



Connecting the Dots

ONDCP's (Reluctant) Update on Cocaine Price and Purity

April 23, 2007

A Report by the Drug Policy Program of the Washington Office on Latin America
by
John M. Walsh, Senior Associate, WOLA

Key Points

- Preliminary U.S. government data, quietly disclosed by ONDCP, indicate that cocaine's price per pure gram on U.S. streets fell in 2006, while its purity increased.
- These latest estimates, continuing a 25-year trend, suggest that cocaine supplies are stable or even increasing.
- This is so despite \$31 billion spent on drug interdiction and crop control efforts since 1997, including \$5.4 billion spent in Colombia – the source of 90 percent of cocaine in the United States – since “Plan Colombia” began in 2000.
- The updated cocaine data fully reverse a short-lived price increase that the White House drug czar's office heralded in late 2005. That rise in prices and decline in purity, which received much media attention at the time, proved to be a less than impressive fluctuation, as skeptics at the time suggested would be the case.
- The available evidence indicates that cocaine's continued low and falling prices are driven largely by ongoing robust cocaine supply, rather than by a slackening or collapse in demand.
- The new cocaine price and purity estimates offer further evidence that the continued U.S. emphasis on forced crop eradication, with “Plan Colombia” as its most visible and costly centerpiece, has failed to affect drug supplies at home.

A perennial goal of U.S. anti-drug policy has been to disrupt supplies enough to constrain availability. Reduced availability would mean higher prices and lower purity, which would encourage users to lower their consumption, and discourage others from initiating use. With respect to cocaine and other illicit drugs that are largely if not entirely produced outside the United States, interdiction, crop eradication, and overseas law enforcement have been at the center of the effort to reduce drug availability domestically.

This effort, however, has consistently failed to achieve lasting increases in drug prices or reductions in drug purity levels. Rather, cocaine prices have been in general decline since 1982. And according to new estimates, which the White House drug czar's office quietly provided to a U.S. senator in January, this decline continued apace in 2006.

The failure to alter cocaine availability, price and purity in the intended directions has happened despite a quickening pace of U.S. spending on eradication and interdiction. During the ten years from 1997-2006, the federal government spent \$31 billion to stop drugs from entering the country, an 86 percent

increase over the previous ten-year period. In both 2005 and 2006, U.S. spending on overseas drug control and interdiction exceeded \$4 billion per year.

The U.S. government has long maintained that coca “crop control is the most cost-effective means of cutting [drug] supply.” The Colombian government, backed with billions of dollars in U.S. aid, has intensified a campaign to eradicate coca through aerial herbicide spraying, a tactic commonly referred to as “fumigation.” The pace of the spray program has increased each year since 2000 (including another record year in 2006, with 171,613 hectares sprayed).

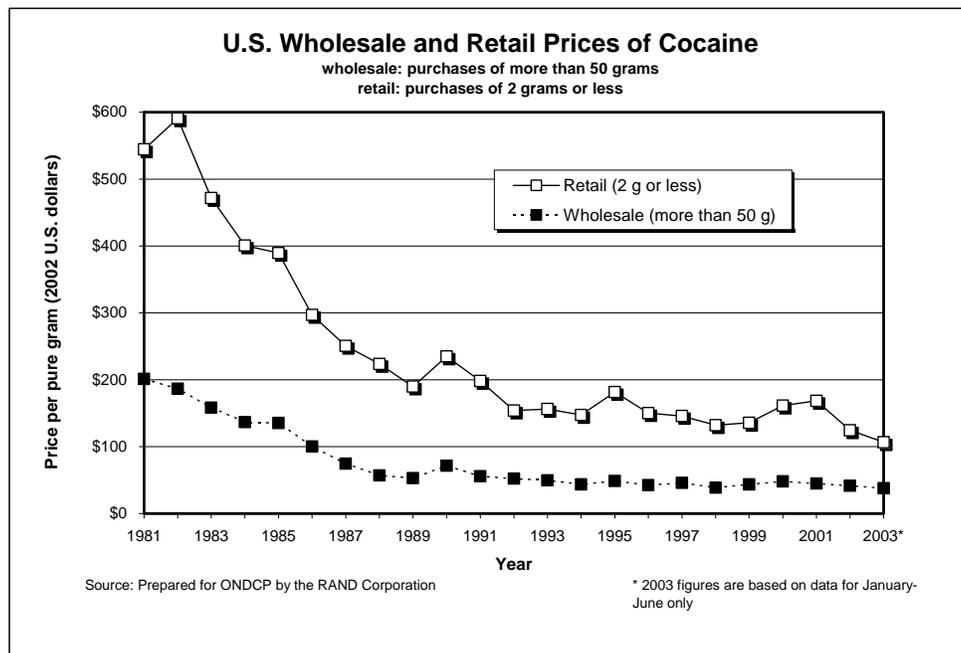
Supply-Side Drug Control Success, Always Imminent

Intensified fumigation in Colombia led U.S. officials to predict imminent supply-control success. John Walters, Director of the White House’s Office of National Drug Control Policy (ONDCP), declared in July 2003 that “we expect to see in the next 6 to 9 months significant disruptions in the purity and availability of cocaine throughout the world.” In June 2004, Walters told Congress that “for the first time in 20 years ... we are on a path to realize dramatic reductions in cocaine production in Colombia, and a complementary reduction in the world’s total supply of cocaine.” Similarly, in March 2005, Robert Charles, then Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, asked: “When are you going to see the price and purity change here on the streets of America?” He answered his own question: “I think within a year or two you will begin to see palpable, measurable ... changes, in price first, and then in purity.”

Until fairly recently, conventional wisdom had held that trying to discourage illicit drug consumption by driving up prices was unlikely to accomplish much, on the assumption that the heavy drug users who account for the bulk of drug purchases were not very sensitive to changes in price. However, the new consensus among analysts is that prices do matter (that is, demand for drugs like cocaine is considered somewhat elastic with respect to price), and that price increases – if sustained – could contribute to reduced consumption.

But even as this new consensus has taken shape, strong evidence has continued to accrue that cocaine prices have in fact been falling, not rising. The most recent comprehensive analyses, produced for ONDCP by the RAND Corporation and covering 1981 through mid-2003 (Figure 1), showed U.S. wholesale and retail cocaine prices at or near their historic lows as of mid-2003, with purity at or near historic highs. (The RAND report shows a November 2004 publication date, but ONDCP did not actually release it until February 2005.)

FIGURE 1



The Claim

ONDCP's Walters drew significant attention when, only months after having posted RAND's report, he held a press briefing in November 2005 to announce that Plan Colombia had succeeded in driving up cocaine's U.S. retail price and driving down purity. Walters declared that "we have seen ... for the first time a decline in the purity of cocaine in the United States and an increase in price at the retail level," an achievement that he attributed to "a significant decline in the ability to produce cocaine in Colombia." Walters concluded his presentation with a defiant tone, maintaining that "what we have shown today is [that] those who have been preaching that this is not possible, those who believe that supply control is inevitably doomed to failure ... are wrong."

The centerpiece of Walters' claim was a short PowerPoint presentation entitled "Report on Progress in Colombia" which included one slide with a figure depicting cocaine price and purity trend-lines from July 2003 through September 2005. The slide signaled a 19 percent increase in cocaine's retail price per pure gram from February through September 2005, and 15 percent decrease in purity over the same period (Figure 2).

Walters' announcement, and his claims that Plan Colombia was "finally" achieving its promised results, generated significant media coverage at the time. U.S. officials continue to base their assertions of success on the data released in November 2005, which have not been officially updated. When Representative Jim McGovern (D-Massachusetts) visited Colombia in March 2007, senior U.S. embassy staff responded to his queries about U.S. cocaine price and purity with a PowerPoint slide reproducing the very same graphic that ONDCP's Walters had released 16 months earlier.

Doubts Galore

Walters' November 2005 announcement also drew a considerable amount of criticism. Skeptics questioned the significance of the achievement being claimed and raised concerns over the reliability of the analysis upon which the claim was based. The skepticism that greeted Walters' claim was *not* based on the view that a price increase of the sort announced by Walters was impossible. Indeed, as described in more detail below, RAND's 1981-2003 time-series shows numerous fluctuations – fluctuations that are especially evident when the data are presented in quarterly (3-month) intervals rather than as annual averages. Rather, skepticism regarding Walters' November 2005 claim focused on three main issues.

First, the new cocaine price and purity estimates (produced for ONDCP by the Institute for Defense Analyses, IDA) were evidently quite different from the recent RAND time-series, but on the basis of the meager information presented, there was simply no way to make sense of the differences. The two cocaine time-series did not overlap, and no explanation was offered as to whether and how the underlying methods differed. While the RAND report and its technical companion piece included detailed descriptions of its findings and methods, the IDA time-series presented by Walters in November 2005 included only the information presented on the one PowerPoint slide reproduced here in Figure 2; not even the actual data points were included, much less any information as to how the estimates were determined. (The raw data underlying both the RAND and IDA estimates comes from a DEA database known as STRIDE – System to Retrieve Information from Drug Evidence.)

Perhaps the most striking visible evidence of differences between the two time-series was that cocaine's retail price at the start of the IDA time-series in July 2003 was roughly \$210 per pure gram, more than \$100 higher than the price shown by RAND for the second quarter (April through June) of 2003 (the final quarter of the RAND time-series). Such a huge differential over so short a time period suggested that the new time-series was derived using methods significantly different than those used by RAND, and the complete lack of information on IDA's methods invited skepticism as to reliability of the findings.

Then and Now...

Cocaine Price and Purity, July 2003 – September 2005

(Released at a November 2005 press conference)

**Purity of South American Cocaine at the Retail-Level
Has Dropped While the Price Has Increased**

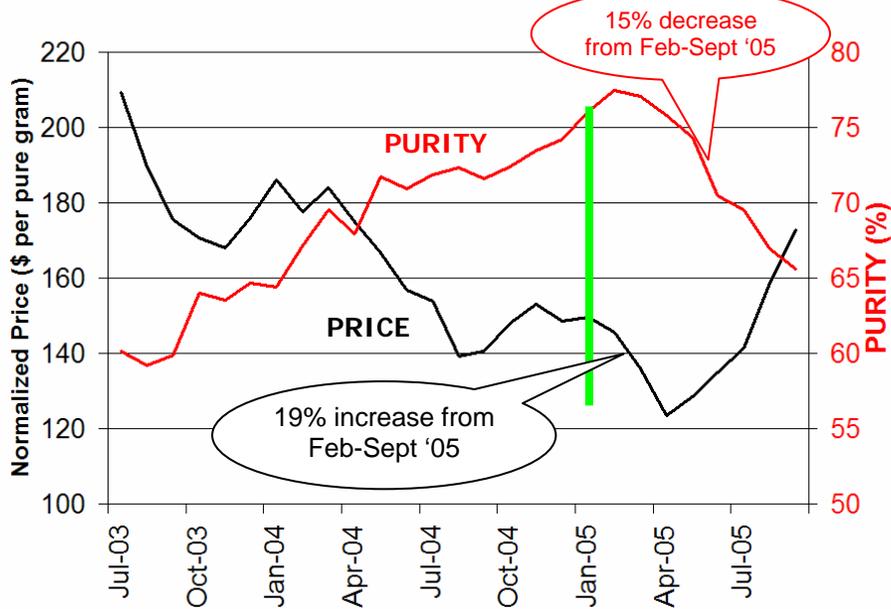


FIGURE 2

Source: IDA analyses of STRIDE, Jul 2003 to Sept 2005, Nov 2005

Cocaine Price and Purity, July 2003 – October 2006

(Released in a January 2007 reply to a congressional inquiry)

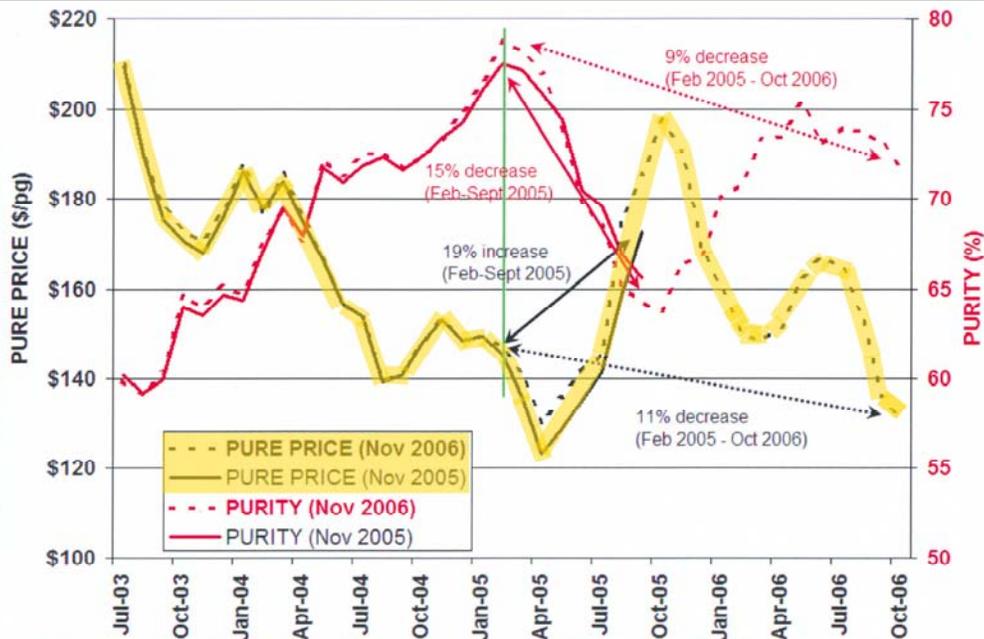


FIGURE 3

Source: Analyses of STRIDE extracted in Oct 2005 (solide lines) and Nov 2006 (dotted lines and percentages)

Second, Walters' claim received a skeptical reception because, even when taken at face value, the price and purity trends in the IDA time-series were just not very impressive. Walters' announcement made much of the increase in cocaine's price through September 2005, an increase which, according to the IDA analysis, began around April 2005. But Walters conspicuously failed to note the most obvious feature of the IDA time-series: the cocaine price increase that began in April 2005 came on the heels of three fairly sharp price declines, such that the September 2005 price (roughly \$175) was still some 15 percent *below* the July 2003 price (about \$210).

A third and related cause for the skeptical reception of the November 2005 claim was that the IDA time-series covered only a brief period, and was presented in a manner that highlights month-to-month variations. By contrast, the RAND estimates stretch back to 1981 and are presented in quarterly and annual intervals, formats which tend to smooth out short-term variations of the sort emphasized in the IDA time-series. Even when depicted in annual intervals (as in Figure 1 above), the RAND time-series clearly shows that price spikes have occurred from time to time, but that the long-term trend has nevertheless been downward. When the data are arranged in quarterly intervals, the pattern of recurring price increases followed by resumed price declines is even more evident.

To illustrate, IDA's monthly data can be presented in quarterly intervals and compared to the patterns revealed in the RAND time-series. (The patterns, not the estimated price values themselves, are the subject of this comparison. The analysis described below is based on averaging IDA's monthly estimates over the corresponding quarter; access to the data by quarter may have produced somewhat different results, but not to the point of affecting the basic conclusions.) The comparison makes clear that the price increase upon which Walters placed so much importance was nothing special. The IDA and RAND time-series (notwithstanding their different methods) reveal similar patterns, with roughly 40 percent of quarters showing an increase in price over the previous quarter, and roughly 60 percent showing a decrease in price compared to the previous quarter.

Specifically, the IDA data presented by Walters encompassed nine quarters. When the monthly price estimates are averaged by quarter (e.g., July-September 2003, etc.), three quarters (37.5 percent) show prices higher than in the immediately preceding quarter, while five quarters (62.5 percent) show prices lower than the previous quarter. The RAND time-series encompasses 90 quarters, of which 37 show prices higher than in the previous quarter (41.6 percent) while 52 show prices lower than in the previous quarter (58.4 percent). The final quarter covered by the IDA data (July 2005-September 2005 – the key period, from Walters' perspective) shows a cocaine price 22 percent higher than the previous quarter.

How remarkable is such an increase? Not very: Among the 37 quarters in the RAND time-series that showed an increase in price over the previous quarter, the average increase was nearly 17 percent. Moreover, seven of those quarters exceeded the magnitude of the 22 percent increase in the final quarter of the IDA time-series, including three quite recent instances, one in 2000 (up 38 percent), one in 2001 (up 23 percent), and one in 2002 (up 44 percent). Yet none of these other, higher increases was accompanied by a press conference. And all of them were followed by price declines the very next quarter.

The table on page 6 shows RAND and IDA data arranged in quarterly intervals, highlighting the quarters in which cocaine's price per pure gram was higher than in the previous quarter, and noting the percentage increase in each such case. As the table makes clear, according to the RAND data, there were three occasions from 2000 through mid-2003 when price increases occurred that were larger in magnitude than the price increase registered in the IDA data for the third quarter of 2005.

RAND cocaine retail price estimates (1st quarter of 2001 through 2nd quarter of 2003)			IDA cocaine retail price estimates (3rd quarter of 2003 through 3rd quarter of 2005)		
quarter	price per pure gram	percentage increase over previous quarter	quarter	price per pure gram	percentage increase over previous quarter
2000Q1	\$160.42		2003Q3	\$191.44	
2000Q2	\$146.85		2003Q4	\$171.61	
2000Q3	\$203.21	38.4%	2004Q1	\$182.57	6.4%
2000Q4	\$134.63		2004Q2	\$166.13	
2001Q1	\$166.44	23.6%	2004Q3	\$144.53	
2001Q2	\$151.70		2004Q4	\$149.88	3.7%
2001Q3	\$179.85	18.6%	2005Q1	\$143.66	
2001Q4	\$175.15		2005Q2	\$129.00	
2002Q1	\$134.08		2005Q3	\$157.63	22.2%
2002Q2	\$105.61				
2002Q3	\$152.81	44.7%			
2002Q4	\$105.64				
2003Q1	\$118.96	12.6%			
2003Q2	\$94.12				

In sum, Walters’ November 2005 announcement invited skepticism because:

- The IDA time-series was obviously at odds with the time-series by RAND that ONDCP had released only months earlier;
- No information was provided as to the methods used by IDA;
- The claim was based on only a partial reading of the IDA time-series, which clearly showed the increase seized upon by Walters as coming on the heels of significant decreases;
- The claim was an exaggeration, since the price increase that Walters labeled a “first” was no such thing – not only have price increases occurred fairly frequently in the past, including the very recent past, but some of those increases have been of a larger magnitude than the increase about which Walters was boasting;
- The importance placed by Walters on the price increase detected by IDA begged the question of what would come next – the RAND time-series had shown that sooner or later, price spikes were followed by resumed declines.

Cooking the Books?

Among the skeptics was Senator Charles Grassley (R-Iowa), then and now Co-Chair of the Senate Caucus on International Narcotics Control. Among other issues, Walters’ November 2005 claim that Plan Colombia had driven up U.S. cocaine prices prompted Sen. Grassley to press Walters on ONDCP’s use of statistics. In April 2006, Sen. Grassley wrote Walters to insist on clarifications on several fronts, including the price and purity data, expressing his concern that ONDCP was making selective use of the numbers to “provide a rosier but not necessarily more accurate picture of the current situation.” Further correspondence has ensued, but Sen. Grassley’s concerns have apparently not yet been eased. “When it comes to statistics, I

think it's fair to say they cook the books," Sen. Grassley told National Public Radio in a recent interview. "They use whatever statistics fit their public relations program."

ONDCP denies such charges. But events suggest that, at a minimum, ONDCP has been in no rush to publicize the price and purity estimates when the findings would cast doubt on the effectiveness of the Administration's policies, yet very quick to highlight the data if trends look favorable. Without access to ONDCP's internal deliberations, it is impossible to know for sure, but it seems likely that ONDCP had anticipated – or at least hoped – that the price and purity time-series produced by RAND would have offered some evidence for the kind of success that officials had been predicting. When RAND's estimates instead showed cocaine's U.S. retail price sliding to its all-time low, ONDCP was in no hurry to spread the news. Having received the time-series from RAND in February 2004, ONDCP finally posted it in February 2005. ONDCP attributed the long lag between receipt of the RAND estimates and their eventual publication to the time-consuming interagency review process to which such analysis must be submitted. The more likely explanation is that the longer ONDCP waited to publish the RAND report, the easier it would be to portray the findings as outdated. Indeed, to the extent that Walters has ever referred publicly to the RAND figures, it has been to dismiss them as old news. Moreover, evidently no lengthy interagency review process was required before Walters held his November 2005 press conference featuring the IDA price and purity estimates, which included data that ran through September 2005.

As it happens, ONDCP has received more recent price and purity estimates from IDA, updating the time-series through October 2006. The new data were not the subject of an ONDCP press conference, but were included in a January 2007 letter from Walters to Sen. Grassley. (The correspondence included data that allowed for the analysis by quarters described above.) In his letter, Walters neglects to note the most salient aspects of the new data from IDA (see Figure 3):

- U.S. retail cocaine prices were about 20 percent *lower* in July 2006 (roughly \$165 per pure gram) than in July 2003 (roughly \$210), and purity was nearly 25 percent *higher* (about 74 percent vs. about 60 percent). This is actually being charitable, since the price continued to fall through October 2006, when (at about \$135) it was some 35 percent lower than in July 2003.
- By November 2005, when Walters was announcing the price increase with such fanfare, cocaine's price was already heading back down sharply and purity was heading back up.

The reasons why Walters' November 2005 claim was met with such skepticism have clearly been borne out by the updated IDA time-series. Like the many price spikes before it, the cocaine price increase that Walters' saw fit to make the centerpiece of a press conference was fleeting, giving way to another price slide. What Walters had presented as a remarkable breakthrough has proven to be nothing of the kind. The most recent *National Drug Threat Assessment* reports from the Justice Department's National Drug Intelligence Center (NDIC) offer no reason to suppose that availability has been squeezed.

- *April 2004*: "Both powder and crack cocaine are readily available throughout the country and overall availability appears to be stable."
- *January 2005*: "Key indicators of domestic cocaine availability show stable or slightly increased availability in drug markets throughout the country..."
- *January 2006*: "Cocaine is widely available throughout most of the nation, and cocaine supplies are relatively stable at levels sufficient to meet current user demand."

- *October 2006*: Despite record levels of cocaine lost or seized in transit toward the United States, “there have been no sustained cocaine shortages or indications of stretched supplies in domestic drug markets.”

Price trends are of course a function of both supply and demand. While robust supply is evidently a large part of the equation, it may be that cocaine’s low and falling U.S. retail prices are also due to slackening demand. Indeed, total U.S. cocaine consumption appears to have peaked in the late 1980s, and then declined modestly through the 1990s. But there is no indication that consumption has been declining in recent years. Household and school-based surveys, for example, show that the percentage of Americans who use cocaine has remained basically stable since 2000. These surveys, however, say little about the numbers or consumption patterns of the chronic, heavy users who account for the bulk of cocaine consumption.

The most recent published estimates of the number of chronic cocaine users and of total U.S. cocaine consumption were released by ONDCP in 2001; the estimates extended through 1999, with projections for the year 2000. Early in 2005, ONDCP received a study by Abt Associates that updated the cocaine consumption estimates through 2003. But more than two years later, ONDCP has still not released that study. If ONDCP’s handling of the price and purity estimates is any indication, the failure to make public the updated cocaine consumption estimates suggests that ONDCP may regard release of the new data as inconvenient politically. Congress should insist that ONDCP publish the updated estimates without further delay. To summarize, the available evidence indicates that cocaine’s continued low and falling prices are largely driven by ongoing ample supply rather than by any slackening or collapse in demand.

Supply-Side Drug Control: Exaggerated Expectations, Sobering Reality

At this stage, it would be fair to say that full disclosure has not been the hallmark of the George W. Bush Administration. Had Sen. Grassley not pushed the matter, the updated figures would almost certainly still be under wraps (at least until a new price increase seemed to be shaping up). But now that the new data has seen the light of day, the Administration should stop publicizing the figures announced in November 2005 as if they were the latest available. If ONDCP or any other U.S. agency is to refer to the price and purity time-series, they should refer to and make public the entirety of the available estimates, including the latest figures, and not just those sections of the data that seem to lend support to the Administration’s preferred policies. ONDCP should also explain exactly how IDA’s methodology differs from that used by RAND, and why ONDCP switched from RAND to IDA.

Walters’ November 2005 press conference was not a credible use of the price and purity data time-series, which has historically been characterized by frequent fluctuations. By seizing on an upswing, providing minimal historical context, and insisting that an unprecedented success was being achieved, Walters gave a very partial account of the trends in the price and purity data. The record demonstrates that price increases have occurred with some frequency – but the record makes it equally clear that such increases have proved to be rather short-lived. This is not to say that larger and more durable price increases are impossible, but rather that the track record suggests very strongly that even the most impressive increases are likely to give way, sooner rather than later, to resumed price declines.

Moreover, Walters’ exaggeration of the significance of the price increase detected by IDA is emblematic of the inflated expectations and rhetoric that continue to accompany U.S. supply-side drug control policy. The dramatic supply-control successes that are always said to be imminent have never materialized: cocaine appears to be as easily available now on U.S. streets as it has ever been.