | 68 | 13-16 |
| Importer | 233 | 200-400 |
| US retailer | 680 | 500-800 |

lost to them. The downpayment or other minimum is usually quite large enough to compensate the exporter for his out-of-pocket expenses in Colombia. Importers also minimize risk by a variety of tactics. One of the more common appears to be to set up and man alternate offloading sites for seaborne shipments. For example, a Florida-based importer scheduled a 25-ton load of marijuana into South Carolina; the first 5 tons were slated for a secondary drop site that was more secure but less convenient, and the rest was to be smuggled into the primary site. The minimum success rate this organization was apparently willing to accept was thus 20 percent.

15. We know less about the price chain for cocaine, but the importers' profit margins are thought to be at least as high as for marijuana. The exporter makes less net profit when he has to buy the paste or base from Peru or Bolivia, and he incurs extra expense to smuggle it into Colombia for processing into cocaine hydrochloride. Nevertheless, according to the spot prices occasionally reported, processing a given amount of cocaine base into cocaine hydrochloride approximately doubles the price, and virtually all of the cocaine exported from Colombia is processed there. The relative costs of couriers, bribes, and transportation are probably no higher than for marijuana, and for the major trafficking organizations they may be considerably less.

16. Methaqualone is probably even more profitable than marijuana and cocaine because of its low cost of production and large markup.

Economic Impact of the Narcotics Trade on Colombia

17. On balance, the drug trade now constitutes a significant economic plus for Colombia. The annual value of contraband exports has been somewhere between \$500 million and \$3 billion over the past three years.

It probably amounted to about \$2 billion in 1980 and dropped to around \$1 billion in 1982 as the price of both marijuana and cocaine at the point of export reportedly fell over the past two years. By way of comparison, total recorded exports fell from \$4 billion to \$3 billion over the same period. Thus, drugs constituted about one-fourth of total Colombian ex-

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Figure 3
Colombia: Narcotics Smuggling Routes



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ports in 1982.³ Not all of the revenues from contraband remain in or return to Colombia; and illicit drugs do not account for all the contraband. Nevertheless, drug earnings, however estimated, constitute Colombia's second most important source of foreign exchange; and illicit imports—mainly consumer goods—financed by drug exports probably amount to \$300-400 million a year (recorded or legal imports have been on the order of \$4.5-5 billion a year).

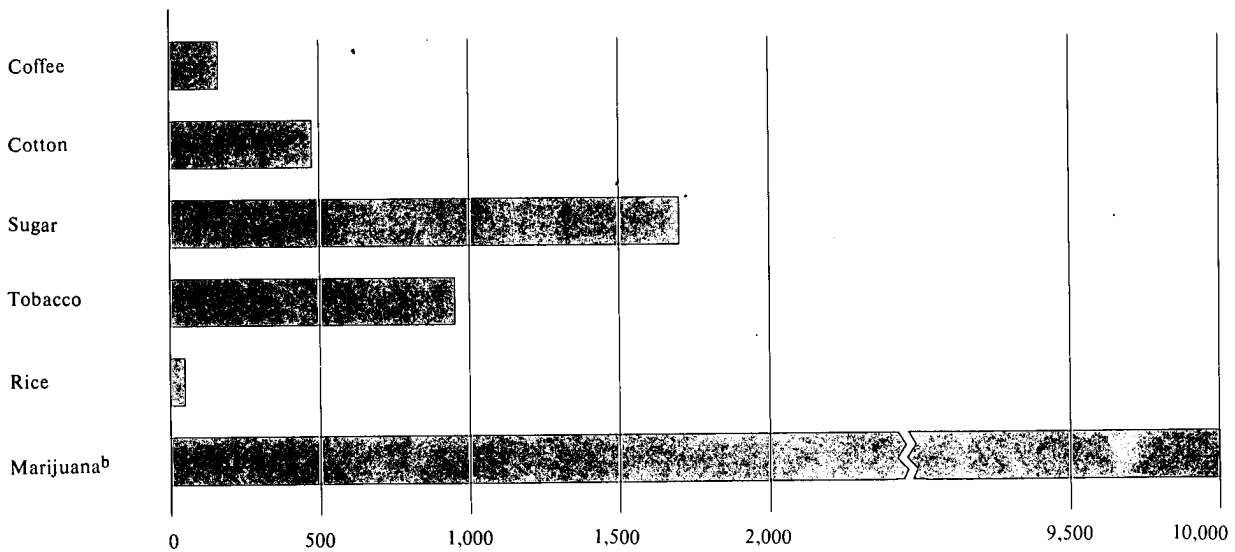
18. Approximately one-third of drug earnings are monetized and thus increase Colombia's foreign exchange holdings. Such earnings are converted to pesos mainly through the tourism and services account and through overinvoicing of exports. The services account is probably the principal means of laundering illegal foreign currency earnings. Estimates of the proportion

³ Drug exports constituted the equivalent of at least 3 percent of Colombia's gross national product in 1982. This is comparable to the role that automobile manufacturing played in the US economy.

of reported inflows from tourism and services that is, in reality, laundered money range between 35 and 50 percent of the total. Similarly, about 10 percent of the recorded noncoffee exports are thought to be false and thus serve to launder illegal funds.

19. Drug production employs an estimated 30,000 Colombians, most of whom are basically subsistence farmers and casual laborers. This is equivalent to about 2 percent of the agricultural labor force and has had little or no effect on food production, because almost all marijuana is grown on marginal land little suited to other crops, and most of the coca is grown in very thinly populated areas on virgin land. These crops do, however, provide far better returns than any alternative employment for their cultivators and exert upward pressure on rural wages. Marijuana farmers' family incomes, for example, probably average about \$5,000 a year or about five times the national per capita income. (See figure 4.)

Figure 4
Colombia: Income per Hectare^a by Export Crop, 1980



^a Calculated from statistics supplied to the World Bank by Colombia.

^b Assumes yield of approximately 5,000 pounds per hectare (double cropping) sold at a minimum price of \$2 per pound. Because most individual plots appear to be about one-half hectare, the annual income for independent marijuana cultivators is about \$5,000.

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20. Thus, monetized foreign exchange earnings, employment for some farmers, and the financing of significant contraband imports constitute the positive contributions that drug revenues make to the Colombian economy. The negative effects of this money are equally difficult to quantify but include at least the following: an additional inflationary impetus, a growing pool of illegal assets held at home and abroad that could be used to "take over" much of Colombia's small and fragile industry and financial institutions, and additional corruption that can and does skew both economic and political decisionmaking.

21. Monetized drug earnings exerted a strong expansionary pressure on the basic money supply between 1976 and 1980. Official statistics indicate, however, that variations in money supply have not had much short-term impact on overall rates of inflation, which is more attributable to the growing fiscal deficit, to inflationary expectations, and, perhaps most important, to the poor performance of the agricultural sector that contributed to rising food costs. Drug money may have had its most significant impact on the cost of luxury housing and other amenities in the main drug-trafficking cities, principally Barranquilla and Medellin.

22. There is a pool of "black dollars" in Colombia that circulate in the underground economy, and another and probably larger pool of Colombian-owned "narco-dollars" held abroad. Somewhere between one-fourth and one-half of the value of illegal exports is thought to go into these pools each year. The domestic black dollars were estimated to total between 800 million and a billion in 1979. Dollars held abroad may total several billions, but there is no way of refining this estimate. Taken together, these narco-dollars could surpass Colombia's total official foreign exchange reserves.

23. Since Colombia's financial sector is thinly capitalized, little regulated, and already prone to irregularities, some observers see considerable danger that the financial and industrial sectors could easily be taken over or disrupted by relatively small amounts of repatriated drug money. The government of Colombia has been making efforts to encourage the flow of assets back to Colombia by a tax amnesty that fosters the declaration of hidden assets, both inside and outside

the country. The benefits of such an influx of new funds are currently deemed to outweigh the dangers in Colombia's view.

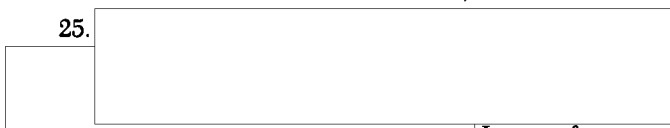
The Spillover Into Politics

Corruption

24. Official corruption is endemic to the Colombian system and long antedates the advent of the drug trade. The corrupting influence of narcotics money is different, however, at least in magnitude. With the tremendous resources at their disposal, drug traffickers are capable of buying influence, at one level or another, in almost any government ministry or agency. Officials, especially judges, who have rejected bribes are known to have been murdered.

[Redacted] "Colombian hit men are notoriously efficient, and their price is low."

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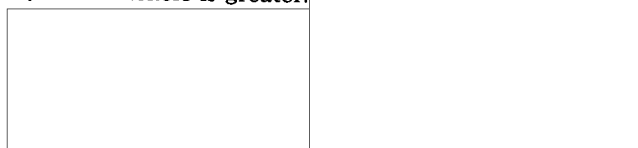


[Redacted] Law enforcement personnel rarely arrest growers or traffickers; very few major or "class one" traffickers have been convicted; important depositions and drugs seized as evidence are often misplaced or lost.



[Redacted] Much or most of such material must be presumed to find its way back into the export process.

26. The influence of drug money is probably much greater at the lower and middle levels of these government organizations, where pay is meager and proximity to traffickers is greater.



Political Influence

27. While several known traffickers (from the major drug families) were elected to Congress in March 1982, we are unable to assess the impact of drug



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money on the legislature. But we know of no instances of drug industry influence on congressional deliberations.

28. The political influence of traffickers appears to be strongest on the local level, especially in the remote and politically less important major drug-producing areas such as the north coast departments (Guajira, Cesar, Atlantico, and Magdalena) and in the eastern regions. Influence in the cities is of a somewhat different order. Every major city has a narcotics trafficking element: Barranquilla and Santa Marta are linked mainly to marijuana; Medellin to cocaine; and Bogota to both drugs. Narcotics families do not appear to be interested in obtaining public office in municipalities, preferring instead to exercise their influence in such areas as building permits and liquor licenses, in the traditional manner—the well-placed bribe. So far as we know, they have rarely sought to control or influence political events on the national level. Their objective, at least thus far, seems to be simply enough influence to assure freedom for their operations; and this is most practically obtained on the local level.

29. The growing wealth and sophistication of some trafficking families, particularly those in cocaine, may lead to another and more worrisome trend toward their integration into the traditional political elite or the Colombian "establishment." Such families are sending their children to the best private schools, joining at least some of the more fashionable clubs, and becoming patrons of popular organizations like soccer teams. On the north coast, some have built and donated public facilities like parks and sports fields. To the extent they gain more social respectability and "clout," they may also gain entrance into the rather narrow group that has traditionally governed the country. Such trends are, clearly, hard to measure and are probably being resisted by the establishment which, at least until now, has not felt threatened by the traffickers—each keeping to its own sphere.

Traffickers and the Military

30. The Army, in particular, has sought to distance itself from the corrupting influence of the traffickers. In 1980 the then Minister of Defense withdrew military units from the effort to interdict drug movements in the north coast areas, because he feared the effects such efforts were having on the lower levels of officers

and men. We believe this concern persists and do not expect military involvement any time soon. Moreover, the military has long regarded itself as the guardian of Colombia's reputation for progress and democracy. In November 1982, President Betancur declared an amnesty open to almost all members of the various insurgent groups, which has subsequently been rejected by almost all of these organizations. The military has become increasingly restive about this amnesty, which it perceives as a futile attempt to end these insurgencies and encourage the terrorists to participate in the democratic political process.

31. Over the past several years, there have been reports and rumors of connections between some active and retired military officers and the MAS (Spanish acronym for "Death to Kidnapers"), which, since 1981, has served at times as the traffickers' hit squad against insurgent bands that have kidnaped members of wealthy trafficking families for ransom.⁵



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We do not know whether these connections are based on drug money or influence, or stem primarily from the desire of those military personnel involved to use any available weapon against the insurgents. Both explanations seem possible. In any event, any links between the military and the traffickers would serve to inhibit efforts to reduce the role of drug trafficking in Colombia.

Outlook and Implications for the United States

Impediments to Controlling the Trade

32. Various Colombian governments, especially after 1973, when formal US assistance began, have actively cooperated with US efforts to stem the flow of drugs into the US market. US aid has included training, equipment, and money for the National Police's antinarcotics units. Behind this routine cooperation, however, lies a fundamental difference of opinion as to the nature and seriousness of the trade. Colombian



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attitudes toward it have changed little, despite US efforts to publicize the damage drugs do. Colombians still see it as a US problem, arguing that US demand for narcotics created the drug industry. The question of illicit Colombian narcotics has not become a major political issue. This, then, is a serious impediment to the US goal of getting Colombia to attack the trade more actively.

33. From it flows the second major impediment; narcotics control as a focus of attention for the government ranks well below the economic problem, domestic security (including common crime) and pacification of the insurgents, a desire to enlarge Colombia's role in international affairs, and implementation of Betancur's policies of improving the lot of the urban and rural poor. Indeed, a significant reduction of the narcotics trade could work against one or more of these higher priorities.


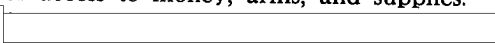

34. The Colombian economy, for example, is currently in worse shape than it has been for years; growth is off, foreign exchange holdings are down, interest rates and inflation are high, and the budget is in deep deficit by Colombian standards. Domestic production of food and many consumer goods is costly and inefficient, while demand for traditional legal exports—coffee, sugar, and minerals—is sluggish. Any major cut in drug exports would worsen the foreign exchange problem, reduce the availability of imported (contraband) consumer goods, and increase unemployment in those areas where drugs are grown. Moreover, reduction of the trade would be expensive in terms of men and equipment—some observers have estimated that an effective effort would cost at least 10 times what Colombia now spends on narcotics reduction.


35. Colombia's role in foreign affairs also ranks high among Betancur's priorities. Upper class Colombians who travel abroad are clearly embarrassed by their country's reputation as a drug source and by the extra attention they attract from customs officials. While Betancur undoubtedly shares this embarrassment, the trade is not an obstacle to his announced goal of moving toward a more independent role in the hemisphere and in the world by joining the Nonaligned Movement and reducing the close alignment between the United States and Colombia established by his predecessor on many issues. Indeed the narcotics trade seems to be a nonissue in Colombia's relations with

Latin America and the rest of the Third World. We judge that President Betancur would be reluctant to adopt a stronger narcotics policy, especially now if that appeared to be succumbing to US pressures when he is seeking a more independent stance.

36. Apart from this concern for appearances, a serious suppression effort would entail other political costs—at least some setback to Betancur's goal of improving the lot of the poor (through the economic impact), at least some increase in the already astronomical levels of common crime and violence as some of the newly unemployed flocked to the cities in search of a livelihood or joined the insurgents in protest, and very probably some boost to these insurgencies.

37. The effect of the narcotics trade on these guerrilla groups is now mixed. The largest, FARC, is actively engaged in the drug business, which provides an avenue for access to money, arms, and supplies.

 
The easy and sizable profits FARC reaps from drugs also serve to "corrupt" at least some of its members and reduce their revolutionary motivation and the cohesion of the organization. 

 FARC's involvement with drugs as particularly destabilizing to that guerrilla organization and effort, it remains the most powerful insurgent group.

38. Another, and very significant, impediment to an effective effort to suppress the narcotics trade is the fact that Colombian law enforcement forces are stretched extremely thin; the Navy and Coast Guard are too small to patrol the coasts against contraband; the Army and National Police writs do not really run in the eastern half of the country, which is largely beyond government control and where the FARC and coca growers operate with relative impunity; and the police seem almost helpless against common crime and violence despite the fact that they impinge on almost every citizen. Between rural bandits, urban thugs, and terrorist groups, Colombia is now probably the most violent society on the continent. If, as this seems to indicate, Colombia lacks the means and/or the will to suppress common crime—which is seen as a severe problem by the public—then it is difficult to see where the will and/or the resources to suppress the

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narcotics trade—which is not seen by the public to be a serious problem—will come from.

39. Aerial spraying of drug crops with herbicides would require far less manpower and equipment than would manual eradication (the only method currently in use in Colombia) for the same results.

[redacted] An eradication program analogous to that in Mexico—the estimated growing areas for each country are roughly comparable—could make a big dent in the amount of Colombian marijuana reaching the US market, especially if it lasted for a number of growing seasons. The suggestion has provoked considerable opposition in Colombia. Colombian public health authorities argue that paraquat is dangerous and ask why they should expose their people and lands to this herbicide when the United States does not spray it on its own marijuana fields. Airborne eradication of coca plants also remains problematical, but the government currently seems more interested in spraying coca than marijuana. We judge that President Betancur is unlikely to adopt a full-scale aerial eradication program any time soon.

40. A final major impediment to an effective narcotics suppression effort in Colombia is the wide array of countermeasures the growers and traffickers have available to them. As shown by experience in other regions (Southeast and Southwest Asia and Mexico), traffickers are likely to shift their growing areas and trafficking routes in response to government enforcement pressures. Coca cultivation is agronomically feasible in nearly 90 percent of Colombia (only the areas along the Atrato and Cauca Rivers and in the high Andes are unsuited to the bush).⁶ Moreover, growers can reduce the size of individual plots, move them to more difficult terrain, and camouflage the crop by interplanting it with subsistence food crops. Much the same countermeasures are also open to marijuana growers.

⁶ The current coca-growing areas of Colombia, Bolivia, Peru, and Ecuador could produce an estimated 150 tons of cocaine. But these areas represent only a tiny portion of the area that could theoretically support coca. The latter amounts to roughly 2.5 million square hectares or the equivalent of about 40 percent of the contiguous United States. While studies of the area that could support marijuana have not yet been done, we suspect that at least two-thirds of these 2.5 million hectares could also be used to grow marijuana.

41. Thus far, Colombian growers and traffickers have relied on bribes and threats to ensure relative freedom of action. But if narcotics suppression began to bite deeply into their profits, they could turn to violence. Much of the eastern half of the country is accessible only by helicopter, small plane, or shallow-draft boats—all of which would be at least somewhat susceptible to small-arms fire.

Inducements

42. Despite this discouraging catalogue of impediments to effective narcotics suppression, there are a number of factors that could affect the balance in Colombia and possibly induce this or the next Colombian administration to move more forcefully against the trade. For one thing, the number of Colombian drug abusers is rising, and this is likely to increase the public's appreciation of the dangers that drugs pose for their society. Second, if the trafficking families continue to push their way into establishment preserves—clubs, schools, industry, and other traditional areas—they may provoke a social reaction. Such a trend might be enhanced by increasing embarrassment over Colombia's reputation as a major source of drugs or by further bank or financial scandals attributable to drug money. All of these potential developments would tend to increase Colombian understanding of the dangers that drugs pose to their society and foster greater interest in taking more forceful action against the trade.

43. Similarly, indications of closer and more fruitful connections between the major guerrilla groups and Cuba—that also involved trading narcotics for arms—would induce the military to pay more attention to the narcotics trafficking. Given the mounting economic and crime problems, President Betancur must continue to pay heed to other forces in government and the military that are more sympathetic to US interests and more concerned about Colombia's resuming ties with Cuba, which were severed by the previous administration because of Cuba's support for the guerrillas. But we think that some time—probably several years—would elapse before these factors, which might work toward a change in Colombian perceptions of the drug-trafficking problem, could make a significant difference.

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44. In sum, we judge that the Colombian Government over the next several years will continue to make about the same effort that it has in the recent past to meet its international treaty commitments on narcotics. Other priorities—the economy, crime, and insurgency—will continue to rank well above narcotics in the hierarchy of Colombian concerns. Unless Betancur comes to see the narcotics trade as a major threat to his other priority goals, we doubt the issue will attract much additional attention during his term in office.

Medium-Term Outlook

45. Over the next several years, we expect the Colombian Government to continue its present level of cooperation with the US Coast Guard and with the US narcotics enforcement team in Bogota.

But we think there is little chance that Bogota will implement extensive aerial spraying programs or make other major changes to improve the antinarcotics program. Thus, Colombia will remain the dominant source of cocaine and probably the single largest supplier of marijuana to the United States. Indeed, cocaine exports will probably increase.

In the Longer Run

46. Over the longer run, we think that drug abuse in Colombia will grow and that this, in turn, will lead Colombians to view the narcotics trade as a domestic as well as a US problem. We judge the odds are about fifty-fifty that the Colombian military will also become more concerned about the links between narcotics and the arms in the hands of one or more of the insurgent groups. As these perceptions change, Colombia can be expected to adopt more effective antinarcotics policies—perhaps including aerial spraying and greater efforts to inderdict major shipments.

47. But we see no chance that the growing and trafficking of narcotics in Colombia could be suppressed and kept that way—given the absence of attractive alternative crops, the size and inaccessibility of the major growing areas, and, above all, the profitability of the trade—without a bloody, expensive, and prolonged coercive effort. And we judge that Bogota will remain unwilling to accept this cost.

48. Even if Colombian drugs were cut out of the international narcotics trade, these same factors—profits and ease of production—would work to induce a substitute flow from other countries such as Brazil, Venezuela, Peru, Bolivia, and Central America.

49. Although eradication or substantial reduction of marijuana and coca production is essential to any long-term resolution of the Colombian drug problem, narcotics control strategies in the short term are likely to be more effective in areas where the United States exerts more control or can apply pressure more directly. Risks for traffickers, for example, can be increased by stepping up interdiction efforts on the high seas, in the air, and at the point of entry into the United States. Intelligence Community members estimate that [redacted] percent of the marijuana and cocaine en route to the United States is currently seized or otherwise interdicted. Identifying and impounding the assets of major trafficking organizations also increases the risk and reduces the final profits from the trade. Switzerland has recently agreed to lift some aspects of its bank secrecy regime in order to cooperate in identifying such funds. Other offshore tax havens where bank secrecy is also strict—such as Panama and the Cayman Islands—have thus far been reluctant to do the same.

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ANNEX A

PRODUCTION, TRAFFICKING, PRICES, AND INTERDICTION

1. [redacted] estimates of yield for marijuana and cocaine and of conversion factors for the various steps in processing coca leaf to cocaine hydrochloride vary widely. There are several varieties of coca plant, each thought to have different yields under similar conditions; and yield is also thought to vary considerably depending on the age of the plant, the altitude, type of soil, and probably on rainfall.

2. Estimates of production and exports of these drugs are therefore our best guesses [redacted]

3. Finally, estimates of the volume of drugs reaching the United States are derived from estimates of what was available for export, less an assumed percentage for seizures in transit, accident, and sales to other consuming countries. To some extent, they are also checked against the estimates, separately obtained, of how much of this drug is consumed in the United States, less estimated imports from other countries.

4. With all these caveats, then, tables 2 and 3 indicate the range of estimated production and exports over the past several years. The various differing estimates are not related—that is, they come from different sources, and yield was not necessarily factored into the hectareage estimates or vice versa. [redacted]

Table 2

Estimates of Marijuana Hectarage and Production in Colombia and Exports to the United States

| Year | Hectarage | Production (metric tons) | Exports to the United States (metric tons) |
|------|---------------|--------------------------|--|
| 1977 | 3,000 | | |
| 1978 | 20,000-40,000 | 9,000 | 6,000-7,000 |
| 1979 | 30,000 | 15,000 | |
| 1980 | 44,500 | 50,000 | 8,000-10,000 |
| 1981 | 25,000-44,500 | 50,000 | |
| 1982 | 3,500-10,000 | 9,000-25,000 | 7,000-11,000 |

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Table 3

Estimates of Coca Hectarage and Production in Cocaine Equivalents in Colombia and Total Exports From Colombia to the United States^a

| Year | Hectarage | Production (metric tons) | Exports to the United States (metric tons) |
|------|-------------|--------------------------|--|
| 1974 | | | 18 |
| 1976 | | | 12 |
| 1979 | | | 14 |
| 1980 | 3,000 | 5.6 | 19-23 |
| 1981 | 2,900-4,000 | 5.4-7.5 | 35-37 |
| 1982 | 4,500 | 8.0 | 40-50 |

^a The Drug Enforcement Administration concurs with these 1980 and 1981 estimates but reserves its position on the 1982 figures pending review. [redacted]

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Marijuana

5. Marijuana is grown in almost all departments of Colombia, but production for export is centered in the northern part of the country. The bulk of it (70 to 90 percent) is probably grown in the undeveloped departments of La Guajira, Cesar, and Magdalena by small farmers for whom it is their only cash crop. The

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almost equally poor and undeveloped area south of the Gulf of Uraba accounts for most of the rest of the export crop area, which probably totals 7,000 hectares (17,000 acres).

6. [redacted]

[redacted] the Drug Enforcement Administration (DEA) estimates that the average yield per acre per year is about 1 ton, assuming two harvests. Since most of this area produces two crops a year, Colombia is thought to have a net harvest of 9,000 to 25,000 tons a year.

8. There have been a few reports that some marijuana cultivation has shifted to the west—near the Gulf of Uraba—and that increasing amounts are being shipped from the Pacific coast, where surveillance and patrols are minimal at best. In any event, the Community estimates that the tonnage of marijuana that leaves Colombia for the United States each year fluctuates widely, perhaps between 7,000 and 11,000 metric tons.

9. Marijuana is processed where it is grown by being compressed into bales and wrapped with burlap. It is then moved by pack animal or truck to collection points—usually “warehouses” or sheds located in thick cover near landing strips or beaches. Most of it moves by boat or small ship through the Caribbean to the east and gulf coasts of the United States. Most of the rest goes by small planes to the same destination. The density of private landing strips in sections of the Guajira and Magdalena is high. [redacted]

Price Chain

10. In early 1983, DEA estimated that the middlemen or broker operations were now combined with

Table 4

A Price Chain for Colombian Marijuana (US dollars per pound)

| | 1980/81 (mean) | 1983 (range) |
|------------------|-------------------|-----------------|
| Grower | 4 | 2-4 |
| Middleman/Broker | 16 | |
| Exporter | 68 | 12-16 |
| Importer | 233 | 200-400 |
| US Retailer | 680 | 500-800 |

the exporter role, and that the latter were receiving \$12 to \$16 per pound at the point of export. This represents an immense drop from the \$60-to-\$70 estimate that was made in 1980. (See table 4.)

11. We lack a satisfactory explanation for this shift, particularly since prices obtained by the importer and retailer in the United States do not seem to have dropped. One explanation may be that the traffickers are better organized and more vertically integrated, that they have shifted the profits from exporter to importer because the two roles are now being assumed by the same organization; and that this reflects their monopoly and coercive power—one great enough to keep competition out. Another explanation, particularly emphasized by DEA, is that competition from other producing countries has grown and that the risks to Colombian traffickers from seizures and eradication have increased.

12. In any event, an exhaustive study by CIA of prices prevailing in 1980 revealed that the typical exporter and importer then earned \$3 for each dollar spent on buying, collecting, bribing officials, and shipping the product. [redacted]

Coca-Cocaine

13. Since the late 1960s, Colombia has dominated the processing and trafficking of cocaine manufactured from coca grown in Bolivia and Peru but, until recently, grew relatively little coca itself. Now, however, Colombia may be on the verge of becoming a

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major coca-growing country as the trafficking organizations encourage new plantings in the southeastern lowlands.

14. This 400,000-square-kilometer area is tropical rain forest, laced with small and medium-size rivers that feed the major rivers flowing into the Amazon and Orinoco and serve as the main means of transport. The lowlands are thinly populated, mainly by Indians who are subsistence farmers.

[redacted] one [redacted] strip along the Rio Vaupes [redacted] comprising nearly 2,000 hectares, plus another [redacted] not yet planted, totaling an additional 800 hectares. This small area alone is expected to produce the equivalent of 15 tons of cocaine a year by 1985. Thousands of newly cleared and planted fields have been spotted elsewhere in the eastern lowlands.

15. Coca is a perennial bush or small tree whose leaves can be picked frequently (the number of harvests per year seems to depend on variety, soil, and climate) and whose yield of leaves rises dramatically with age, as indicated in table 5.

Table 5
Cocaine Yields^a

| Age of Coca Plant | 1-2 years | 3-4 years | 4-8 years |
|--|-----------|------------|------------|
| Coca dry leaf weight per hectare per harvest (assuming one plant per square meter) | 33 kilos | 267 kilos | 833 kilos |
| Cocaine alkaloid content | 0.28% | 0.28% | 0.28% |
| Number of harvests per year | 4 | 4 | 4 |
| Cocaine hydrochloride yield per hectare of coca cultivation | 0.36 kilo | 2.99 kilos | 9.33 kilos |

[redacted] Yields for coca grown in Cauca along the slopes of the Andes will differ considerably from these.

16. The main variety of coca now under cultivation in these lowlands does not require the elaborate seedbeds and careful transplanting thought to be required by the varieties grown in the traditional coca-producing areas of Colombia and in Peru and Bolivia. Instead, a few "mother" plants can be severely pruned for cuttings that are simply stuck in the ground to grow.

The "Manufacturing" Process

17. Cocaine is one of the alkaloids in the leaves of the coca plant. Traditional use—chewing—requires only that the leaves be picked and dried carefully, but the extraction of cocaine is a more complex process that usually requires these separate steps. First the cocaine is extracted from the leaf to produce a coca *paste*, second the paste is further refined to produce a *base*, and finally the base is converted to cocaine hydrochloride (CHCL):

- The "chemistry" of the process is straightforward. The process itself does not require access to "exotic" chemicals or equipment. Production of coca paste is particularly simple, and "laboratories" are generally no more than a roof or tarp stretched over supports. "Process equipment" can be a 55-gallon drum, plastic funnels, garden hose, etc. These "laboratories" can be located in close proximity to coca fields (and are, particularly in Colombia) and manned by unskilled laborers.
- The second and third steps do require more care and are generally conducted in somewhat more elaborate facilities. Still, the complexity of the process is minimal, though some of the chemicals, particularly ether, pose a fire and explosion hazard and require some care in handling.
- There are many substitute routes to purification; alternative sequences of steps, chemicals used, etc. For example, kerosene is often used in paste manufacture, but other petroleum solvents would function equally well—in the Llanos region of Colombia, gasoline is employed. And where gasoline is scarce, it can be cut 50 percent with water and serve equally well as a solvent.
- Finally, because of the tremendous variability in facilities, skill levels, etc., processing efficiencies

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can and do vary widely. Accurate laboratory data generally do not exist, and where they do they represent only a small sample from which to generalize.

18. There is considerable uncertainty over the process ratios—that is, how much coca leaf is required to make 1 kilogram of CHCL. Discrepancies among sources vary by a factor of 20 for this important quantity. Moreover, there are unknown (and perhaps unknowable) losses due to pilferage, spoilage, etc. Collectively, these factors—termed here the “production paradox”—prevent reconciliation of estimates of coca production with estimates of cocaine imported into the United States. Production estimates indicate about 165 metric tons of cocaine could enter the market, whereas the Narcotics Intelligence Estimate for 1980, prepared by the National Narcotics Intelligence Consumers Committee, estimates that 44 to 48 tons did enter the US market—a difference we cannot satisfactorily account for.

19. The final stage of cocaine hydrochloride preparation involves “cutting or diluting” the pure cocaine hydrochloride with a variety of adulterants, including “inert cuts” such as lactose, dextrose, and mannitol; or “active cuts” such as benzedrine, procaine, and lidocaine.

20. Ether, which is a vital precursor chemical in the illicit production of cocaine hydrochloride, is not produced in Colombia. About 90 percent of Colombia's ether imports come from only two countries, the United States and West Germany. The volume of Colombia's 1981 ether imports corresponds in no way to its legitimate domestic needs.

21. About 12 kilograms of ether is required to produce a kilogram of cocaine hydrochloride. DEA estimates [redacted] that 3 million kilograms of ether were imported into Colombia during 1981. Some unknown percentage of this ether was transhipped to Bolivia and

Peru, while some was probably stockpiled in Colombia. Also, the ether business in Colombia was so lucrative (with profits of over 100 percent common), that many newcomers entered the market generating upward pressure on imports which may not accurately reflect current demand by traffickers. Transshipment and oversupply notwithstanding, however, such ether imports strongly suggest that Colombian cocaine hydrochloride production may be significantly higher than previously estimated.

22. Most of the cocaine exported from Colombia is still made from paste and/or base imported from Peru and Bolivia over four major routes: the Pan-American highway from Peru through Ecuador, across the porous borders with Peru and Ecuador in a wide variety of vehicles, by small boats from Ecuador to Pacific ports in southern Colombia, and via the many rivers that connect southeastern Colombia with its neighbors.

Price Changes and the Price Chain

23. Prices for coca leaf, paste, and base appear to have dropped precipitously over the past several years while prices for cocaine at the point of import into the United States and on the “street” have remained quite stable. As in the similar case for marijuana prices, this may reflect the Colombian traffickers' growing power over this trade. The drop in coca paste and base prices, however, has been much greater, and the price paid the farmer for leaves now appears to be only 10 to 20 percent of what it was in 1980. [redacted] These price shifts appear to point to overproduction by the farmer, possibly greater competition among paste and base dealers, and the development of a working cartel or oligopoly among the cocaine exporters and importers which serves to shift the profits to this latter stage. Seizures of shipments may also be having an effect.

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24. Whatever the real explanation for these changes in the price chain, we have no indications that coca plantations are being reduced—instead there is evidence of sizable new coca-growing areas in Bolivia as well as in Colombia. Thus, it seems almost inevitable that cocaine exports from Colombia and the region as a whole will rise in the next few years. We expect more and more of it to go to Western Europe.

Eradication and Interdiction

25. The Colombian Government officially acceded to the Vienna Convention on Controlled Substances on 12 May 1981. A bilateral extradition treaty with the United States, originally signed 4 September 1979 and promulgated through Colombian Law 27 of 3 November 1980, was finalized by an exchange of Diplomatic Notes on 4 March 1982. A bilateral Mutual Legal Assistance Treaty with the United States is currently before the Colombian Congress. The Congress is also considering a bill that would waive the confidentiality of bank records of Colombians suspected of involvement in drug trafficking. During 1981 the Colombian Supreme Court overturned a 1979 constitutional reform that was designed, among other things, to improve the prosecution of drug traffickers, and to create a Prosecutor General's Office.

Enforcement and Legal Process

26. Colombia's basic narcotics law, Decree Number 1188, makes ample provision for the apprehension, prosecution, and conviction of drug traffickers. Unfortunately, the enforcement and judicial apparatus of the country has not been conspicuously successful in arresting, prosecuting, and convicting Colombia's major narcotics traffickers. The reasons include inadequacy of personnel, equipment, and training;

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ANNEX B

THE DRUG TRADE AND COLOMBIA'S ECONOMY

Impact on the Affected Local Economies

1. Marijuana is a profitable crop for some 17,000 Colombian farmers who derive from it an average of at least \$2,000 and possibly close to \$5,000 per year. Few of these farmers have any other cash crops, and most use marginal land for the marijuana plants; hence, such earnings are of major importance to them.

2. In addition, an estimated 3,000 Colombians are involved in transporting, hauling, and guarding the crop.

3. The marijuana boom years of the late 1970s also saw a marked rise in the prosperity of northeastern cities such as Barranquilla, where traffickers built expensive houses and indulged themselves in other luxuries. Since 1980 much of this visible prosperity has evaporated as local prices for marijuana have fallen.

4. The recent growth of domestic coca production will dramatically increase the importance of the coca trade to local sectors of Colombia's economy by pumping millions of pesos into them. In addition to those harvesting coca leaves, there is employment for workers to transport and refine the leaves into coca paste. Clearing the land is a labor-intensive operation and probably provides good pay and steady employment in what is otherwise basically slash-and-burn subsistence agriculture.

the average salary for those harvesting coca—probably the lowest paid individuals in the coca-growing chain—is about \$20 per day, a good picker can earn five to 10 times the standard rural wage. the number of campesinos employed in the Llanos growing coca at 5,000. This estimate seems near the mark, given that there are several thousand separate fields in the Llanos that very likely employ at least one worker per field.

Coca is also grown in the traditional mountainous areas of southwestern Colombia, but we have no basis for estimating the number of laborers it employs.

5. Similarly, we lack estimates of the costs of bribes, "chemists" employed to process base into paste, and transportation of cocaine. It seems reasonable to suppose all such costs are higher than for marijuana, because the product is so much more valuable.

Impact on the National Economy

6. There are practically no firm data on the size and impact of drug earnings on the national economy, partly because these transactions are illegal and therefore largely hidden, and partly because Colombian trade and other statistics are imprecise.⁹

the value (f.o.b.) of Colombian drug exports in the past several years could have been as low as \$500 million a year or as high as \$3 billion, as in table 7.

7. We doubt that either the maximum or minimum values have been approached in the past several years because the lower tonnage reports *tend* to be associated with the higher price reports. A more plausible range would be \$1-2 billion per year. Separate estimates made by CIA put the value of Colombian drug exports in 1980 at \$1.6-2.0 billion.

8. Since 1980 there has been a marked decline in the f.o.b. price of marijuana and a considerable rise in domestic production of coca, plus overproduction in Bolivia and Peru. These have reduced the price of coca paste and thus the cost of importing it into

⁹ Proportionately, errors and omissions in Colombia's official balance-of-payments accounts, for example, are among the largest among the less developed countries. Also, Colombia's figures on its exports and imports differ substantially from those reported by many of its trading partners.

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Table 7

Colombian Drug Exports in Recent Years

| | |
|--------------|---|
| Marijuana | — Maximum plausible tonnage, 15,000 Minimum plausible tonnage, 8,000 Maximum reported average price per pound, \$70 Minimum reported average price per pound, \$15 Maximum value, \$2,100 million Minimum value, \$240 million |
| Cocaine | — Maximum reported tonnage, 50 Minimum reported tonnage, 30 Maximum reported price, \$20,000 per kilo Minimum reported price, \$9,000 per kilo Maximum value, \$1 billion Minimum value, \$270 million |
| Methaqualone | — Value \$10-50 million |

Colombia.

There are a number of recent reports of marijuana wholesaling at \$100 a pound in Mexico and Belize.

Uses of Drug Earnings

9. Dollar earnings accruing to Colombians may be converted into pesos, may be used to finance imports, may circulate in the Colombian black-market dollar economy, or may remain outside of Colombia. Drug exports are not the only source of black dollars. On the basis of studies of other contraband exports,

estimates that earnings from illegal exports of traditional products in 1982 were probably about \$100 million. In the calculations that follow, therefore, we assume that earnings from "traditional" illegal exports (nondrugs) account for 10 percent of Colombia's illegal cash flow.

10. Drug earnings are converted to pesos (monetized) principally through the tourism and services account and through overinvoicing of exports:

- False exports. Knowledgeable observers estimate that 10 percent of reported noncoffee export

revenues do not represent actual physical transactions and are used to launder illegal dollars. Applying this ratio to expected noncoffee exports in 1982 (\$1.2 billion) suggests that about \$110 million in drug earnings could be monetized in this way.

- Tourism and services. The tourism and services account (excluding interest receipts) is the principal means of laundering illegal foreign currency earnings.

For 1982 it estimated that about \$225 million in drug earnings was monetized in this way.

11. *Financing Imports.* Drug dollars are used to finance imports in the following ways:

- Underinvoicing of legitimate imports. This practice facilitates the evasion of sales taxes and import duties and is particularly prevalent for articles controlled by licenses.

This could account for about \$180 million in drug money "imported" in this way.

- Illicit imports. The most important use of drug dollars probably is to finance illicit imports, mainly consumer goods such as television sets, textiles, and cigarettes. The chief entry points for contraband are San Andres, the free trade zones of Barranquilla and Cartagena, and the Gulf of Uraba.

estimates that contraband imports amount to \$1 billion per year. While this estimate seems clearly inflated, a figure of \$400 million is possible. This would account for about \$360 million of Colombia's drug earnings, again assuming that 10 percent of the total is not drug-financed contraband.¹⁰

12. Another major use for narco-dollars is incorporation into the pool of Colombian "black dollars," which in 1979 was estimated to be \$800 million to \$1 billion. There is no way of telling how much drug

¹⁰ We have very little information as to where the money comes from to pay for imported coca paste, but we estimate that such imports cost approximately \$150 million last year.

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money actually enters Colombia. We can estimate how much is monetized and how much is used to pay for illegal imports. The residual floats in the Colombian black dollar market, is taken out of the country in suitcases, or indeed never enters Colombia. Another analytical "joker" is the disposition of funds accruing to Colombian nationals who may be involved in the "downstream" aspects of marketing cocaine and marijuana in the United States. There is no way of quantifying these sums, either.

earnings from contraband, 60 to 85 percent of the total, return to Colombia either as monetized additions to official foreign exchange holdings or as illicit imports.

14. *Earnings and the Exchange Balance.* Monetized drug earnings, while lower in 1981 and 1982 than in previous years, remain Colombia's second most important source of international reserves. Drug earnings are a definite second to coffee, however, and as a percentage of coffee exports have not grown significantly except in 1981 when coffee earnings plummeted 34 percent. (See table 8.)

15. Monetized drug earnings have been important in contributing to the surplus in the current account from 1976 to 1980 and their evident decline in 1981 and 1982 contributed to the negative performance in Colombia's current account in those years. As table 9 shows, however, coffee earnings are much more important in explaining changes in Colombia's current account balance than are drug earnings.

16. There is little doubt that monetized drug income has exerted a strong expansionary pressure on the basic money supply. Between 1976 and 1980, growth in net international reserves constituted the

Table 8

Estimated Relative Importance to Colombia of Coffee Exports and Monetized Drug Earnings

| Year | Coffee Exports in Million US Dollars | Monetized Drugs Earnings in US Dollars ^a | Percent of Coffee Exports |
|------|--------------------------------------|---|---------------------------|
| 1977 | 1,580 | 470 | 29.7 |
| 1978 | 1,820 | 460 | 25.3 |
| 1979 | 2,000 | 600 | 30.0 |
| 1980 | 2,351 | 610 | 25.9 |
| 1981 | 1,562 | 450 | 28.8 |
| 1982 | 1,452 ^b | 335 | 23.1 |

^a Calculated by assuming that, because of overinvoicing or fictitious exports, 10 percent of nontraditional export certificates do not have corresponding physical volumes and that 35 to 50 percent of tourism and services accounts do not reflect actual activity.

^b Coffee federation estimate.

Table 9

Colombia's Coffee Exports and Monetized Drug Earnings in Current Account

| Year | Monetized Drug Earnings | Total Current Account Inflows | Drug Income as Percent of Current Account | Coffee Income as Percent of Current Account |
|-------------------|-------------------------|-------------------------------|---|---|
| | (million US dollars) | | | |
| 1977 | 470 | 3,208 | 14.7 | 49.2 |
| 1978 | 460 | 3,598 | 12.8 | 50.5 |
| 1979 | 600 | 4,622 | 13.0 | 43.2 |
| 1980 | 610 | 5,653 | 10.8 | 41.5 |
| 1981 | 450 | 4,985 | 9.0 | 31.3 |
| 1982 ^a | 335 | 4,650 | 7.4 | 31.2 |

principal factor in primary monetary expansion. However, declining monetization of drug earnings has meant that, while still a significant part of primary monetary expansion, drug earnings were less important in 1981 and 1982 than in the period 1976 to 1979. (See table 10.)

17. Official statistics indicate that variations in money supply and consequently variations in monetized drug earnings have not had much short-term impact on inflation rates. The Colombian central bank's explanation for the lack of responsiveness of inflation to variations in money supply is that "the rate of inflation is beset by a kind of inertia caused by factors outside the realm of monetary control." These

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Table 10
Colombian Drug Income

| Year | Monetized Drug Income | M-1 ^a | Drug Income as Percent of M-1 |
|-------------------|--------------------------|------------------|-------------------------------------|
| | (in billion pesos) | | |
| 1977 | 17.3 | 103.5 | 16.7 |
| 1978 | 18.0 | 134.9 | 13.3 |
| 1979 | 25.5 | 167.6 | 15.2 |
| 1980 | 28.8 | 214.2 | 13.4 |
| 1981 | 24.5 | 259.7 | 9.4 |
| 1982 ^b | 22.7 | 270.2 | 8.4 |

^a Currency and checking accounts.

factors are inflationary expectations of both workers and industrialists which are codified by indexation.

18. Apart from inflationary expectations and the growing fiscal deficit beginning in 1981, the success of the noncoffee portion of the agricultural sector appears to be the key determinant in establishing inflationary levels. This is logical because foodstuffs have a 52-percent weight in the consumer price index. The correlation of inflation rates between 1971 and 1981 with nominal agricultural growth rates is more significant than that with money supply growth.

Narco-Dollars Abroad: A Potential Threat?

19. Colombian private assets held abroad probably total several billion dollars, or the equivalent of a very substantial fraction of the country's legitimate foreign exchange reserves. [redacted] these sums are very large relative to the size of the Colombian economy. For example, 1982 drug earnings of \$1 billion equals the combined sales of the nine largest Colombian companies. The disruptive effect of uncon-

trolled repatriation of these funds could be considerable.

20. A number of events could encourage the return of assets held abroad:

- A marked decline in US interest rates that could make returns in the Colombian financial market more attractive.
- Increased US enforcement efforts and the US civil forfeiture law against drug traffickers.
- The Colombian Government's tax amnesty, which encourages the declaration of hidden assets (without penalty) both inside and outside Colombia.

Given the current domestic economic problem, Bogota has clearly indicated that it considers the benefits of an influx of funds to outweigh the dangers.

21. Drug funds, however, do pose some potential danger to the financial and industrial sectors of Colombia's economy. The case of Felix Correa, president of the failed Banco Nacional, is instructive. Correa was able to purchase control of Colombia's second-largest textile company for only about \$10 million. The failure of his Banco Nacional—which may have been related to narcotics seizures in the United States—led to the most serious financial panic in Colombia since the 1930s. The fact that most large depositors in the Banco Nacional have not come forward to claim their assets tends to confirm suspicions that the Banco Nacional was used to harbor undeclared drug money. While this disaster has increased the government's awareness of the need to strengthen regulation of the financial sector, we have seen nothing yet to indicate that the effectiveness of its regulatory agencies has increased. In short, Colombia's financial sector and its undercapitalized stock companies could easily be disrupted by relatively small amounts of new money.

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