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Colombian Narcotics Organizations as Business Enterprises

SIDNEY JAY ZABLUDOFF

Effective counter-narcotics efforts require a thorough understanding of the inner workings of trafficking organizations. As these organizations are illicit businesses, it is necessary to determine how they function from an entrepreneurial vantage point. This article looks at the narcotics industry as a whole and at major Colombian trafficking enterprises in particular. While the leadership of these top organizations has changed as a result of death and imprisonment, the fundamentals of their business operations remain the same. Much of the information is based on discussions with law enforcement officers who have acquired insights into the operations of Colombian traffickers. Although the numerical data presented here are orders of magnitude, they are adequate to reach key conclusions.

Perspective

Narcotics as a Business

Narco-trafficking organizations clearly are businesses.[1] They are led by entrepreneurs motivated mainly by the potential for profits. Like their legitimate counterparts, most traffickers develop a narrow aspect of the business (for example, smuggling via aircraft and laundering illicit proceeds) that effectively fits into the complex web of organizations that make up the industry. A few become highly successful leaders by capturing a significant share of the market. They do so by putting together existing elements of the web in a way that creates a new and more efficient means to supply the market. The Colombian kingpins from Medellín and Cali achieved this end in the illicit cocaine market, just as Walmart, led by Sam Walton, did so in the legitimate U.S. retail market.

The key difference, of course, is that narcotic traffickers sell an illicit product. This distinction is important in entrepreneurial terms because sizable risks arise in the form of potential loss of product, confiscation of assets, incarceration and death. These risks drive up prices and create the huge profits which constantly attract new individuals who are willing to take the risk.

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Narcotics trafficking organizations, as do all criminal enterprises (CEs), lack the body of laws and regulations that permit legitimate businesses to operate in a stable environment. They also are unable to cover their illicit-related risks through insurance policies and open lobbying of governments. To compensate for these shortcomings, narcotics traffickers as well as other CEs:

–Use violence and intimidation.
–Develop along tightly-knit ethnic and family lines.
–Stake out territories and jealously guard them.
–Pay off police and government officials.
–Subvert legitimate businesses.

Narcotics as an Agribusiness

The structure of the cocaine, heroin and marijuana industries closely resembles that of agribusiness. Raw materials are moved from a large number of farmers to numerous final customers via a vast array of middlemen who assemble and process the products and market them through export/import, wholesale and retail outlets (See Figure 1, page 47). These middlemen function by drawing on their skills and knowledge, contacts within their industry, and goods and services provided by other industries. These include goods such as chemicals and computers and services like transport, finance, and communications.

The entrepreneurial structure and dynamics of the narcotics industry can best be seen by first viewing its legitimate agricultural counterparts. Agribusiness products are moved to consumers through a wide range of institutional arrangements. At one extreme are direct sales via roadside stands and farmer's markets; at the other are large scale firms that oversee a multitude of functions. The latter include; Archer Daniels Midland, Cargill, and Continental Grain.[7] Each has become a powerful player in the industry by combining the numerous services required to move large amounts of agricultural products in an efficient manner between farmers/local processors and the large number of wholesalers/retailers. The three have been innovators in developing and marketing new products, finding international outlets, and arranging for trade finance. Sometimes they supply services via in-house operations and subsidiaries, (for example, barge transport companies to move grain) but often they use other firms.

Between the extremes is an enormous number of small and medium sized enterprises. Each tends to specialize in particular types of products and deals – for example, selling fresh vegetables to canneries and other food processors, or arranging for the refrigerated movement of meats. Brokers often play an important role in bringing together sellers and buyers. This distribution system may seem utterly chaotic, but it provides a great deal of efficiency to a highly fragmented market and a means to adapt easily to changing market conditions. It is the competition for profits that is the glue in creating this semblance of order.

A wide range of circumstances dictates the combination of firms that end up moving goods from farm to market. This includes the location of producers and consumers, the amount of processing involved, and the product characteristics, such as degree of spoilage, production seasons, and bulk. For example, U.S. grains tend to be handled by major agribusiness firms while fresh vegetables are moved by many specialized, small-scale distributors.

In the same way, these differences in supply and demand conditions prescribe the means by which cocaine, heroin, and marijuana reach U.S. consumers. Among the three, the marijuana marketing system is the most diffused. It is produced in numerous locations worldwide and is the only major narcotic crop grown in the United States. U.S. output is sizable and comes from numerous locations that range from indoor plantings to national forests. The U.S. customer base for marijuana is by far the largest among the three narcotic products with significant numbers of users in nearly every corner of the country. There are approximately twenty million marijuana users compared with six million cocaine users and around six hundred thousand heroin abusers. Among the three drugs, marijuana is far the bulkiest to move. Some 15,000 tons are consumed annually compared with some 300–400 tons of cocaine and 10–15 tons of heroin. Retail value per gram (100 per cent pure) for marijuana is comparatively low – roughly 12 dollars – versus 170 dollars for cocaine and 1,700 dollars for heroin. Thus, to achieve the same sales level as cocaine dealers, marijuana traffickers have to move more than 10 times as much product; compared to heroin, the difference is more than 100 times.

These factors have made marijuana a small-scale, mom and pop industry. There does not seem to be any distributors with a significant market share. Much is sold in relatively small lots directly from producers to wholesalers, retailers, and users in a local area. For example, an individual growing 10 to a 100 plants indoors often knows of a nearby wholesaler and sells his entire crop directly to him or her. Foreign producers who move larger amounts often make deals directly with local wholesalers or importers who in turn sell the marijuana to local wholesalers.

The heroin trade also involves numerous distributors, each with a minute market share. Producers of opium poppy are scattered across a number of foreign locations on the Asian continent and in Latin America. U.S. users, relatively few in number, tend to be mainly in large cities. As with marijuana, the highest degree of market control seems to reside at the local wholesale level. An enormous variety of heroin distribution channels exist between foreign producers and local wholesalers. Heroin's high value for its weight draws many individual smugglers into the market. Shipments in the multi-kilo range, however, require investments of several million dollars and, therefore, involve more sophisticated arrangements. In some cases, brokers in Hong Kong arrange and finance these costly deals in conjunction with opium sellers, heroin processors, and smuggling groups.

Today's heroin distribution channels differ considerably from the concentrated system that was in place in the 1960s. At that time, a few Franco-Corsican trafficking organizations handled a substantial share of heroin shipments to the large eastern U.S. markets. They in turn obtained much of their opium supplies from Turkey. In the early 1970s, these trafficking groups were successfully disrupted and the illicit Turkish opium production was nearly eliminated. The result was a fragmentation of the heroin distribution system. That decentralization has persisted as a consequence of the emergence of many more source countries and a proliferation of ethnically based trafficking groups.

Cocaine trafficking operations clearly are the most concentrated. During the past 20 years, as much as 80 per cent of the cocaine reaching major markets has been handled by some ten major Colombian trafficking organizations mostly headquartered in Medellín and Cali. This degree of market domination is similar to that of most product lines within the U.S. agribusiness. More than half of the nearly fifty food processing industry categories classified in U.S. statistics are dominated by ten or fewer firms.

Colombian criminal groups (CEs) led the way in the 1980s in developing large scale distribution techniques and sophisticated global enterprises. They efficiently orchestrated the operations of numerous players in what previously had been a highly fragmented industry. In a decade, they moved from handling cocaine shipments of less than a hundred kilos to multi-ton loads. By using other CEs to transport and sell cocaine, as well as the launder from their illicit proceeds, the Colombians were able to expand rapidly and efficiently and provide new opportunities for these other groups.

The Colombians were able to apply their organizational skills in part because they were at the right place at the right time. They took advantage of the surging cocaine demand in the 1980s by building upon long established smuggling routes and on the presence in the United States of more Colombians than any other South American nationality. Opportunities were also fostered by their proximity to both the Andean growing regions and the U.S. markets.

As entrepreneurial groups, the Colombian narcotics organizations have demonstrated the flexibility needed to maintain their leading market position. When the Colombians first moved cocaine they used smuggling routes through the Caribbean and sold the drugs in small quantities, mainly to Cubans in Florida. As the market exploded, some established their own import/wholesale organizations in the United States (referred to as 'cells'). When law enforcement began to monitor closely their Colombia-Florida route, they moved the bulk of their shipments through Mexico and Central America. When the U.S. market reached the saturation point in the late 1980s, the Colombians began to develop European markets earnestly. More recently, they turned to the growing of poppies in Colombia and the distribution of the extracted heroin to markets in the United States and Europe.

Colombian Cocaine Industry Structure and Dynamics

A Tiered Structure

The Colombian cocaine industry configuration resembles U.S. agribusiness as well as other industries in which a few major firms have a large market share. The number of firms and people employed can best be described in a triangular structure. The dominating firms (referred to as 'core groups' within the narcotics industry) at the top of the pyramid directly employ a relatively small number of people. The numbers grow through several layers of support entities. Such a structure is not new for criminal enterprises. For example, the 1967 President's Crime Commission indicated that Italian-American criminal groups had an inner core membership of some 5,000–10,000 while total employment was thought to exceed 100,000.

In Colombia, there are some ten core organizations active at any one time. Together, they handle more than 60 per cent of the cocaine reaching North American and European markets. During the past 20 years, these organizations have been led by Carlos Lehder, Pablo Escobar Gaviria, Rodriguez Gacha, 'Pancho' Herrera-Buitrago, Santacruz Londono, and the Rodriguez Orejuela brothers.

All Colombian core groups are capable of directing the movement of large amounts of cocaine from source to consuming countries, and the reflow of the large illicit proceeds. They generally enter the agribusiness marketing chain at the point at which cocaine base is bought from groups in Peru and Bolivia that are capable of assembling a ton or more from farmers. They then oversee the processing, transporting, financing, and selling the product to wholesale/importers in market countries. In some cases, the Colombian trafficking organizations also perform the import/wholesale function via 'cells'. Rarely do they become involved in local wholesale and retail distribution.

These core organizations directly employ a relatively small number of people. Each probably has some 100–200 full time employees. U.S. agribusiness firms with similar levels of sales (for example, Agri Grain Marketing Co.) have about the same number of employees. In general, the Colombian core groups should be employing fewer people than their legitimate counterparts because they handle a smaller volume of product, fewer transactions, and sell a much more high priced item. Those core narcotic organizations with marketing 'cells' in the United States, however, are probably near the high end of the employment range.

The core groups draw upon more than 100 contractors (See Figure 2, page 48) that specialize in such functions as obtaining base from source countries, processing base into HCL, transporting HCL to market, laundering money, and providing enforcement. These specialized organizations range in size from fewer than ten to several hundred people. Sometimes, they link up among themselves. Both the core and the specialized groups hire from a pool of 1,000 or so skilled freelancers such as pilots, chemists, and assassins, and a much larger number of part time workers who are employed as guards, laborers, and surveillants.

The Colombian narcotics industry (as other industries) is supported by a host of outside businesses. Goods and services are acquired from numerous established companies in industries such as communications equipment and chemicals. Often firms evolve to meet special traffickers' needs; financial firms to assist in money movements and container builders to construct hidden compartments. Although some of these outside firms work almost exclusively for traffickers, most maintain other clients to provide 'legitimate' business cover.

Narcotic Industry Remains Dynamic

Although the industry's basic structure has changed little, its operational system remains highly flexible. Driven mainly by the core organizations, the various groups and individuals constantly link themselves together in different ways to support their operations and to counter disruptions created by governments or competitors. On some occasions, core organizations use specialized groups on a steady basis and treat them as if they were subsidiaries, while at other times they contract out to a number of specialized organizations. Core groups handle some of their operational needs via in-house personnel, quickly shifting to out-sourcing if necessary.

New players constantly are drawn into the industry and a few develop new and powerful trafficking organizations by taking advantage of troubles faced by existing organizations. These established organizations sometimes are able to reconstitute themselves when disrupted by turning to strong performers within their ranks. Specialized firms develop rapidly to fill a void by drawing on the remnants of disrupted groups and the vast pool of freelancers. New core groups emerge to replace those that have been dismembered. Brokers play an especially important role in the industry dynamics. They constantly find new people who can provide services to the trafficker; then, for a fee, the brokers bring the parties together.

Driving this resilient structure is an intricate network of contacts and subcontracts built upon experience and family ties and motivated by the potential for high profits. The trafficking organizations' emphasis on flexibility is driven mainly by the natural desire to deflect government efforts against them. Yet, legitimate multinational companies also strive to be more flexible. They do so to be in the best position to meet rapidly changing market conditions, such as new competitors, changes in product preferences, and economic downturns.

The dynamic structure of the Colombian cocaine industry is similar to an operational style referred to in the 1980s (by Berkeley Business School Dean Raymond Miles) as the 'corporation as a switchboard'. This idea was soon picked up in the popular press, most notably a 1985 *Business Week* cover story on the 'Hollow Corporation'. Essentially, these companies work through vast networks of suppliers and dealers. An example is Benetton, an Italian apparel producer, which contracts out almost all its manufacturing and distribution activities. Its managers brought together under their entrepreneurial wing some 200 small manufacturing firms in 1982. Benetton itself actually owned only nine facilities.[3]

Market Power of Core Organizations

The special role of core organizations in the industry can not be overemphasized. Each sells, on the average, roughly 600 million dollars worth of cocaine annually to wholesalers in the United States, Canada and Europe. About half that amount is profit (See Appendix). In comparison to this 50 per cent profit margin, the Archer Daniels Midland Company's net operating profits ran between 10–12 per cent of sales a year from 1990 to 1994. The core organizations thus have the financial wherewithal to sponsor extensive violence, engage in widespread intimidation, and make payoffs on a grand scale and at the national level. They possess the millions of dollars in capital needed to sponsor large-scale deliveries, invest in fleets of aircraft, buy landing strips, establish large scale enforcement units, and absorb losses. New entrants have little access to borrowed funds and must generate most of their capital through profits. Although individuals can easily enter the industry, few are able to develop core organizations.

Core organizations collaborate when there is a common interest.

Examples of this include the sharing of space on large loads being transported to market. In addition, they collaborate to settle disputes among themselves and to sponsor efforts to thwart government counter-narcotics campaigns. The gatherings of core leaders are mainly informal. Leaders of specialized firms sometimes join the meetings when the topic is relevant to their interests, but most often a core leader chairs the gathering. In all, the cocaine industry leaders have much more latitude to cooperate than legitimate U.S. firms do under anti-trust regulations.

Neither major U.S. agribusiness firms nor the core Colombian narcotics organizations, however, are cartels possessing the ability to set prices by controlling supply. Although both have a strong influence on price, market demand and supply forces are the main determinants. For example, Colombian narcotics organizations, like large U.S. agribusiness firms, have substantial buying power because a limited number of major buyers purchase products from numerous sellers. But both lack the ability to set prices, since a significant portion of the product is marketed through many small organizations.

Even less control of price exists on the selling end of the marketing chain, because there are numerous potential buyers in the distribution chain with access to significant alternative supplies. The ease with which small-scale traffickers can enter the market helps keep the market competitive as do the huge profits. The major trafficking organizations would have to reduce their selling prices well below the going market rate for a prolonged period to drive out the competition. This would likely be self-defeating, since they would lose considerable profits. And when they eventually tried to apply their new monopolistic position by raising prices substantially, many small scale traffickers would once again be drawn into the market.

Core Organization Structure and Dynamics

A Businesslike Structure

Major Colombian narcotics organizations all have internal structures similar to those of legal businesses. At the top is the leader who handles key policy issues and makes the major decisions on sales, operations, hiring, and relations with other organizations. The leader is directly supported by close associates who act as advisors and confidants and are often family members. One person likely serves as a deputy leader for day to day operations. Below them are 'vice presidents' or staff coordinators in charge of important aspects of the business as shown in Figure 3 (page 49). Although each organization divides up these business, functions among 'vice presidents' in different ways, someone must handle each responsibility.

The major functions of 'vice presidents' are to find, select, and monitor contractors willing and able to perform specified duties (transporting cocaine, laundering drug money, etc.). In a few cases, core groups use personnel working directly for the organization and facilities owned by the leaders. For example, airplanes sometimes are fully or partially owned by the traffickers and flown by their pilots. In more cases, however, the organization turns to aircraft or airline companies owned by others.

Additionally, the organizations place representatives overseas. They have cocaine base buyers in Peru and Bolivia and representatives in important transit locations between Colombia and markets in North America and Europe. These representatives develop relations with established local trafficking groups or people willing to form new groups. There are, for example, representatives in Mexico, Guatemala, the Bahamas, and Brazil. Although often placed in a country for a year or more, the representatives sometimes go abroad to handle one shipment or to develop a new route. Overseas representatives also reside in market countries. Such agents are placed in major U.S., Canadian, and European cities to oversee the interests of a Colombian organization.

In the United States, some Colombian groups have established branch offices or 'cells'. Cali groups seem to have the most cells in the United States, while others rely more on representatives. The more elaborate cell set-up ensures more direct relations with customers and better control over the cocaine delivery system and the return of sales proceeds. Cells do not seem to be used to provide entry to the much higher prices and profits from selling cocaine further up the U.S. distribution chain. The price the cells charge for cocaine about matches the amounts received by Colombian organizations that use representatives. The additional costs of operating cells seem worthwhile because of the closer contacts with customers. Core leaders seem to weigh the pros and cons of choosing how they are represented abroad in the same manner General Motors decides to sell its automobiles through a representative office or a full-fledged marketing subsidiary.

The Role of Leadership

Although the operational styles of Colombian core organization leaders vary considerably, they have in common a strong entrepreneurial bent. They make decisions quickly, are highly flexible in making necessary changes, emphasize reduction of business risks and have good instincts for selecting associates, subordinates, and experts. They exude confidence and are particularly dominant and ruthless. If not, they would be quickly overwhelmed by other criminal entrepreneurs and law enforcement actions of governments.

Once their narcotics organizations are well established, many leaders tend to disassociate themselves from any direct links with trafficking operations. They work toward gaining respectability within their community, and devote increasing time to managing their large and growing assets. This includes developing political connections in Colombia and elsewhere that can be used to protect themselves from arrest and their assets from seizure.

Emphasis on Day-to-Day Operations

The core organization is driven almost completely by daily operating concerns. The focus is on ensuring the speedy and safe delivery of a particular load of cocaine, laundering earnings, and protecting themselves and their accumulated profits. At any one time, each core organization probably is putting together several such deals, many of which take months to complete. On the average, they are actually handling one or two active loads.

Few if any leaders seem to have any interest in or have developed an explicit strategic plan for their business operations. They (as do most legitimate business people) react instinctively to the most pressing issues affecting them at the time. New and exotic delivery modes, such as having cocaine molded into plastic suitcases, often are suggested by independent entrepreneurs rather than resulting from in-house research and development.

Working with Subcontractors

Besides providing the utmost flexibility, contractors provide Colombian core groups with powerful leverage in enlarging their business activities and reducing risk. Much is gained quickly, for example, in developing contractual links with Mexican trafficking organizations that possess long established expertise in smuggling goods into the United States and can readily bribe local officials and enforcement officers. It would take the Colombians years to acquire the same abilities in Mexico and to do so would likely involve a ruthless and difficult effort to overcome indigenous criminal organizations with deep roots. Clearly, the appropriate business decision is to use local groups, even if the relationship is troublesome. Similar contractual relations with criminal enterprises in source, transit and market countries are pursued because core leaders realize that it is the most effective way to build efficient operations on a global scale.

The basic business rationale for these connections is similar to the strategic arrangements pursued by legitimate multinational companies. They have found it is often far more cost effective and efficient to work with local companies than to establish their own subsidiary. Most large companies are now adopting strategic cooperation efforts and thus giving up the 'do-it-yourself' view that prevailed for decades.

Importance of Risk Aversion

The core leaders emphasize the most risk-free operational techniques possible. They do so by:

> *Changing operational methods quickly and often:* Traffickers tend to select the easiest and most efficient means first. Once challenged by law enforcement they turn rapidly to less efficient possibilities. For example, once a particularly easy cocaine delivery route, such as via northern Mexico, becomes too risky, the organization shifts quickly elsewhere – through southern Mexico or Guatemala. The result is that successful enforcement actions fragment trafficking operations in terms of routes, size, and conveyances.
>
> *Relying heavily on outsourcing.* The use of contractors to move cocaine, profits, and investments allows these illicit transactions to be immersed in a sea of legitimate business activities. Without inside information on core group operations, it would take highly experienced accountants and financial experts considerable time to determine the services that contractors are providing to trafficking organizations. Most important, contractors can be arrested without doing serious damage to the core organizations' operations. They can be quickly replaced because a large and steady stream of perspective contractors want to share in the enormous profits and are willing to take on the high risks.
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> *Insisting contractors (and often employees) provide collateral.* This usually involves having a contractor temporarily place financial assets in Colombia with the core organization. Sometimes, especially with new contractors, a close relative is held until the task is completed or payment is made to cover losses or seizures. Core organizations can easily insist on collateral because of the large number of contractors vying for business connections with them. Besides passing on the financial risk, this arrangement adds a strong incentive for contractors to complete their tasks successfully.
>
> *Paying contractors hired to smuggle cocaine in kind rather than cash.* When part of the cocaine load being moved belongs to the smugglers, they have a strong incentive to employ the safest delivery means. Payments in cocaine also reduce the delivery costs of the Colombian core organization. The total dollar cost for a kilo of cocaine when it is delivered to a smuggler is normally less than the amount the core organization would pay the smuggler in cash.

Compartmentalizing. The core organization's structure permits it to run highly compartmentalized operations. The limited number of ongoing deliveries and the heavy reliance on outsourcing allow a comparatively small cadre to oversee the organization's business activities. In addition, each contracted task in Figure 3 (page 49) is handled separately. For example, the 'vice president' who oversees the moving of drugs to the U.S. market does not have to know anything about his compatriot's management of the laundering of the proceeds. Representatives abroad do not have to know about the work of those serving in other locations. Finally, the use of brokers adds another layer between the core organization directing the effort and the specialized groups actually doing the work. As a result, only the leader and a few close associates have a full understanding of the organization's operations. Some 'vice presidents' and foreign representatives may have a partial picture because they have served in several different positions or because of normal discussions among employees. Beyond the upper echelon players, however, the only essential tie is money. Each 'vice president' must notify someone to pay for transport services, laboratory operations, and goods, such as aircraft. In addition, somebody in the organization must keep records of financial flows, the amounts of narcotics *en route* to customers, and the ownership split of each load.

Reducing the time cocaine and money is in transit. Most leaders emphasize keeping to a minimum the length of time cocaine and currency are handled by the core organization. Their extensive use of contractors supports this endeavor. Contractors and their shipping routes also are selected on the basis of speed of delivery. Aircraft routes have, for example, traditionally been preferred to sea routes. This emphasis on limiting exposure to seizures supports the theory that core organizations maintain minimal cocaine inventories.

Making clear who is responsible for any loss. Established rules governing responsibility for losses have evolved as a means definitively to place the blame on one party. This prevents squabbles among the various contractors in regard to who must reimburse the core organization for losses. The basic rule is the party holding the cocaine or money at the time of the loss is responsible. Contractors thus feel great relief when a shipment is passed on to the next party in the distribution chain. This rule of responsibility shows how illicit organizations develop informal codes in lieu of a formal legal structure.

Key Business Functions

This section looks at how core organizations handle their most important business functions.

Buying Cocaine Base

Colombian core organizations have the upper hand in business dealings with base suppliers in Peru and Bolivia. As the only large scale buyers, they are sought out by numerous potential suppliers. The Colombians usually can be selective in their purchases and thereby obtain the highest quality base. Although base suppliers sometimes manufacture HCL and deliver it to market, they lack the capability for handling many large shipments. The tendency is for a few local organizations handling the buying and processing of paste or leaf to grow in strength and size, and then become key suppliers to one or more major Colombian organizations.

Cocaine base sellers also are hired to arrange for secure airfields, to provide aircraft fuel, and to pay off the local authorities. Sometimes they supply the pilots and planes for transporting base to Colombia instead of using Colombian base transporters. In other cases, supply organizations have moved into the business of providing secure airfields to other local organizations that have supply contracts with Colombians.

Colombian organizations normally send representatives to base-supplying countries to develop arrangements with local organizations, to ensure prompt delivery, and to inspect the quality of the cocaine base. A few major Peruvian and Bolivian base-supply organizations have representatives in Colombia.

Processing Base into HCL

Core trafficking groups contract out most of their laboratory operations. Sometimes the laboratory works exclusively or nearly exclusively for one organization. Laboratory operators are paid in cash or in finished products. They, in turn, pay for all the processing costs, sometimes using other groups to acquire precursor chemicals. Large core organization likely have a 'vice president' overseeing the arrangements with various processors. In a few cases, core organizations directly own and operate laboratories.

Moving Cocaine within Colombia

Each of the major Colombian trafficking organizations makes extensive use of aircraft and airfields within Colombia. Cocaine base is received from suppliers, HCL is moved to in-country stash sites and to contractors hired to haul cocaine to transit points and markets (such as the north coast groups), and flights are launched to intermediate points closer to markets.

There does not seem to be any pattern in terms of the core organizations' control over air industry, facilities and equipment. They own air taxi companies, lease aircraft and airfields, use scheduled airlines, and have agreements with transport companies. This diverse use allows the traffickers easily to switch their transport modes when confronted by Colombian government authorities.

A core organization 'vice president' likely keeps tab on the air movement and holds discussions with the various parties to work out transport action plans. That person or some other 'vice president' oversees obtaining transport equipment and facilities. In large organizations, separate individuals may be charged with procuring aircraft and securing airfields. The leader, his close associates, and the comptroller probably have the best knowledge about front companies used to buy and run air transport equipment and facilities.

Moving Cocaine to Market

Deliveries often take place in two segments – from Colombia to an intermediate transit point, and from there to the market country. The first leg usually is served by a Colombian contractor, or sometimes by the organization itself. From there it is handled by local groups that have experience in smuggling goods into the market country. Once in the market, the cocaine is turned over to the organization's representative or cell, which delivers the cocaine to the buyer. Sometimes the smuggler is given orders to deliver the cocaine directly to the buyer.

Within the core organization, a transport coordinator ('vice president') who resides in Colombia manages all segments of the route. Sometimes the leader or a key associate handles this function. The transport coordinator probably oversees no more than two major shipments at any one time. Successful routes are heavily relied upon, although coordinators often abandon routes for precautionary reasons after several months. In all cases, finding new routes is not difficult, since the transport coordinator receives from contractors and brokers a large and steady stream of possibilities from which to choose.

The traffic coordinator works with a core organization's representative in the transit countries to ensure the goods are delivered smoothly to the local smuggling group. Under the oversight of the representative, the smuggling group makes all the arrangements for receiving the cocaine in its country and transporting it to the next transit site or to the market country. This includes airfield rentals, ground transport, security, and bribes. The transport coordinator also oversees the arrangements for delivery to the proper party in the consuming country. Rarely does the transport coordinator or the transit country representative physically handle the cocaine.

When cocaine is sent directly to the market country by ship, the traffic coordinator selects from the many groups with ideas about how to hide the cocaine in containers or aboard the ship. He oversees the contractor's operations and works out with the representative (or buyer) the means by which the cocaine is handled once it is in the market country.

Laundering the Illicit Proceeds

Illicit money earned in market countries moves in two phases. The placing of the currency received from sales into a bank account under the control of the core organization, and the investing of the funds in a way that disguises their true ownership from government authorities. In most core organizations, these two functions are managed by separate 'vice presidents'.

Overseeing the repatriation of proceeds from cocaine sales is the task of a money laundering coordinator ('vice president') in Colombia. Like his or her transport equivalent, he or she normally uses contractors. Again, there seems to be an endless supply of contractors who are willing and able to handle the profit reflow. Once the selection is made, the coordinator tells an organization representative in charge of collecting the proceeds in the market country when, where, and to whom to deliver a specified amount of currency.

The money laundering coordinator also tells the money launderer where in Colombia or elsewhere the money should be deposited (or currency delivered), and provides a cover to disguise the source of the illicit funds. Sometimes, the organization simply turns over the currency to a money launderer in exchange for an immediate somewhat lower payment to a designated account. In most cases, the core organization does not directly handle the laundering of its proceeds. The 'vice president' in charge of investments uses a variety of experts including financial specialists, lawyers, and investment councilors. He or she keeps tabs on the core leader's investment portfolio. He or she may also be in charge of establishing front and shell companies.

Maintaining Financial Records

Financial records must be kept at a number of levels: the core organization as a whole, each operating component of the core organization including the 'vice presidents' in Colombia, and the cells and representatives abroad, and the specialized groups working under contract. The core organization probably has its own chief accountant and a number of bookkeepers. Financial records vary considerably according to the preciseness of the person overseeing the core's day to day operations. There may be standard double entry accounts on a computer system, or some combination of notes, bank records, and memory.

Disbursing Funds

Usually someone in the core organization and in cells is charged with making payments to contractors and suppliers of goods and services. That comptroller can either make payment himself or herself from a stock of currency, use an independent paymaster who holds the organization's liquid assets, or work through front companies. For example, a core organization could ask an independent paymaster (often a *casa de cambio*) to pay a Peruvian for providing cocaine base. These payments would most likely be handled in currency, but they could be made via remittance companies or bank wire transfers using front companies. In these cases, the core hierarchy must maintain some form of communications with entities that are actually disbursing funds.

Establishing Front and Shell Companies

Core organizations use front and shell companies both as operational tools and as places to keep their investments. Normally core organizations engage outside experts, lawyers, and financial consultants to establish and maintain these companies. Sometimes these operations are directed by a 'vice president'. That person or someone else in the core leadership needs to keep records of front and shell companies under their control as well as the amounts that are placed in bank accounts under the corporate names.

Providing Enforcement and Security

Each core organization has a security force to protect its leaders and facilities and to undertake disciplinary actions, which often take the form of assassination. In addition, some organizations have developed large scale intelligence/surveillance groups and others have paramilitary style forces or organized thugs. In several cases, these services are provided to other trafficking organizations for a fee.

Operating Cells Outside Colombia

Colombian organizations (mainly from Cali) have large and highly structured cells in the United States. Each cell is organized somewhat along the lines of its headquarters in Colombia. Cells vary in number of personnel according to their responsibilities and the size of the market they serve. Some employ as many as 50 Colombians including a cell leader and several 'vice presidents' in charge of specific tasks, including the following:

Hiring specialized groups to move cocaine from the smuggler's delivery point in southwest or southeast United States to a cell's 'safe' warehouse in a market city.

Picking up the illicit proceeds and turning them over to a contract money launderer or a courier working for the organization who carries currency back to Colombia.

Handling support functions such as record-keeping, communications, and personnel management.

Financial Picture

Sales, Cost and Profit Estimates

A reasonable approximation of a typical core organization's financial position may be made through available price data and rough quantity estimates. Although subject to large possible errors, these numbers are adequate to provide a general picture. Even significantly different plausible numbers would not alter the conclusions drawn here. The numbers used are purposely conservative in terms of the core enterprise's sales and earnings. Details of how these figures are derived and the assumptions used are presented in the appendix.

These estimates start with a price/cost chain of cocaine from source countries to wholesalers/importers in market countries. The core organization pays some 700 dollars per kilo to base suppliers in Peru, Bolivia, and Colombia. Bringing the base to Colombia and processing it into HCL cost the core some 300 dollars per kilo. Thus, when the cocaine leaves Colombia, the core has invested around 1,000 dollars per kilo. An additional 500 dollars is paid to deliver a kilo to a transit country, such as Mexico, bringing the total to 1,500 dollars per kilo. The cocaine is sold to an import/wholesaler in the United States for at least 13,000 dollars per kilo. Besides the 1,500 dollars already spent, an additional 5,000 dollars per kilo is paid for smuggling the cocaine from the transit point to the United States and for laundering the proceeds.

Each metric-ton shipment of cocaine thus provides the core organization with some 13 million dollars in sales revenues. As Figure 4 (page 50) indicates, about half that amount is net profit, excluding loss shipments and bribery and security outlays in Colombia. The largest cost elements are transportation from Colombia to the United States (about 25 per cent of sales) and money laundering (about 15 per cent). Outlays for base cocaine from source countries represent less than five per cent of sales while processing the base into HCL is less than two per cent.

Current annual earnings received from a one ton shipment to the United States have fallen sharply since the mid-1980s. At that time, the sales revenues amounted to some 30 million dollars as a result of higher wholesale prices, and profits were about 75 per cent of sales. In European markets, with wholesale prices remaining high, profits on sales continue to run at about 75 per cent.

A Colombian core organization, on the average, now earns at least 300 million dollars per year, after expenditures. This number assumes that about one-third of shipments are lost due to confiscation and other factors, and that these 10 groups account for about 70 per cent of all cocaine delivered to the United States and 60 per cent of that delivered to Europe. It also assumes each organization spends 15 million to 20 million dollars a year on bribes and security. These calculations exclude moneys earned by Colombian groups on: (1) cocaine distribution within the market country beyond the first wholesaler, and (2) interest and income (or losses) generated by assets acquired by investing previous profits.

These cost and profit estimates point to the following conclusions for an average core group:

> Nearly two thirds of its 300 million dollars in annual profits in recent years has been generated by shipments to Europe. These higher returns result from European import prices being some three times the U.S. level.
>
> Annual profits earned from U.S. sales dropped dramatically from more than 500 million dollars in the mid-1980s to some 100 million dollars in the early 1990s. The decline results mainly from a dramatic drop in wholesale prices but it also reflects a significant increase in the cost of laundering money.
>
> Core organizations must have considerable funds to handle large shipments. Delivering a one ton load to market requires an initial investment of some 3 to 4 million dollars, while a 10-ton load requires 30 to 40 million dollars.
>
> A significant rise in any cost element (or change in estimate) still leaves sizable profits.
>
> Higher seizure/loss rates still allow hefty profits. If these losses reach half of all shipments, profits would be some 265 million dollars per year, compared with 300 million dollars when losses amounted to one third. If losses reach two thirds, profits would still be 200 million dollars. These estimates assume that the selling price to importers/wholesalers would not increase as a result of market stringencies caused by the high seizure rate. But this assumption would not likely hold. With losses at the higher seizure levels, wholesale prices would undoubtedly increase sharply, and overall profits would be maintained or even increase.

Investment Portfolio

The top leaders can easily become billionaires within five years, given the returns described above. If a core leader used half the estimated 300 million dollars a year in profits to pay close associates and buy luxury goods and services, the remaining half would create an investment portfolio that, in five years, would amount to nearly one billion dollars.

The proportion invested in Colombia likely has increased in recent years due to the expanded world-wide efforts to seize traffickers' bank accounts and other assets. Actions in 1990 against Rodriguez Gacha's accounts in Europe, the Caribbean, and Asia seem to have persuaded Colombian traffickers to reduce their foreign holdings and initiate a campaign to ban government seizures at home. A large share of the investment money likely has been used to acquire real property and businesses in Colombia. This domestic portfolio includes many ranches and businesses functioning legally and others that are being used in the traffickers' narcotics operations.

Distinguishing between legitimate and illicit transactions has become increasingly difficult partly as a result of these dual purpose investments, and partly because traffickers hire firms with a legitimate front to handle the financial arrangements. As the traffickers' profits from legitimate businesses grow, the task of isolating illicit transactions will become even more of a problem. Adding to these woes, traffickers are shifting to more sophisticated techniques to disguise the true owners of acquired property and financial assets. With asset seizure efforts increasing, the traffickers are abandoning such simple techniques as placing funds in an account under the name of a wife or close relative.

Key Implications

A New Breed

The Colombian cocaine trafficking organizations that emerged in the past 20 years created a new breed of criminal enterprises. They operate on a grand international scale by forging strategic agreements with similar enterprises in other countries to ensure sources of supply, transit routes, markets, and money movements. Besides boosting the fortunes of both parties, these mutually beneficial arrangements strengthen global linkages among locally based criminal enterprises and greatly improve their ability to deliver illicit drugs to markets. The changes in the business operations of the Colombians and affiliated groups closely parallel the development of legitimate multinational corporations. The results, however, differ. In the latter case, the increased efficiency has brought many benefits to the global society, while criminals have acquired the financial wherewithal to sustain themselves and seriously to undermine the governments of evolving democracies such as Mexico and Russia.

The emergence of new-style narcotics enterprises reflects a confluence of global events. The sharp growth in the international demand for narcotics, especially cocaine, generated profits that far exceeded those from other criminal activities, and thus attracted many new and old players. With much of the narcotics grown in the less developed world and sold in the developed world, close links had to be forged between narcotics supplying organizations and those criminal enterprises which controlled the markets.

At the same time, major changes in the global social, political, and economic fabric facilitated the international marketing of narcotics. Reduced international trade barriers and improved transport and communications greatly enhanced the ability of traffickers to move narcotics across national boundaries without detection. The enormous growth of financial markets allowed drug traffickers to move and hide their vast earnings with ease. The significant increase in immigration from the poorer countries to Western Europe and North America helped enlarge the global scope of criminal enterprise activities. Like other immigrants, those involved in these criminal enterprises are able to maintain considerable connections with their home countries with the help of much cheaper and better international communications and transportation systems.

These circumstances stand in sharp contrast with the pre-1980s when most criminal enterprise profits arose from capturing local markets for gambling, protection, loan-sharking, prostitution, and smuggling. There were only minimal connections between the U.S. and the Italian Mafia groups. Even in the case of U.S. prohibition, much of the activity was run by local groups. Similarly, much of the smuggling endeavors worldwide are operated by local citizens trying to satisfy local markets.

A Lasting Presence

The huge demand for cocaine put in place Colombian and affiliated groups that are likely to be in business for some time. Colombian narcotics organizations play a key role in the expanding global criminal enterprise challenge. They control the bulk of the international market for cocaine, thus having the largest share of the most lucrative international narcotic activity. The annual retail value of internationally traded cocaine is more than double that of heroin. In addition, the Colombian core organizations are the only CEs that now dominate a major narcotic product line.

Although well-known Colombian leaders have been and will continue to be arrested or killed, the business knowledge and infrastructure are now sufficiently entrenched to ensure the continuation of these criminal enterprise structures. The situation is analogous to prohibition in the United States earlier this century. The large profits involved in alcohol smuggling created criminal enterprises which lasted for decades, and whose remnants still exist.

Vulnerability to Disruptions Persist

Major Colombian trafficking organizations are quite vulnerable to disruptions. This can be seen from a number of instances in which cocaine transport groups and money laundering organizations have been exposed and disrupted. Key members of these specialized groups and, most important, leaders of core groups have been arrested or killed – from Carlos Lehder to Pablo Escobar to the Rodriguez Orejuela brothers. Such events would crimp any business.

The most serious damage has been inflicted by dismembering the operational capabilities of the core organizations as was done to the Medellín and Cali groups. Although often much more difficult, these actions have had a more intensive and longer lasting effect than bringing down many of the easily replaceable contractors involved in transportation and money laundering. The core group provides the entrepreneurial umbrella that binds together the many players within the industry to produce a highly efficient and large scale narcotics delivery system.

The most effective actions against the core groups involve:

Arresting or detaining the one or two people who control day-to-day operations.

Obtaining the accounting records showing the collection and disbursement of funds. Damage would be most extensive if the person or people keeping the books were available to explain the record-keeping system.

Arresting or detaining one or more of the operational vice presidents.

Seizing currency earned from sales to the importer/wholesaler in the market country before it is turned over to an independent money launderer. At this point the organization receives the highest payment and still has ownership of the money.

Damage would be most extensive if the arrested or detained individuals provided detailed insider information. But even without that information, the remaining leaders would be left wondering how much of the organization was exposed and would have to curtail their operations until the situation became clearer.

A Resilient Industry

Even the dismantling of a number of core groups (by enforcement action or surrender to Colombian authorities) has not and will not likely reduce the overall flow of cocaine to markets for more than several months, at best. Numerous individuals within the narcotics industry are willing and able to fill the void. If the disruptions are major enough to drive up wholesale cocaine prices in market countries, there will be even more participants.

Successful endeavors against the core organizations would fragment the industry. Cocaine shipments would be smaller and less efficient, and they would be handled by a larger number of traffickers. The cocaine industry would resemble that of the heroin business, with many nationalities involved. Mexicans Peruvians, Bolivians, Brazilians, and others would take a much larger share of the cocaine market.

Fragmentation of the industry would make law enforcement activity more difficult because of the need to go against many smaller targets. It would, however, have a positive impact on the socioeconomic fabric of Colombia. The breakup of the traffickers' concentrated wealth would reduce their ability to bribe politicians on a national level and to build massive security and intimidation forces.

NOTES

1. The striking resemblance of criminal activity to legitimate business has been recognized by numerous experts on organized crime for some time. For example, this notion was elaborated in Dwight Smith's 1975 groundbreaking book, *The Mafia Mystique*, and supported by empirical evidence developed by historian Alan Block, 'The Snowman Cometh: Coke in Progressive New York', *Criminology*, May 1979. Similar ideas were expressed in books during the 1920s: F.M. Thrasher, *The Gang* (Chicago: University of Chicago Press, 1927); and J. Landesco, *Organized Crime in Chicago* (Illinois: Association for Criminal Justice, *Illinois Crime Survey* 1929).
2. Cargill Inc. is the largest of the three with 1994 sales of about 60 billion dollars and some 70,000 employees. 'Cargill modestly describes itself as a buyer, transporter and seller of bulk commodities. While accurate, this summary minimizes the variety and importance of the company's operations. Cargill, probably the largest private company in the United States, is one of the largest grain and commodities marketers in the world'. *International Directory of Company Histories*, Vol.2 (Chicago: St. James Press, 1990), p.616.
3. Rosabeth Moss Kanter, *When Giants Learn to Dance* (New York: Simon and Schuster, 1989), pp.96–7.

APPENDIX

Financial Elements of a Core Columbian Trafficking Organization

The estimate of annual profits earned by core Colombian narcotics organizations starts with a calculation of the costs and sales revenue of a one-metric ton shipment of cocaine. Cost estimates are made for purchasing cocaine base, transporting it to HCL laboratories, producing HCL, delivering the product to U.S. or European markets and laundering the sales proceeds. Subtraction of these costs elements from sales revenues provides the estimate of gross operating profits for a one-ton shipment.

Annual net profits of an organization are derived in a two step process. Gross operating profits for a one-ton shipment are multiplied by the number of such shipments a core trafficking organization undertakes in a year. That amount is reduced by losses incurred by interdicted or lost shipments and by outlays for security (enforcement and bribes) in Colombia. The remainder is the net profits available to spend each year on living expenses or investments. These annual estimates are made for two periods – the early 1990s and the mid-1980s.

No effort is made to distinguish between investments made for profit and those used in trafficking operations (ranches, air cargo companies, etc.). Traffickers place considerable sums in dual purpose investments and allocation of costs and profits between the two uses is near impossible. In any case, traffickers still hold the investment in their portfolio no matter what the use.

All cost, price, and profit estimates lack precision and are intended only as orders of magnitude. The estimates are conservative in that they indicate the likely low end of the range for sales revenues, and the high end for costs. They exclude temporary periods when government disruptive actions cause costs and sales prices to rise or fall dramatically. The figures used in this analysis come from a wide range of sources in the counter-narcotics community. They have also been shown to numerous individuals familiar with such data and all agree the numbers are reasonable although not precise.

Major Cost Elements

Obtaining basic raw materials. Cocaine is bought from processors, mainly in Peru and Bolivia, who gather leaf from the farmers and produce base. Prices during the early 1990s averaged about 700 dollars per kilo; and in the mid-1980s about 1,000 dollars per kilo. (All prices are at 100 per cent purity.)

Transporting cocaine base from source region to a laboratory in Colombia. The cost of pilot, plane landings, and associated bribes add up to roughly 100,000 dollars per a one-ton shipment for both periods.

Producing HCL from cocaine base at a laboratory site. This conversion probably does not exceed 200,000 dollars per ton and includes laboratory equipment, site rental, chemists, other employees, precursor chemicals, and other supplies. Costs are the same for both periods.

Transporting HCL to buyers in United States or Europe. This involves air or sea transport to a transit point including payments for conveyances, airfield rentals, and bribes. It also includes financial or in kind payments to smuggling groups who move the cocaine from the transit point to importers in the United States or Europe. For the movement to importers in the U.S. market, three different types of payments to smugglers are estimated – cash, 40 per cent in kind, and 50 per cent in kind with an up front payment of 1,500 dollars per kilo. Deliveries to Europe are estimated to cost about a third more than to the United States. This would amount to about 1 million dollars more for a one-ton shipment. Costs are the same for both periods.

Laundering the currency received from the importer in market countries. This involves paying money launderers for placing the currency into the banking system and then moving the funds to an account designated by the Colombian core organizations. For the early 1990s, this cost is estimated to be 15 per cent of the amount received from the importer/wholesaler; and for the mid-1980s, 5 per cent.

Other costs. These mainly reflect remuneration and expenses paid to organization members in charge of overseeing the movement of cocaine and money received. For each one-ton shipment during both periods, the cost is estimated at 500,000 dollars.

Sales revenue. Revenues for a one-ton shipment are calculated by multiplying the price per kilo paid by the importer/wholesaler in the United States or Europe by 1,000 (1,000 kilos equal one metric ton). The per kilo price paid by the U.S. importer/wholesaler is at least 13,000 dollars in the early 1990s, and 30,000 dollars in the mid-1980s. The European importer/wholesaler price is at least 35,000 dollars for both periods.

Accounting Calculations

The following calculations show estimated accounting for several scenarios:

1. One-ton cocaine shipment to the U.S. market in the early 1990s, differentiated for three modes of paying smugglers;
2. One-ton cocaine shipment to the European market from the mid-1980s and;
3. One-ton cocaine shipment to the U.S. market in the mid-1980s and early 1990s.

SCENARIO I
CORE COLOMBIAN TRAFFICKING ORGANIZATIONS
FINANCIAL ACCOUNTING FOR A ONE-TON COCAINE SHIPMENT TO THE U.S. MARKET, EARLY 1990s (U.S. DOLLARS)

Purchase base at 700 dollars per kilo	700,000
Delivery to Colombia at 100 dollars per kilo	100,000
HCL laboratory production at 200 dollars per kilo	200,000
Cost of HCL shipped from Colombia	1,000,000
Delivery to transit point at 500 dollars per kilo	500,000
Cost shipped to transit point	$1,500,000

(SCENARIO 1 continued)
OPTION A
SMUGGLERS PAID IN CASH

Delivery from transit point to U.S. importer/wholesaler at 2,500 dollars per kilo	2,500,000
Laundering revenues at 15 per cent of sales	2,000,000
Other costs: mainly payments to organization members handling shipment	500,000
Total operating costs	6,500,000
Sales revenue at 13,000 dollars per kilo	13,000,000
Net operating profits	$6,500,000

Annual Profits for One Core Organization

Assumes a core organization, on average, ships 35 one-ton loads to the United States each year and 25 reach their destination (of the 10 confiscated or lost; 4 occur between the acceptance of base and the shipment from Colombia, 3 arise in transit to the U.S. border and 3 occur in crossing the U.S. border or in the United States). Losses are costs of Colombian core organization at point of loss and assume no reimbursement of losses by contractors.

Net operating profits for 25 deliveries	162,000,000
Losses from ten shipments	20,000,000
Outlays for enforcement and bribes in Colombia	12,000,000
Net organizational profits	$130,000,000

OPTION B
SMUGGLERS PAID IN KIND; 40 PER CENT OF COCAINE LOAD

Net operating costs (delivered to transit point)	1,500,000
Laundering revenues at 15 per cent of sales	1,200,000
Other costs: mainly payments to organization members handling shipment	500,000
Total operating costs	3,200,000
Sales revenue at 13,000 dollars per kilo	7,800,000
Net operating profits	$4,600,000

Annual Profits for One Core Organization

Net operating profits for 25 deliveries	115,000,000
Losses from ten shipments	15,000,000
Outlays for enforcement and bribes in Colombia	12,000,000
Net organizational profits	$88,000,000

(SCENARIO 1 continued)
OPTION C
SMUGGLERS PAID IN KIND; 50 PER CENT OF COCAINE LOAD
THEY PAID $1,500 PER KILO IN ADVANCE

Net operating costs (delivered to transit point)	1,500,000
Laundering revenues at 15 per cent of sales	1,000,000
Other costs: mainly payments to organization members handling shipment	500,000
Total operating costs	3,000,000
Sales revenue at 13,000 dollars per kilo	6,500,000
Advance payments from smugglers	1,500,000
Net operating profits	$5,000,000
Annual Profits for One Core Organization	
Net operating profits for 25 deliveries	125,000,000
Losses from ten shipments	2,000,000
Outlays for enforcement and bribes in Colombia	12,000,000
Net organizational profits	$111,000,000

SCENARIO 2
FINANCIAL ACCOUNTING FOR A ONE-TON COCAINE SHIPMENT TO THE U.S. MARKET, MID-1980s (U.S. DOLLARS)

Purchase base at 1,000 dollars per kilo	1,000,000
Delivery to Colombia at 100 dollars per kilo	100,000
HCL laboratory production at 200 dollars per kilo	200,000
Cost of HCl shipped from Colombia	1,300,000
Delivery to transit point at 500 dollars per kilo	500,000
Cost shipped to transit point	1,800,000
Delivery from transit point to U.S. importer/wholesaler at 2,500 dollars per kilo	2,500,000
Laundering revenues at 5 per cent of sales	1,500,000
Other costs: mainly payments to organization members handling shipment	500,000
Total operating costs	6,300,000
Sales revenue at 30,000 dollars per kilo	30,000,000
Net operating profits	$24,000,000

(SCENARIO 2 continued)

Annual Profits for One Core Organization

Assumes a core organization, on average, ships 35 one-ton loads to the United States each year and 25 reach their destination (of the 10 confiscated or lost; four occur between the acceptance of base and the shipment from Colombia, three arise in transit to the U.S. border and three occur in crossing the U.S. border or in the United States). Losses are costs of Colombian core organization at point of loss and assume no reimbursement of losses by contractors.

Net operating profits for 25 deliveries	600,000,000
Losses from ten shipments	20,000,000
Outlays for enforcement and bribes in Colombia	
Net organizational profits	$568,000,000

SCENARIO 3
FINANCIAL ACCOUNTING FOR A ONE-TON COCAINE SHIPMENT TO THE EUROPEAN MARKET, MID-1980S AND EARLY 1990s, (U.S. DOLLARS)

Purchase base at 700 dollars per kilo	700,000
Delivery to Colombia at 100 dollars per kilo	100,000
HCI laboratory production at 200 dollars per kilo	200,000
Cost of HCI shipped from Colombia	1,000,000
Delivery to Europe at 4,000 dollars per kilo	4,000,000
Laundering revenues at 10 per cent of sales	3,000,000
Other costs: mainly payments to organization members handling shipment	1,000,000
Total operating costs	9,000,000
Sales revenue at 35,000 dollars per kilo	35,000,000
Net operating profits	$26,000,000

Annual Profits for One Core Organization

Assumes a core organization, on average, ships 12 one-ton loads to Europe each year and eight reach their destination (of the four confiscated or lost; two occur between the acceptance of base and the shipment from Colombia, and two arise in transit to Europe, crossing European borders or in Europe). Losses are costs of Colombian core organization at point of loss and assume no reimbursement of losses by contractors.

Net operating profits for 8 deliveries	208,000,000
Losses from four shipments	13,000,000
Outlays for enforcement and bribes in Colombia	12,000,000
Net organizational profits	$193,000,000

FIGURE 1

INTERNATIONAL NARCOTICS TRAFFICKING INDUSTRY AND AGRIBUSINESS: A COMPARISON OF COMMON ELEMENTS

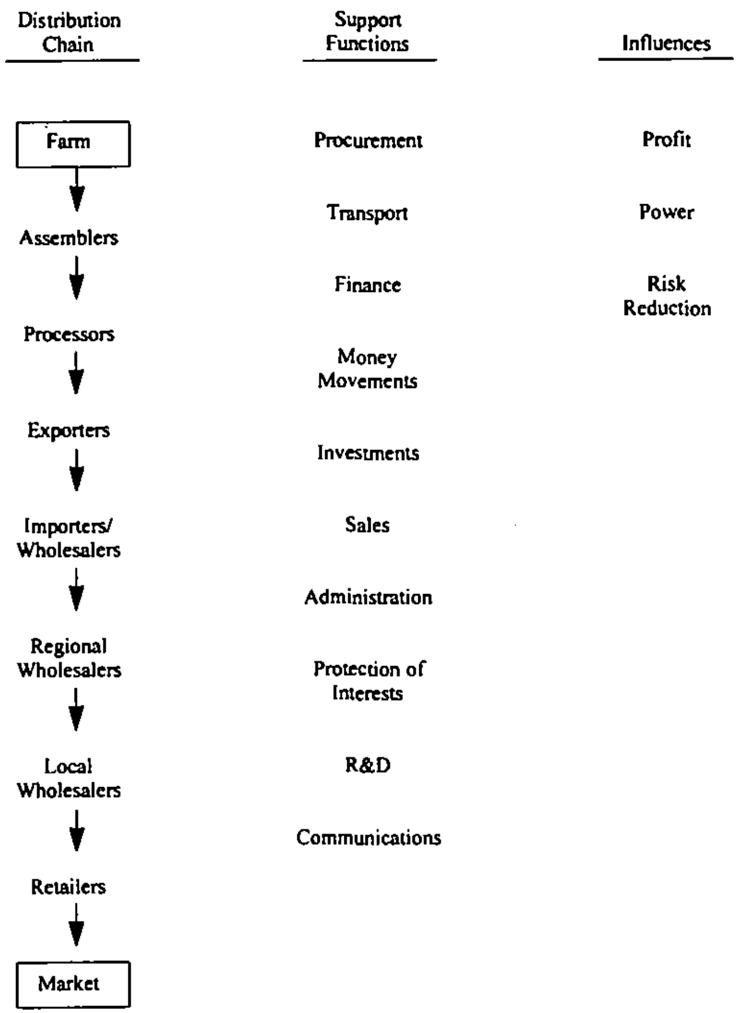

FIGURE 2

COLOMBIAN COCAINE TRAFFICKING INDUSTRY

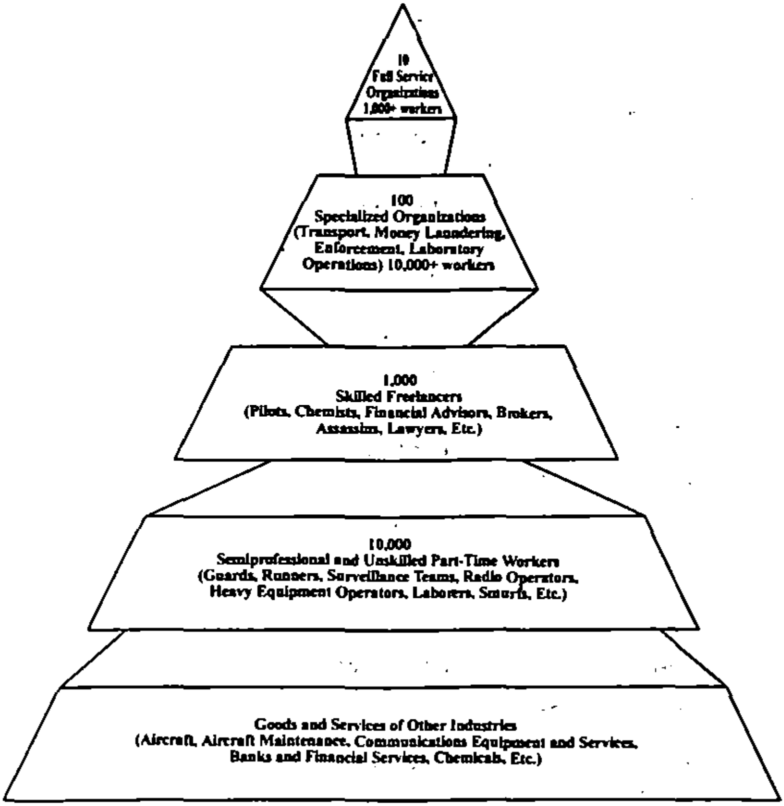

FIGURE 3

STRUCTURE OF 'FULL SERVICE' COLOMBIAN COCAINE TRAFFICKING ORGANIZATIONS

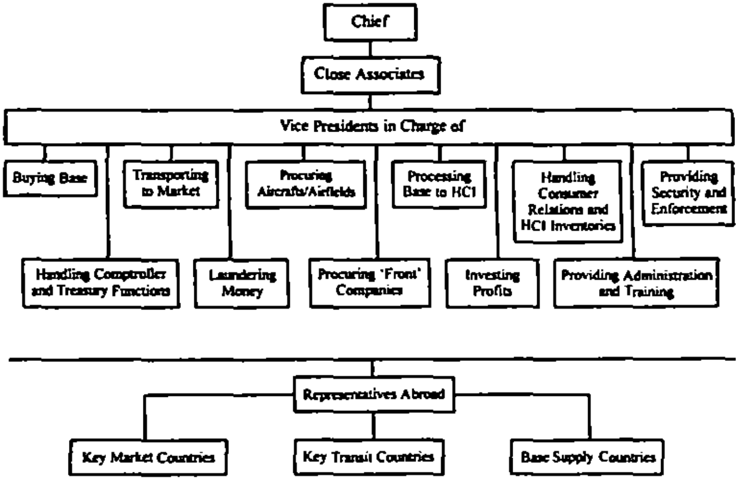

FIGURE 4

ESTIMATED FINANCIAL ELEMENTS OF A ONE-TON SHIPMENT BY MAJOR COLOMBIAN COCAINE TRAFFICKING ORGANIZATIONS TO THE UNITED STATES IN THE EARLY 1990s

(percentage of $13 million sales price)