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BYLINE: By ELAINE SCIOLINO with STEPHEN ENGELBERG, Special to The New York Times

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BODY:

No President has spoken out more against drugs than President Reagan. No Administration has signed more anti-drug treaties or spent more money to stem the flow of drugs into this country.

But as the Reagan years draw to a close, American law enforcement officials acknowledge that they are losing ground in the fight against a new generation of drug smugglers who have the business skill - and capital - to threaten not only the streets of America but even the stability of countries long friendly to the United States.

Arrests Grow, So Does Supply

While drug confiscations and arrests set records each year, the supply of cocaine, the most commonly abused drug, has grown steadily. As for the hundreds of millions spent annually on programs to curb demand, the number of drug users in the United States remains near its all-time peak, having dropped only slightly.

Confronted with the influx of drugs from overseas and the inability of successive administrations to deal with it effectively, legislators and local officials have begun demanding that the United States take more effective action against countries that tolerate or ignore the drug industry.

In interviews, dozens of present and former Government officials say this would mean a change in emphasis. These officials say that, like its predecessors, the Reagan Administration has repeatedly subordinated the drug issue to other American interests, from support for insurgents fighting leftist regimes to the belief that punishing drug-producing countries might destabilize them.

'Balance Priorities'

"You have to balance priorities, but the fact is we have not balanced priorities: we have always put narcotics at the bottom of the totem pole," said Francis J. McNeil, a former Deputy Assistant Secretary of State for Intelligence and Research.

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Mr. McNeil and other officials see ample evidence that tough American talk on fighting drugs overseas has not been matched by diplomatic action. In 1986, for example, a law was passed allowing President Reagan to impose economic sanctions against countries that are not cooperating fully with American efforts to reduce the drug trade. But that law has never been used against a nation considered an ally, regardless of any flagrant drug trafficking that may be occurring.

Interviews with dozens of present and former officials also disclose that:

* The Reagan Administration was told that the Honduran military, which was providing critical assistance to the guerrillas fighting the Sandinista Government in Nicaragua, may have been involved in drug dealing, perhaps as early as 1981, according to present and former officials. A former official in the Drug Enforcement Administration said that a United States drug agent stationed in Honduras relayed the allegations to his supervisors from 1981 to 1983 but was not ordered to investigate them. Officials in the agency insist the allegations were unsubstantiated and not worthy of investigation.

* In 1984, Caspar W. Weinberger, then Defense Secretary, did not take action on a recommendation from the Joint Chiefs of Staff that the Pentagon become more involved in blocking shipments of drugs, even if it required new legislation and a redefinition of the military's mission, according to former senior officials in the Pentagon. Mr. Weinberger has not responded to requests for comment.

* Senior White House officials, in a previously undisclosed effort, sought unsuccessfully in late 1985 and early 1986 to enlist the support of others in the Administration for the removal of Gen. Manuel Antonio Noriega of Panama. John P. Martsh, the Drug Enforcement Administration official responsible for Latin America, said that even after General Noriega's indictment on drug-trafficking charges, the American drug agency has continued to work closely in interdiction efforts with Col. Nivaldo Madrinan, a close associate of General Noriega and a man identified by Panamanian opposition leaders as a principal in the drug trade.

* Attempts to eradicate drug crops overseas have been mired by technical and diplomatic obstacles. Even those officials promoting the policy acknowledge that the difficulties may never be surmounted.

A Clash of Priorities

Attorney General Edwin Meese 3d, the Administration's top law enforcement official, reflected the Administration's approach toward using foreign policy as a weapon in the war on drugs when he was asked in a recent interview whether drug trafficking is the foremost foreign policy concern of the American people.

"How to rate it with a lot of other issues is very difficult, because, obviously, the collapse of Central America would have a very dire impact on the American people," said Mr. Meese, who is on a trip to Latin America for talks on drug enforcement issues. "It's kind of silly to make these kinds of comparisons because they are all major threats."

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The American people have not hesitated to make such comparisons. In a New York Times/CBS News Poll in March, respondents were asked which of five leading international issues was the most important facing this country. The largest number, 48 percent, cited drug trafficking.

Afghanistan is one place where the drug issue has been subordinated to the Administration's policy of supporting anti-Communist insurgencies.

Poppy cultivation in Afghanistan has skyrocketed because of economic dislocation and other factors caused by the Afghan war. In 1987 alone, opium production increased by at least 20 percent over the year before, and may have more than doubled, according to the State Department's 1988 report on the global drug trade. Much of the poppy crop grows in areas controlled by the Afghan guerrillas or on territory where they have influence, according to the report.

Drug Shipments: A Guerrilla Connection

Although the guerrilla leaders have spoken out against drug use as a practice contrary to Islam, and although they are not thought to be actively involved in the trade, they - like the Afghan Government and its Soviet backers - tolerate the expanding poppy production and heroin refining in Afghanistan and shipment of drugs into Pakistan because it is a way of life in the country and a principal cash crop.

American intelligence has suspected that planes, trucks and mules ferrying rebel aid into Afghanistan are also used to ship drugs to Pakistan, but investigations have not produced solid evidence of this. Intelligence analysts acknowledge, however, that individual rebels and even small units serve as drug couriers.

In interviews with The New York Times in 1986, dozens of Afghan rebels and commanders admitted cultivating and selling opium poppies. "Where else can we get money?" asked Ali Ahmad, a poppy farmer and rebel commander in the Afghan town of Sangin.

Yet the Reagan Administration has done little to press the guerrillas to curb the drug trade, according to senior State Department and intelligence analysts. When President Reagan met with several guerrilla leaders in Washington last November, these officials said, he never raised the drug issue.

A previously undisclosed 1987 intelligence report concludes that even if Pakistan and Afghanistan were to develop good relations after a Soviet troop withdrawal, the rugged terrain and remote areas where the poppy crop is grown and the fiercely independent tribesmen who have controlled the Afghan drug trade for decades would thwart any effort to reduce its pre-war levels.

"We're not going to let a little thing like drugs get in the way of the political situation," said an Administration official who follows Afghanistan closely, emphasizing that narcotics are relatively a minor issue in the context of policy toward the Afghan guerrillas. "And when the Soviets leave and there's no money in the country, it's not going to be a priority to disrupt the drug trade."

Preoccupation With the Contras

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In Central America, the Administration's preoccupation with the contra war against the Nicaraguan Government has contributed to a lack of urgency in the war on drugs.

Charges of involvement in the drug trade have swirled around the contras for several years without being proven. At the insistence of Senator John F. Kerry, Democrat of Massachusetts, a subcommittee of the Senate Foreign Relations Committee has been investigating the allegations.

No solid evidence has been found to document that the main contra group, led by Adolfo Calero, financed the war with drug profits, although the Central Intelligence Agency suspected that some other factions had become involved with drug traffickers.

Interviews with several present and former officials suggest a more subtle connection between drugs and the contras: a less-than-aggressive Administration response to allegations of corruption in the Honduran military.

In their seven-year war, the contras have depended on base camps inside Honduras, and the Honduran military has been an essential supporter of the C.I.A.'s covert efforts to aid the rebels.

According to a former Drug Enforcement Administration official, an American drug agent stationed in Honduras from October 1981 to 1983 sent intelligence reports to Washington charging Honduran military officers, particularly in the navy, with facilitating the transshipment of drugs to the United States.

The agent, Tom Zepeda, was also said to have charged that Honduran military officers, including Col. Leonides Torres Arias, the chief of army intelligence, were protecting drug traffickers. The most prominent of those was Juan Ramon Matta Ballesteros, a Honduran believed to have close links to the Medellin drug cartel of Colombia and who was returned to the United States this week to face drug-trafficking charges.

John C. Lawn, the head of the Drug Enforcement Administration, said that Mr. Zepeda's charges about corruption in the Honduran military were backed by too little evidence to merit an investigation and were similar to the reports sent regularly from dozens of other countries. He said the agency had never been ordered to ignore the Honduran military's involvement in drug crimes. "That would be a violation of my oath of office," Mr. Lawn said.

In 1983, the United States closed the Drug Enforcement Administration office in Honduras for budgetary reasons and, a Federal drug official said, because it had not been "productive." The office is now being reopened after repeated requests from the Honduran authorities since last year.

"It wasn't that there was a cover-up," said one Administration official. "It's that people knew certain questions shouldn't be asked."

Noriega's Regime: A Case Study

Many current and former United States officials believe this country's policy on Panama is a case study of how the drug issue has been subordinated to other interests.

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Intelligence reports linking General Noriega to the drug trade date as far back as 1972, when he was chief of intelligence of the Panama Defense Forces. By 1985, the evidence of the general's role in the drug trade was so strong that several senior officials tried to turn American policy against General Noriega. They failed.

A previously undisclosed study, dated Nov. 1, 1985 and written at the U.S. Army's Southern Command in Panama, cited the involvement of the Panama Defense Forces in the drug trade. Information gathered by American intelligence included transcripts of conversations between Panamanian military officers and drug dealers, and surveillance photographs of Panamanian soldiers loading drugs, according to Norman A. Bailey, former chief economist of the National Security Council, who saw the reports.

After he left government, Mr. Bailey was so distressed by General Noriega's removal of President Nicolas Ardito Barletta in 1984 that he urged the Administration to abandon the general.

In an interview, Mr. Bailey said that the State Department's attitude was 'lukewarm,' and that the Pentagon didn't want to 'rock the boat.'

The C.I.A. actively opposed doing anything, Mr. Bailey said. 'They said, 'He's an important asset for us,' ' Mr. Bailey recounted.

As Mr. Bailey was pressing for action in 1985, the American Ambassador to Panama at the time, Everett E. Briggs, began pushing the State Department to support Mr. Barletta by imposing diplomatic and economic pressures similar to those used against General Noriega in recent weeks.

At the National Security Council, an official on the staff, Constantine Menges, was trying unsuccessfully to persuade President Reagan's aides to put the issue on the agenda for a decision by the Cabinet. In an interview, Mr. Menges said that he argued that the threat to democracy in the region posed by the alliance of General Noriega, Cuba and the narcotics traffickers more than outweighed the Panamanian leader's purported value to the United States.

Mr. Menges did not succeed. During a visit to Panama in December 1985, Rear Adm. John M. Poindexter, then the national security adviser, did give General Noriega a stern message, but the momentum to do something about General Noriega slowed soon after and was not revived until 1987 with the rise of a stronger Panamanian opposition.

The Panama case is one of several instances in which the needs of United States intelligence agencies have clashed with drug policy.

Richard Kerr, the C.I.A.'s deputy director for intelligence, said that while C.I.A. regulations require officers to report violations of the law, the issue is often not clear-cut.

'If you knew an agent was a major trafficker or involved in a major shipment, you couldn't sit on that,' Mr. Kerr said. 'If you knew that he had taken major money to turn his eyes to the side to let something go through, then you're involved in a judgment call. My guess is that you would weigh it, and you might not report it.'

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William H. Webster, the Director of Central Intelligence, has made it clear that he wants to be personally involved in deciding where to draw the line, according to Mr. Kerr.

Reluctance At the Pentagon

Several former officials who have studied United States drug -enforcement efforts overseas said one of the main shortcomings is that operations are divided among a host of agencies, some of which have experienced severe budget cuts.

The Coast Guard, for example, whose mission is to intercept drugs on their way to the United States, predicts it will conduct 55 percent fewer patrols this year because Congress slashed its 1988 budget by \$100 million.

"Here I sit, the primary agency for interdiction, without the money to operate," said Adm. Paul A. Yost Jr., the Commandant of the Coast Guard. "I have men and women sitting at the dock doing nothing."

Moreover, there is no central authority that can force agencies to cooperate with the drug effort, and few incentives - like more money or workers - to encourage an agency to expand its work on the problem.

More than any other agency, the Pentagon has shown a reluctance to embrace President Reagan's drug crusade. Pentagon officials are proud of the fact that the military flew almost 17,000 hours and ships spent a total of more than 2,500 days at sea last year in the effort to stop drug traffickers. But they are quick to cite the 1878 Posse Comitatus Act, which prohibits using the military to pursue or arrest violators of criminal law.

In the past few years, the Pentagon has consistently - though unsuccessfully - opposed initiatives in the anti-drug fight, including the loan of American military equipment to foreign governments in 1981, the deployment of American troops to Bolivia in 1986 and the President's secret directive in 1986 that labeled drug trafficking a national security threat.

A former senior military aide said the Pentagon was unwilling to become more involved because of fears the drug effort would take money away from other programs more central to the military's mission.

Senior Pentagon officials bristle at the suggestion made by the Secretary of Education, William J. Bennett, at a White House drug conference last month that the United States consider the use of broad, unilateral military force abroad to prevent the cultivation and manufacture of drugs destined for this country.

But the Joint Chiefs of Staff once shared the view that the United States military should have a greater role in the war on drugs.

After a secret six-month study in 1984, the Joint Chiefs of Staff concluded that the drug war was a potential threat to the national security of the United States because it was undermining the country's social fabric and the discipline of the military services, according to former senior Pentagon officials involved in the study.

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The chiefs recommended that the Pentagon take the lead in determining what was needed to combat the drug threat, even if it meant rethinking the military's principal mission of combat readiness or changing the law to allow greater military cooperation in law enforcement. The report outlined a series of options the Pentagon could have taken in the fight, including training of other countries' anti-drug forces and lending equipment.

"We didn't recommend that the armed forces become police officers, but pointed out that there were things they could do that were consistent with their mission," said retired Gen. John Vessey, who was chairman of the Joint Chiefs of Staff at the time, adding that Mr. Weinberger had always worked hard in the anti-drug fight.

The proposal was never accepted by Mr. Weinberger, in part because of concern that American military involvement with potentially corrupt police forces of drug-trafficking countries might tempt American servicemen to share in the drug profits, according to current and former military officials.

Misgivings On Other Fronts

Officials in other agencies with dealings overseas also voice misgivings about their role in the war on drugs.

American diplomats, for example, are in the embarrassing position of pressing foreign leaders to allow aerial eradication of their drug crops, while American courts, citing environmental concerns, have stopped all aerial spraying of marijuana with paraquat on Federal property. And the United States has pushed Latin American countries to draft laws requiring the licensing of chemicals needed to manufacture cocaine at a time when a move for new American restrictions on the same chemicals is stalled in Congress.

State Department officials praise Secretary of State George P. Shultz for focusing more attention on drugs than did Alexander M. Haig Jr., his predecessor, whose staff rarely even returned the phone calls of officials in the State Department's Bureau of International Narcotics Matters.

But drugs sometimes are not even on Mr. Shultz's agenda in his meetings with foreign leaders. In March, when Mr. Shultz and President Hafez al-Assad of Syria met for the first time in nearly five years, Mr. Shultz did not raise the drug issue. Five days later, President Reagan listed Syria as one of four countries that were not cooperating fully in cracking down on the drug trade.

"The State Department is the conscientious objector in the war on drugs," says William von Raab, the Commissioner of the United States Customs Service.

'Certification': An Ineffective Strategy

A largely ineffective exercise in cracking down on the drug trade is the annual "certification process."

A 1986 anti-drug law requires President Reagan to certify that the 25 countries identified by the State Department as major drug-producing and "drug-transiting" countries are "cooperating fully" with efforts to crack down on the trade. Those that do not qualify are to lose half of their economic and military aid and could suffer other economic penalties. The penalties can

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be waived if the President concludes that other 'overriding national interests' are at stake.

Mr. Reagan has never used the law to penalize an American ally. This year, Mr. Reagan 'decertified' Syria, Iran, Afghanistan and Panama, countries that receive no economic and military aid.

One close American ally, Turkey, which the Drug Enforcement Administration considers a major 'drug-transiting' country - a country in which there is the capability to transship large quantities of drugs - is not even included on the State Department list. The State Department blames Congress for not adequately defining a 'drug-transiting country.' Some State Department officials believe that Turkey is not on the list to avoid any delay in the dispersal of its economic and military aid, which amounts to \$525 million this year.

Mr. Reagan determined that Laos, Paraguay and Lebanon were not cooperating, but they were not penalized because of other 'national interests' that outweigh narcotics. In Laos, for example, where officials have rejected all suggestions of opium poppy control, the United States fears that any censure could jeopardize negotiations for the return of the remains of American servicemen killed during the Vietnam War.

For many lawmakers, the process is best illustrated by Mr. Reagan's full certification of Mexico, the largest single-country source of heroin and marijuana flowing into the United States. Official corruption in Mexico undermines significant cooperation with the United States, according to the State Department's annual drug report.

Mr. Meese rejected a State Department compromise that would have criticized Mexico for not cooperating fully; the result was no aid suspension because of overriding 'national interests.' Since aid to Mexico is only \$525,000 this year, such a cutoff would have little effect. This is why Mr. Meese and other Justice Department officials are not comfortable with the law, which they see as a feeble attempt to punish countries.

'I don't think pointing fingers at each other across international boundaries is going to solve the problem,' Mr. Meese said.

GRAPHIC: Graph of estimated drug production from 1985-1988 (U.S. Government agencies) (pg. 1); photo of a Quechua Indian family drying coca leaves near their home along the Chapare Highway (NYT/Peter McFarren) (Page 10)

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