

# Ronald Reagan Presidential Library Digital Library Collections

---

This is a PDF of a folder from our textual collections.

---

**Collection:** Latin American Affairs Directorate,  
NSC: Records

**Folder Title:** Bolivia (Safe 1)  
01/09/1986-04/06/1986

**Box:** RAC Box 1

---

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library Inventories, visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

Contact a reference archivist at: **reagan.library@nara.gov**

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

*Last Updated: 9/6/2024*

# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** LATIN AMERICAN AFFAIRS DIRECTORATE, NSC:  
RECORDS

**Withdrawer**

KML 9/29/2011

**File Folder** BOLIVIA (SAFE 1) 01/09/1986-04/06/1986

**FOIA**

M10-353/1

**Box Number** 1

DENNISON

72

| ID     | Doc Type | Document Description                            | No of Pages | Doc Date  | Restrictions |    |
|--------|----------|---|-------------|-----------|--------------|----|
| 120153 | CABLE    | 091829Z JAN 86                                  | 1           | 1/9/1986  | B1           | B3 |
| 120154 | CABLE    | LA PAZ 00312<br><b>R 5/18/2015 M353/1</b>       | 6           | 1/10/1986 | B1           |    |
| 120156 | CABLE    | LA PAZ 00556<br><b>R 5/18/2015 M353/1</b>       | 4           | 1/18/1986 | B1           |    |
| 120157 | CABLE    | LA PAZ 00610<br><b>R 5/18/2015 M353/1</b>       | 2           | 1/21/1986 | B1           |    |
| 120158 | CABLE    | LA PAZ 00637<br><b>R 5/18/2015 M353/1</b>       | 1           | 1/22/1986 | B1           |    |
| 120159 | CABLE    | LA PAZ 00688<br><b>R 5/18/2015 M353/1</b>       | 3           | 1/23/1986 | B1           |    |
| 120160 | CABLE    | 232328Z JAN 86                                  | 3           | 1/23/1986 | B1           | B3 |
| 120161 | CABLE    | 292122Z JAN 86                                  | 1           | 1/29/1986 | B1           | B3 |
| 120162 | PAPER    | RE BOLIVIA                                      | 1           | 1/31/1986 | B1           | B3 |
| 120163 | CABLE    | BUENOS AIRES 01959<br><b>R 5/18/2015 M353/1</b> | 2           | 3/5/1986  | B1           |    |

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** LATIN AMERICAN AFFAIRS DIRECTORATE, NSC:  
RECORDS

**Withdrawer**

KML 9/29/2011

**File Folder** BOLIVIA (SAFE 1) 01/09/1986-04/06/1986

**FOIA**

M10-353/1

**Box Number** 1

DENNISON

72

| ID     | Doc Type | Document Description                      | No of Pages | Doc Date  | Restrictions |
|--------|----------|---|-------------|-----------|--------------|
| 120164 | CABLE    | LA PAZ 02365                              | 2           | 3/20/1986 | B1           |
| 120165 | CABLE    | LA PAZ 02388<br><b>R 5/18/2015 M353/1</b> | 4           | 3/21/1986 | B1           |
| 120167 | CABLE    | LA PAZ 02439<br><b>R 5/18/2015 M353/1</b> | 3           | 3/22/1986 | B1           |
| 120169 | CABLE    | LA PAZ 02631<br><b>R 5/18/2015 M353/1</b> | 1           | 3/27/1986 | B1           |
| 120172 | CABLE    | LA PAZ 02657<br><b>R 5/18/2015 M353/1</b> | 4           | 3/28/1986 | B1           |
| 120174 | CABLE    | LA PAZ 02843<br><b>R 5/18/2015 M353/1</b> | 11          | 4/3/1986  | B1           |

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

# WITHDRAWAL SHEET

## Ronald Reagan Library

### Collection Name

Latin American Affairs Directorate, NSC: Records

### Withdrawer

KM 9/29/2011  
L

### File Folder

BOLIVIA (SAFE 1) 01/09/1986-04/06/1986

### FOIA

M10-353/1  
DENNISON

### Box Number

1

72

| <i>ID</i>    | <i>Document Type</i><br><i>Document Description</i> | <i>No of</i><br><i>pages</i> | <i>Doc Date</i> | <i>Restric-</i><br><i>tions</i> |
|--------------|---|------------------------------|-----------------|---------------------------------|
| 120153 CABLE |   | 1                            | 1/9/1986        | B1                              |
|              | 091829Z JAN 86                                      |                              |                 | B3                              |

The above documents were not referred for declassification review at time of processing  
Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

~~CONFIDENTIAL~~

120154

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 OF 02 LA PAZ 0312  
EOB947 AN002114

DTG: 102340Z JAN 86 PSN: 035334  
TOR: 011/0653Z CSN: HCE039

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A4

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU9394  
DE RUEHLP #0312 01 0102344  
O 102340Z JAN 86 ZFF4  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC NIACT IMMEDIATE 9883

INIO AMEMBASSY ASUNCION 4067  
AMEMBASSY BOGOTA 4299  
AMEMBASSY BRASILIA 4514  
AMEMBASSY BUENOS AIRES 7322  
AMEMBASSY CARACAS 5170  
AMEMBASSY LIMA 2486  
AMEMBASSY MONTEVIDEO 2114  
AMEMBASSY QUITO 4234  
AMEMBASSY SANTIAGO 6680

*Bolivia*

DECLASSIFIED

NLRR M353/1 #120154

BY RW NARA DATE 5/18/15

~~CONFIDENTIAL~~ SECTION 01 OF 03 LA PAZ 00312

EXDIS

DEPT PLEASE PASS USCINCSO QUARRY HTS PN

E.O. 12356: DECL: OADR  
TAGS: PGOV, EFIN, BL, EAID  
SUBJECT: IMPENDING CABINET CHANGES; SLIDING CONFIDENCE  
IN GOVERNMENT DUE TO SLUMP IN PESO

1. (C-ENTIRE TEXT)

IMPENDING CABINET CHANGES  
-----

2. I CALLED SENATE PRESIDENT GONZALO SANCHEZ DE LOZADA FOR A PRIVATE MEETING LATE JANUARY 10 TO USE HIM AS AN INTERLOCUTOR WITH PRESIDENT PAZ ESTENSSORO ON THE POSSIBILITY OF SIGNIFICANT CABINET CHANGES. I DID NOT WANT TO TALK DIRECTLY TO THE PRESIDENT BECAUSE OF THE EVER-PRESENT TELEVISION CREWS THAT SURROUND HIM. WHEN I SAW SANCHEZ DE LOZADA HE IMMEDIATELY TOLD ME THAT THE PRESIDENT HAD ASKED HIM TO GET HOLD OF ME TO DISCUSS THE SAME SUBJECT.

3. THE PRESIDENT WANTED MY PERSONAL OPINION ON THE LIKELY IMPACT ON INTERNATIONAL FINANCIAL ATTITUDES TOWARD BOLIVIA IF SIGNIFICANT CABINET CHANGES TAKE PLACE SOON. I HAD TWICE IN THE LAST THREE MONTHS IMPRESSED ON THE PRESIDENT THE IMPORTANCE OF TAKING EXTERNAL VIEWS INTO ACCOUNT.

4. I TOLD SANCHEZ DE LOZADA THAT THE IMF HAS NO CONFIDENCE IN THE PRESENT MINISTER OF FINANCE GISBERT. ON

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

3

PAGE 02 OF 02 LA PAZ 0312

DTG: 102340Z JAN 86 PSN: 035334

THE OTHER HAND, PLANNING MINISTER BEDREGAL HAS BECOME THE SYMBOL OF FIERCE AND INTELLIGENT DETERMINATION TO CARRY THE ECONOMIC REFORM PROGRAM TO A SUCCESSFUL CONCLUSION. FROM THE U.S. POINT OF VIEW, INTERIOR MINISTER BARTHELEMY IS EXTREMELY IMPORTANT IN THE ANTI-NARCOTICS PROGRAM.

5. SANCHEZ DE LOZADA SAID THIS INFORMATION IS EXTREMELY HELPFUL. HE SAID THAT THERE ARE THREE MINISTERS WHOM THE PRESIDENT IS DETERMINED TO KEEP: BEDREGAL, BARTHELEMY AND DEFENSE MINISTER VALLE (ALTHOUGH VALLE IS "EXTREMELY WEAK AND SIMPLY GIVES THE ARMY EVERYTHING IT ASKS FOR," SAID SANCHEZ DE LOZADA). THERE ARE FOUR MINISTERS WHOM THE PRESIDENT WISHES TO DROP: FINANCE MINISTER GISBERT, FOREIGN MINISTER ARAOZ (BECAUSE HE LACKS INITIATIVE), MINISTER OF AGRICULTURE AND CAMPESINO AFFAIRS MAMANI AND MINISTER OF MINES CABRERA.

6. THE PRESIDENT EXPECTS TO MAKE JUAN CARRIAGA, THE PRIVATE BANK OFFICIAL WHO ACCOMPANIED SANCHEZ DE LOZADA ON HIS DECEMBER IMF TALKS, MINISTER OF FINANCE. IN PRINCIPLE, PAZ WOULD LIKE TO MAKE BEDREGAL MINISTER OF FOREIGN RELATIONS (WHICH BEDREGAL WANTS), AND SANCHEZ DE LOZADA OR FERNANDO ROMERO (JUST RESIGNED AS PRESIDENT OF PRIVATE ENTREPRENEURS FEDERATION AND ONE OF THE ARCHITECTS OF THE NEW ECONOMIC PROGRAM) MINISTER OF PLANNING. HOWEVER, ROMERO HAS SAID HE CANNOT ACCEPT A CABINET POSITION BECAUSE IT PUTS HIM IN AN AWKWARD POSITION WITH HIS PARTY (ADN) AND HIS FAMILY. AS FOR SANCHEZ DE LOZADA, THE PRESIDENT HAS TO KEEP HIM AS HEAD OF THE SENATE OR ELSE HE RISKS HAVING A COMBINATION OF IRRESPONSIBLE LEFTISTS (INCLUDING THE MAOIST SECOND VICE PRESIDENT OF THE SENATE ZAMORA) MAKE A

SHAMBLES OF THE GOVERNMENT'S LEGISLATIVE PROGRAM -- A CRITICAL FACTOR SINCE THE GOVERNMENT IS ABOUT TO PRESENT ITS BUDGET AND TAX REVISION PROPOSALS TO THE CONGRESS. IN EFFECT, THE PRESIDENT MAY HAVE TO KEEP BEDREGAL IN PLANNING FOR ANOTHER MONTH OR SO FOR LACK OF A SUITABLE SUBSTITUTE, EVEN THOUGH BEDREGAL HAS ACCUMULATED A HEAVY LOAD OF NEGATIVE POLITICAL BAGGAGE BECAUSE OF HIS SOME-TIMES ABRASIVE EXECUTION OF THE GOVERNMENT'S ECONOMIC PROGRAM.

7. TIMING AND COMMENT: I WOULD EXPECT TO SEE CABINET CHANGES ANNOUNCED BY THE END OF THIS MONTH. GIVEN THE WAY THE PRESIDENT IS APPROACHING THE PROBLEM, I EXPECT THE CHANGES TO BE ALL TO THE GOOD. IT IS FORTUNATE THAT SANCHEZ DE LOZADA IS NEEDED SO BADLY IN THE SENATE, BECAUSE HIS RECORD AS AN EXECUTIVE IS INDIFFERENT.

BT

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

4

PAGE 01 OF 02  
EOB942

LA PAZ 0312  
AN002113

DTG: 102340Z JAN 86 PSN: 035339  
TOR: 011/0655Z CSN: HCE040

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A4

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU0398  
DE RUEHLP #0312/02 0102346  
O 102340Z JAN 86 ZFF4  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC NIACT IMMEDIATE 9884

INFO AMEMBASSY ASUNCION 4068  
AMEMBASSY BOGOTA 4300  
AMEMBASSY BRASILIA 4515  
AMEMBASSY BUENOS AIRES 7323  
AMEMBASSY CARACAS 5171  
AMEMBASSY LIMA 2487  
AMEMBASSY MONTEVIDEO 2115  
AMEMBASSY QUITO 4235  
AMEMBASSY SANTIAGO 6681

~~CONFIDENTIAL~~ SECTION 02 OF 03 LA PAZ 00312

EXDIS  
DEPT PLEASE PASS USCINCSO QUARRY HTS PN

E.O. 12356: DECL: OADR  
TAGS: PGOV, EFIN, BL, EAD  
SUBJECT: IMPENDING CABINET CHANGES; SLIDING CONFIDENCE

PANIC OVER PLUMMETING PESO

8. IN SEVERAL SEPTTELS WE HAVE RECORDED THE SHARP DROP IN THE VALUE OF THE PESO (2.5 MILLION PESOS TO THE DOLLAR IN THE PARALLEL MARKET THE AFTERNOON OF JANUARY 10). AS WE HAVE MENTIONED SEVERAL TIMES, THE BOLIVIAN PUBLIC WATCHES THE EXCHANGE RATE AS A BAROMETER OF THE GOVERNMENT'S SUCCESS OR FAILURE. THE EXACT REASONS FOR THE START OF THE PRESENT SEVERE SLIDE (33-1/3 PERCENT DROP IN TWO WEEKS) ARE UNCLEAR. IT IS CLEAR, HOWEVER, THAT THE BOLIVIAN PUBLIC HAS PANICKED AND STARTED TO RUSH TO BUY DOLLARS WITH EVERY LIQUID ASSET THAT CAN BE MUSTERED, THEREBY ACCELERATING THE PLUNGE. AS A RESULT, OVERALL CONFIDENCE IN THE GOVERNMENT AND ITS POLICIES HAS BEEN SERIOUSLY ERODED. SANCHEZ DE LOZADA TOLD ME THAT THIS WAS ONE OF THE FACTORS DRIVING THE PRESIDENT TO MOVE SOONER THAN LATER ON CABINET CHANGES.

9. SANCHEZ DE LOZADA SAID THE PRESIDENT HAD ASKED HIM TO SEEK MY VIEWS ON REASONS FOR THE SLIDE AND WHAT TO DO ABOUT IT. I TOLD HIM THAT THE REASONS ARE COMPLEX, BUT THAT OBVIOUSLY THERE HAS BEEN SOME POOR ADMINISTRATION IN THE FINANCE MINISTRY, THE CENTRAL BANK AND IN THE MANAGEMENT OF THE BI-WEEKLY FOREIGN EXCHANGE AUCTIONS. FOR EXAMPLE, SINCE MID-DECEMBER THE CENTRAL

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 02 OF 02 LA PAZ 0312

DTG: 102340Z JAN 86 PSN: 035339

BANK HAS BEEN OFFERING ONLY TWO MILLION DOLLARS PER WEEK TO THE AUCTIONS. NORMAL DEMAND RUNS ABOUT FOUR-FIVE MILLION DOLLARS PER WEEK, WHICH IS A LEVEL THAT BOLIVIA'S CURRENT RESERVES COULD SUSTAIN EASILY. SANCHEZ DE LOZADA AGREED VIGOROUSLY WITH MY COMMENTS ON POOR ADMINISTRATION AND SAID THE PRESIDENT EMPHATICALLY SHARES THEM. HE SAID THE PRESIDENT PLANS TO DIRECT A MORE REASONABLE OFFER AT THE AUCTIONS, BUT WILL CONTINUE TO LET THE FREE MARKET SET THE EXCHANGE RATE.

NEW NATIONAL STABILIZATION COUNCIL  
-----

10. SANCHEZ DE LOZADA SAID PRESIDENT PAZ PLANS TO FORM A NEW NATIONAL "STABILIZATION COUNCIL", PROBABLY NEXT WEEK. SUCH A COUNCIL WAS RECOMMENDED BY HARVARD ECONOMIST SACHS DURING HIS VISIT IN EARLY DECEMBER. THE COUNCIL IS DESIGNED TO BRING THE VIEWS OF A NUMBER OF INFLUENTIAL SECTORS TO BEAR ON THE EVOLUTION AND EXECUTION OF THE ECONOMIC RECOVERY PROGRAM. IT WILL HAVE NO LESS THAN THREE NOR MORE THAN NINE MEMBERS -- PROBABLY SEVEN. SANCHEZ DE LOZADA AND FERNANDO ROMERO WILL BE TWO OF ITS MEMBERS.

ADN OPPOSITION TO THE "FORCED LOAN" (LA PAZ 285)  
-----

11. THE PRESIDENT IS EXTREMELY PERTURBED BY HIS DEMOCRATIC RIGHT ALLY'S STERN OPPOSITION TO THE FORCED LOAN. HE ASKED HOW I READ THE PROBLEM. I TOLD SANCHEZ DE LOZADA THAT MY EMBASSY IS CONVEYING TO ITS ADN CONTACTS THE VIEW THAT THE ADN HAS TO COME UP WITH AN EQUALLY EFFECTIVE AND QUICK WAY TO FILL THE GOVERNMENT'S

IMMEDIATE FINANCIAL GAPS, OR ELSE BACK AWAY FROM TRYING TO BLOCK THE FORCED LOAN. IT IS CLEAR THAT WITHOUT THE INCOME REPRESENTED BY THE LOAN, THE GOVERNMENT WOULD HAVE TO RESORT TO UNBACKED CURRENCY EMISSIONS THAT COULD WRECK THE RECOVERY PROGRAM. I ADDED THAT I HAVE THE IMPRESSION THAT GENERAL BANZER HIMSELF WAS NOT INVOLVED IN SETTING THIS PARTICULAR ADN POSITION. SANCHEZ DE LOZADA SAID MY COMMENTS WERE EXTREMELY HELPFUL.

AGREEMENT FOR NEW BOLIVIAN AMBASSADOR  
-----

12. PRESIDENT PAZ ALSO HAD ASKED IF I COULD GIVE NEWS  
BT

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

6

PAGE 01 OF 02 LA PAZ 0312  
EOB943 AN002112

DTG: 102340Z JAN 86 PSN: 035341  
TOR: 011/0657Z CSN: HCE041

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A4

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU9399  
DE RUEHLP #0312/03 0102347  
O 102340Z JAN 86 ZFF4  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC NIACT IMMEDIATE 9885

INFO AMEMBASSY ASUNCION 4069  
AMEMBASSY BOGOTA 4301  
AMEMBASSY BRASILIA 4516  
AMEMBASSY BUENOS AIRES 7324  
AMEMBASSY CARACAS 5172  
AMEMBASSY LIMA 2488  
AMEMBASSY MONTEVIDEO 2116  
AMEMBASSY QUITO 4236  
AMEMBASSY SANTIAGO 6682

~~CONFIDENTIAL~~ SECTION 03 OF 03 LA PAZ 00312

EXDIS  
DEPT PLEASE PASS USCINCSO QUARRY HTS PN

E.O. 12356: DECL: OADR  
TAGS: PGOV, EFIN, BL, E AID  
SUBJECT: IMPENDING CABINET CHANGES; SLIDING CONFIDENCE

ON AGREEMENT FOR AMBASSADOR-DESIGNATE FERNANDO ILLANES.  
THE PRESIDENT IS EXTREMELY ANXIOUS TO GET A NEW, EFFEC-  
TIVE BOLIVIAN AMBASSADOR TO WASHINGTON AS QUICKLY AS  
POSSIBLE. I TOLD SANCHEZ DE LOZADA THAT I UNDERSTOOD  
THAT THE PAPERS PROPOSING THAT AGREEMENT BE GRANTED ARE  
NOW IN THE WHITE HOUSE. I COULD NOT PREDICT WHEN THE  
WHITE HOUSE WOULD ACT, BUT I THOUGHT IT WOULD BE SOON.

U.S. ECONOMIC ASSISTANCE  
-----

13. THE PRESIDENT ASKED SANCHEZ DE LOZADA TO CONVEY  
THE PRESIDENT'S CONCERN OVER THE DEARTH OF U.S.  
ASSISTANCE IN THIS CURRENT CRITICAL POLITICO-ECONOMIC  
PERIOD IN BOLIVIA. SANCHEZ DE LOZADA SAID HE TOLD THE  
PRESIDENT THAT FROM HIS OWN EXPERIENCE IN WASHINGTON,  
HE KNEW THAT THE U.S. IS VERY SHORT ON RESOURCES FOR  
AID. HE SAID HE WAS SURE THAT WAS ONE REASON WHY THE  
U.S. IS SO VIGOROUSLY ENGAGED IN SUPPORTING QUICK ACTION  
BY THE INTERNATIONAL FINANCIAL INSTITUTIONS ON BEHALF OF  
BOLIVIA. I TOLD SANCHEZ DE LOZADA HIS ANSWER WAS  
CORRECT. I ADDED THAT I HOPE TO HAVE SOME GOOD NEWS  
ON ESF VERY SOON, AND THAT THERE IS A PROSPECT OF  
ADDITIONAL PL-480 RESOURCES THAT MIGHT BE MADE AVAILABLE  
DURING THE JANUARY-FEBRUARY CRUNCH.

COMMENT  
-----

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~  
NATIONAL SECURITY COUNCIL  
SECRETARIAT

7

PAGE 02 OF 02 LA PAZ 0312

DTG: 102340Z JAN 86 PSN: 035341

14. THE PAZ ESTENSSORO GOVERNMENT IS MOVING INTO A PERIOD OF SEVERE POLITICAL CHALLENGE. THE MINE WORKERS' RADICAL LEFT LEADERSHIP IS RAPIDLY REGROUPING FORCES. IN ADDITION TO DEMONSTRATIONS THIS WEEK, I UNDERSTAND MORE ARE BEING PLANNED FOR NEXT WEEK. THE SLIDE IN THE PESO HAS BEGUN TO SIGNIFICANTLY INCREASE THE COST OF LIVING, FURTHER SQUEEZING THE ALREADY-IMPOVERISHED LOWER INCOME SECTORS. NUMBERS OF UNEMPLOYED ARE INCREASING RAPIDLY IN SUCH KEY CITIES AS LA PAZ, ORURO AND POTOSI. TANGIBLE SUPPORT IS NOT COMING FAST ENOUGH FROM THE INTERNATIONAL FINANCIAL INSTITUTIONS -- THEY SIMPLY ARE NOT GEARED TO DEAL QUICKLY WITH DIFFICULT SITUATIONS. I URGE IN STRONGEST TERMS THAT THE UNITED STATES IMMEDIATELY RELEASE ESF AND PL-480 TITLE 3 MONIES ALLOCATED TO BOLIVIA. THIS TANGIBLE SUPPORT IS NEEDED NOW RPT NOW. ROWELL  
BT

EXDIS

EXDIS

EXDIS

EXDIS

~~CONFIDENTIAL~~

SECRET

NATIONAL SECURITY COUNCIL  
SECRETARIAT

120156

PAGE 01 LA PAZ 0556 DTG: 180014Z JAN 86 PSN: 046992  
EOB622 AND05467 TOR: 018/0125Z CSN: HCE416

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:

SIT:

EOB:

OP IMMED  
STU8286  
DE RUEHLP #0556/01 0180020  
O 180014Z JAN 86  
FM AMEMBASSY LA PAZ

TO USCINCSO QUARRY HEIGHTS PN IMMEDIATE

INFO SECSTATE WASHDC 0049  
JCS WASHDC//J5//  
AMEMBASSY ASUNCION 4102  
SECDEF WASHDC//ISA//

~~SECRET~~ SECTION 01 OF 04 LA PAZ 00556

USCINCSO FOR SCCS/SCJ5/SCJ2//

E. O. 12356: DECL: OADR  
TAGS: PGOV, PREL, BL, US MASS, MILI, OVIP, SNAR  
SUBJECT: USCINCSO VISIT TO BOLIVIA: BACKGROUND  
AND OBJECTIVES

REF: LA PAZ 461 (DTG 152306Z JAN 86)

1. ~~SECRET~~ - ENTIRE TEXT

SECTION I. BACKGROUND

INTRODUCTION

2. THE FIVE-MONTH OLD PAZ ESTENSSORO GOVERNMENT HAS PRODUCED SOME DRAMATIC TURNAROUNDS IN BOLIVIAN POLITICAL AND ECONOMIC LIFE, BUT THE COUNTRY IS STILL FAR FROM RECOVERING FROM BEING THE FOURTH WORST CASE OF HYPERINFLATION IN RECORDED HISTORY. (THE THREE WORST: GREECE 1946; WEIMAR REPUBLIC 1923; AND RUSSIA AFTER 1917 REVOLUTION.) PAZ ESTENSSORO, HAS REIMPOSED EXECUTIVE AUTHORITY AND CREDIBILITY, AND HAS DRAMATICALLY REDUCED THE POWER OF BOLIVIA'S OMNIBUS LABOR CONFEDERATION, THE BOLIVIAN WORKERS' CENTRAL (COB). PAZ ESTENSSORO LAUNCHED A FREE-MARKET ORIENTED ECONOMIC REFORM PROGRAM DESIGNED TO CURB INFLATION -- OVER 20,000 PERCENT FOR THE 12-MONTH PERIOD ENDING SEPTEMBER 1985 -- AND BRAKE THE PRECIPITOUS DECLINE IN THE VALUE OF THE PESO. FOR THE FIRST TIME IN YEARS, THE GOVERNMENT HAS PRODUCED A FORMAL BUDGET. THOUSANDS OF PUBLIC SECTOR AND STATE ENTERPRISE EMPLOYEES HAVE BEEN OR WILL BE LAID OFF IN AN EFFORT TO BALANCE THE BUDGET, AND THE REMAINDER HAVE HAD SALARIES HELD TO STARVATION LEVELS. IN THE AREA OF COCA ERADICATION AND NARCOTICS CONTROL, PAZ HAS MADE

MORE PROGRESS THAN ANY PREVIOUS ADMINISTRATION BUT THE PROBLEM IS STILL OVERWHELMING. THE GOVERNMENT HAS SIGNED FORMAL AGREEMENTS TO COMPENSATE PEASANTS FOR VOLUNTARY COCA CROP REDUCTION AND IS SURVEYING COCA FIELDS FOR FUTURE LICENSING OR ERADICATION.

3. PAZ ESTENSSORO HAS ACHIEVED A RELATIONSHIP OF MUTUAL RESPECT AND SUPPORT WITH THE BOLIVIAN ARMED FORCES, DESPITE THE HISTORY OF TENSE RELATIONS THAT DATE TO PAZ'S FIRST TERM (1952-56) DURING WHICH THE BOLIVIAN MILITARY WAS PRACTICALLY DESTROYED. THE LEADERSHIP OF THE BOLIVIAN ARMED FORCES SUPPORTS THE DEMOCRATIC PROCESS AND, WE BELIEVE, IS WILLING TO DEFEND THE PAZ ESTENSSORO GOVERNMENT IF THE ECONOMIC CRISIS SHOULD PROVOKE POPULAR DISTURBANCES. THE MILITARY IS MORE RELUCTANT TO ASSUME A ROLE IN THE STRUGGLE AGAINST NARCOTICS TRAFFICKING, BUT THERE IS A GROWING REALIZATION THAT IT MAY BECOME NECESSARY FOR THEM TO PLAY A ROLE IN THE UNEQUAL STRUGGLE AGAINST THE POWERFUL DRUG MAFIA. THE COMMANDER OF THE ARMED FORCES, ARMY GENERAL LOPEZ LEYTON, HAS TOLD PAZ THAT LEFT-RIGHT DIVISIONS IN THE MILITARY HAVE FADED IN SIGNIFICANCE, AND THE KEY SPLIT IS PRO- AND ANTI-NARCOTICS.

4. BOLIVIA'S FRAGILE POLITICAL AND SOCIAL PEACE COULD BE BROKEN AT ANY TIME BY ANY ONE OF A NUMBER OF FACTORS, AND THIS COUNTRY'S NASCENT PROGRESS ALONG THE ROAD TO A TRULY REPRESENTATIVE DEMOCRATIC SYSTEM AND ECONOMIC PROGRESS COULD BE IRREPARABLY DAMAGED. THE MAIN POTENTIAL THREATS TO SURVIVAL

ARE:

- PHYSICAL INCAPACITATION OR DEATH OF THE PRESIDENT;
- ANY ONE OF A VARIETY OF MILITARY INTERVENTIONS TRIGGERED BY ONE OR MORE OF THE FOLLOWING:
  - REVIVAL OF MILITANT OPPOSITION TO THE GOVERNMENT BY THE COB, ENHANCED SUBSTANTIALLY WERE IT WITH THE SUPPORT OF ORGANIZED PEASANTS (COCA ERADICATION GREATLY INCREASES THE RISK);

BT

DECLASSIFIED

NLRR M353/1 #120156

BY RW NARA DATE 5/8/15

SECRET

~~SECRET~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

9

PAGE 01 LA PAZ 0556 DTG: 180014Z JAN 86 PSN: 046993  
EOB623 AN005466 TOR: 018/01272 CSN: HCE417

DISTRIBUTION: BURG-01 HUGH-01 MORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
UTS1362  
DE RUEHLP #0556/02 0180022  
O 180014Z JAN 86  
FM AMEMBASSY LA PAZ

TO USCINCSO QUARRY HEIGHTS PN IMMEDIATE

INFO SECSTATE WASHDC 0050  
JCS WASHDC//J5//  
AMEMBASSY ASUNCION 4103  
SECDEF WASHDC//ISA//

~~SECRET~~ SECTION 02 OF 04 LA PAZ 00556

USCINCSO FOR SCOS/SCJ5/SCJ2//

E. O. 12356: DECL: OADR  
TAGS: PGOV, PREL, BL, US MASS, MILI, OVIP, SNAR  
SUBJECT: USCINCSO VISIT TO BOLIVIA: BACKGROUND

- . -- SUBSTANTIAL CORRUPTION OF THE ARMED FORCES,  
. . THE POLICE AND NATIONAL INSTITUTIONS BY  
. . NARCOTICS TRAFFICKERS;
- . -- A DRAMATIC DECLINE OF PRIVATE SECTOR  
. . SUPPORT FOR AND PUBLIC CONFIDENCE IN PAZ  
. . ESTENSSORO AND HIS ECONOMIC PROGRAM;
- . -- DISSOLUTION OF THE POLITICAL PACT BETWEEN  
. . THE MNR AND THE ADN; AND/OR
- . -- FAILURE OF BOLIVIA'S FRIENDS TO RESPOND  
. . IN A TIMELY AND ADEQUATE FASHION TO THE  
. . COUNTRY'S DIRE NEED FOR ASSISTANCE.

THE JULY-AUGUST 1985 DEMOCRATIC TRANSITION

5. THE JULY 14, 1985, ELECTIONS PRODUCED THE FIRST  
PEACEFUL, CONSTITUTIONAL TRANSITION TO AN  
OPPOSITION

--  
POLITICAL PARTY IN BOLIVIAN HISTORY. PAZ ESTENSSORO  
WAS ELECTED IN A SECOND-ROUND CONGRESSIONAL VOTE  
BECAUSE HIS PARTY -- THE NATIONALIST REVOLUTIONARY  
MOVEMENT (MNR) -- MANAGED TO CAPTURE MORE SUPPORT  
FROM MINOR LEFTIST PARTIES IN CONGRESS, EVEN  
THOUGH THE CENTER-RIGHT NATIONALIST DEMOCRATIC ACTION  
(ADN) PARTY OF PRESIDENT HUGO BANZER SUAREZ  
OUTPOLLED THE MNR IN THE POPULAR VOTE BY TWO PERCENTAGE  
POINTS. GENERAL BANZER'S RESPECT AND SUPPORT FOR  
THE DEMOCRATIC PROCESS MADE POSSIBLE THE INAUGURATION  
OF PAZ ON AUGUST 6.

6. SUBSEQUENTLY, THE MNR AND THE ADN SIGNED A PACT  
PLEDGING EACH PARTY TO SUPPORT THE DEMOCRATIC  
PROCESS, ANOTHER FIRST IN BOLIVIAN HISTORY. THE PACT  
HAS HAD SOME ROCKY MOMENTS IN ITS BRIEF HISTORY,  
BUT IT REMAINS INTACT AND THEORETICALLY GIVES THE  
EXECUTIVE AMPLE SUPPORT IN CONGRESS FOR ITS FREE MARKET-  
ORIENTED ECONOMIC RECOVERY PROGRAM. THE  
PROGRAM IS LARGELY BASED ON STUDIES AND PROPOSALS  
PUT TOGETHER BY THE ADN, BUT IT DIAMETRICALLY  
OPPOSES TRADITIONAL MNR PHILOSOPHY,  
SHAKING THE RELIABILITY OF THE MNR CONTINGENT IN  
CONGRESS.

ECONOMIC

7. GROSS DOMESTIC PRODUCT (GDP) DROPPED 18 PERCENT  
OVER THE PAST THREE YEARS, EXPORTS DECLINED FOR FIVE  
CONSECUTIVE YEARS, THE BUDGET DEFICIT HAD  
REACHED 28.5 PERCENT OF GDP IN MID-1985, AND  
ARREARAGES IN SERVICING THE FOREIGN DEBT AMOUNT TO  
OVER A BILLION DOLLARS. THE AUSTERITY PROGRAM HAS  
BROKEN THE HYPERINFLATIONARY SPIRAL BY REDUCING  
INFLATION FROM A 12-MONTH LEVEL OF 23,447 PERCENT  
AS OF LAST SEPTEMBER TO AN ANNUAL RATE OF APPROXI-  
MATELY 100 PERCENT OVER THE LAST THREE MONTHS OF  
THE YEAR. FOR THE FIRST TIME IN FIVE YEARS A  
FORMAL BUDGET HAS BEEN PRESENTED TO THE CONGRESS  
WHICH AIMS TO REDUCE THE BUDGET DEFICIT TO A  
MANAGEABLE 5.6 PERCENT OF GDP. THIS IS TO BE  
ACHIEVED BY REDUCING THE NUMBER OF PUBLIC SECTOR  
EMPLOYEES, HOLDING SALARY INCREASES TO ONLY 30  
PERCENT THROUGH THE FIRST HALF OF THE YEAR AND  
SHARPLY RESTRICTING PUBLIC INVESTMENT.

8. NOTWITHSTANDING SOME INITIAL SUCCESS IN ECONOMIC  
STABILIZATION, THE GOVERNMENT FACES FORMIDABLE  
ECONOMIC AND SOCIAL PROBLEMS OVER THE COMING YEAR.  
DURING THE PAST SIX MONTHS THE PURCHASING POWER OF  
WAGES HAS FALLEN BY 67 PERCENT ACCORDING TO A  
RECENT STUDY. SEVERE DEPRIVATION  
WRACKS THOUSANDS OF PEOPLE, PARTICULARLY IN KEY  
URBAN AND COMMUNICATIONS CENTERS. PRESSURES FOR  
BT

~~SECRET~~

~~SECRET~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

10

PAGE 01 LA PAZ 0556 DTG: 180014Z JAN 86 PSN: 046997  
EOB624 AN005465 TOR: 018/0128Z CSN: HCE418 --

DISTRIBUTION: BURG-01 HUGH-01 HORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU8293  
OE RUEHLP #0556/03 0180024  
O 180014Z JAN 86  
FM AMEMBASSY LA PAZ

TO USCINCSO QUARRY HEIGHTS PN IMMEDIATE

INFO SECSTATE WASHDC 0051  
JCS WASHDC//J5//  
AMEMBASSY ASUNCION 4104  
SECDEF WASHDC//ISA//

~~SECRET~~ SECTION 03 OF 04 LA PAZ 00556

USCINCSO FOR SCCS/SCJ5/SCJ2//

E. O. 12356: DECL: OADR  
TAGS: PGOV, PREL, BL, US MASS, MILI, OVIP, SNAR  
SUBJECT: USCINCSO VISIT TO BOLIVIA: BACKGROUND

SUBSTANTIAL BUDGET-BREAKING WAGE INCREASES ARE TREMENDOUS. THE COLLAPSE OF THE INTERNATIONAL TIN MARKET HAS EXACERBATED UNEMPLOYMENT AND SLASHED (BY DOLS. 100-150 MILLION) EARNINGS FROM BOLIVIA'S SECOND MOST IMPORTANT EXPORT COMMODITY. UNDER THE MOST FAVORABLE CIRCUMSTANCES, BOLIVIA WILL REQUIRE AT LEAST 224 MILLION DOLLARS IN NEW EXTERNAL FINANCING TO PROVIDE FOR THE MINIMUM AMOUNT OF IMPORTS ESSENTIAL TO ECONOMIC RECOVERY.

NARCOTICS CONTROL EFFORTS

ON THE TOUGH ECONOMIC PROGRAM AND POLITICAL OPPOSITION IT FACES ARE RELEVANT BECAUSE PAZ ALSO VOWED TO BE EQUALLY FORCEFUL WITH HIS SECOND PRIORITY, CONFRONTING BOLIVIA'S NARCOTICS PROBLEMS. IN MID-NOVEMBER, THE GOVERNMENT EMBARKED ON ITS OWN FOUR-COMPONENT ANTI-NARCOTICS PROGRAM:

- (A) A VOLUNTARY COCA ERADICATION EFFORT;
- (B) A TOPOGRAPHICAL SURVEY TO DEFINITELY PROVIDE THE BASIS FOR A LATER STAGE OF INVOLUNTARY ERADICATION;
- (C) AUGMENTED INTERDICTION OF COCA PROCESSING LABORATORIES BOTH FOR PASTE AND HYDROCHLORIDE; AND
- (D) EDUCATION EFFORTS TO ENSURE BOLIVIAN PUBLIC UNDERSTANDING OF THE COUNTRY'S OWN DANGERS ENCOUNTERED FROM INCREASED DRUG ADDICTION AND THE CORRUPTING IMPACT OF TRAFFICKING.

THE INITIAL LOCATION FOR THE ERADICATION AND CONTROL EFFORT WAS THE CHAPARE WHERE USAID HAS A MAJOR (NARCOTICS-ASSOCIATED) DEVELOPMENT EFFORT TO PROVIDE AN ALTERNATIVE TO THE COCA-BASED ECONOMY.

10. SINCE 1983, USG STRATEGY HAS TREATED CONTROL AND DEVELOPMENT AS ESSENTIAL COMPLEMENTS FOR ELIMINATING ILLEGAL COCA CULTIVATION AND HALTING DRUG TRAFFICKING IN BOLIVIA. IN THIS CONTEXT, J.S. STRATEGY EMPHASIZES THAT THE USAID/BOLIVIA CHAPARE DEVELOPMENT PROGRAM CAN ONLY BE SUCCESSFUL IF CONTROL EFFORTS ARE EFFECTIVE. ESSENTIALLY THIS ECONOMIC STRATEGY PRESUPPOSES THAT AS CONTROL EFFORTS SUCH AS ARRESTS, SEIZURES AND DESTRUCTION OF PASTE-MAKING FACILITIES, COCAINE LABORATORIES AND VEHICLES HAVE THEIR IMPACT, MARKET PRICES FOR COCA LEAVES WILL FALL SHARPLY AS THE PRODUCT BECOMES IN OVERSUPPLY. IN ADDITION, WHEN EFFECTIVE ERADICATION PROGRAMS ARE IMPLEMENTED, COCA FARMERS WILL INCUR THE RISK OF LOSING THEIR PRIMARY SOURCE OF INCOME ENTIRELY. THE RISKS OF COCA GROWING AND PROCESSING HAVE TO BE MADE HIGHER THAN THE ECONOMIC INCENTIVES.

11. TRADITIONALLY THE PRIMARY POLITICAL BASE OF THE FOUR-DECADES OLD MNR PARTY OF PRESIDENT PAZ ESTENSSORO HAS BEEN IN THE NON-URBAN, PREDOMINANTLY CAMPESINO (PEASANT) AREAS OF BOLIVIA. THIS WAS TRUE IN THE 1985 ELECTION. THIS FACT WILL CONTINUE TO AFFECT THE COUNTRY'S APPROACH TO NARCOTICS CONTROL. DATING FROM BEFORE THE 1952 REVOLUTION, THE HIGHLY POLITICIZED BOLIVIAN CAMPESINOS HAVE CONSTITUTED A MAJORITY MEMBERSHIP IN THE NATIONAL LABOR CONFEDERATION, THE COB, WHICH HAS OFTEN OPERATED AS AN AUTONOMOUS POLITICAL FORCE IMMUNE TO ORDINARY LAW. FAR MORE POLITICALLY SOPHISTICATED THAN MOST ANDEAN INDIAN GROUPS AND REPRESENTING 60 PERCENT OF THE BOLIVIAN POPULATION, CONCERTED CAMPESINO OPPOSITION HAS TOPPLED MANY BOLIVIAN GOVERNMENTS, INCLUDING SOME WHICH DID NOT DEPEND ON CAMPESINO SUPPORT FOR THEIR ARRIVAL IN OFFICE IN THE FIRST PLACE. A BOLIVIAN GOVERNMENT WHICH FINALLY TAKES A TOUGH STAND

BT

~~SECRET~~



~~SECRET~~

# NATIONAL SECURITY COUNCIL SECRETARIAT

PAGE 01 LA PAZ 0556 DTG: 180014Z JAN 86 PSN: 047000  
EOB625 AN005464 TOR: 016/0130Z CSN: HCE419

DISTRIBUTION: BURG-01 HUGH-01 MORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:

SIT:

EOB:

OP IMMED

UTS1365

DE RUEHLP #0556/04 0180025

O 180014Z JAN 86

FM AMEMBASSY LA PAZ

TO USCINCSO QUARRY HEIGHTS PN IMMEDIATE

INFO SECSTATE WASHDC 0052

JCS WASHDC//J5//

AMEMBASSY ASUNCION 4105

SECDEF WASHDC//ISA//

~~SECRET~~ SECTION 04 OF 04 LA PAZ 00556

USCINCSO FOR SCCS/SCJ5/SCJ2//

E. O. 12356: DECL: OADR

TAGS: PGOV, PREL, BL, US MASS, MILI, OVIP, SNAR

SUBJECT: USCINCSO VISIT TO BOLIVIA: BACKGROUND

AGAINST NARCOTICS THUS WILL FIND CONTROL AND  
INTERDICTION A POLITICALLY MORE SUSTAINABLE APPROACH  
THAN CONCENTRATION PRIMARILY ON ERADICATION --  
AND CONFRONTATION WITH THE CAMPESINOS.

KEY

--

12. IN ITS FIVE MONTHS IN OFFICE, THE PAZ  
ESTENSORO GOVERNMENT HAS TAKEN SIGNIFICANTLY  
ASSERTIVE NARCOTICS-RELATED ACTION IN CONTRAST  
TO ITS PASSIVE PREDECESSOR. IT HAS MANAGED TO  
PUT A BOLIVIAN STAMP ON THE STRUCTURE OF THE ANTI-  
NARCOTICS EFFORTS IN THE COUNTRY, AND IT ENVISIONS  
INVOLUNTARY ERADICATION IN NON-TRADITIONAL COCA  
GROWING AREAS IN 1986. WE ARE ENCOURAGED BY THE  
PAZ GOVERNMENT'S EFFORTS TO DATE. IT IS NOW  
IMPORTANT THAT THIS MODEST BEGINNING GAIN MOMENTUM  
AND THAT INTERDICTION, CONTROL AND ERADICATION  
EFFORTS BE SUBSTANTIALLY INCREASED IN THE WEEKS  
AND MONTHS AHEAD. THE GOVERNMENT RECOGNIZES THAT  
THERE IS NO PAINLESS WAY TO ACHIEVE SUCCESS EITHER  
IN COCA ERADICATION OR NARCOTICS INTERDICTION.  
FROM OUR SIDE, THIS GOVERNMENT ALSO UNQUESTIONABLY  
REPRESENTS THE BEST HOPE THE USG HAS EVER HAD TO  
ATTAIN ITS ANTI-NARCOTICS OBJECTIVES IN BOLIVIA.  
YOUR VISIT PROVIDES AN IDEAL OPPORTUNITY TO REINFORCE  
OUR MESSAGE AT THE HIGHEST LEVELS HERE.

## SECTION II. U.S. OBJECTIVES

13. U.S. TIES WITH THE PAZ ESTENSORO GOVERNMENT ARE  
CLOSE AND COOPERATIVE, DESPITE THE LATENT HOSTILITY  
INHERENT IN SUCH AN UNBALANCED, DEPENDENT RELATION-

SHIP. PAZ'S RECOGNITION THAT ECONOMIC RECOVERY AND  
DEVELOPMENT DEPEND TO A LARGE DEGREE ON U.S. ASSISTANCE  
AND GOODWILL, AND ON THE IMPLEMENTATION OF A FREE-  
MARKET ECONOMIC POLICY MORE IN HARMONY WITH U.S. TENETS  
AND WORLD REALITY HAS MADE IT FAR EASIER TO WORK WITH  
THIS GOVERNMENT THAN WITH ITS PREDECESSOR. WE ARE  
FRUSTRATED, HOWEVER, BY THE PAUCITY OF HUMAN AND MATER-  
IAL RESOURCES AT THIS GOVERNMENT'S COMMAND, AND BY THE  
RESTRAINTS ON OUR ABILITY TO PROVIDE QUICK ASSISTANCE  
FOR PROGRAMS OF CLEAR AND IMMEDIATE INTEREST TO OUR  
MOST IMPORTANT GOALS. THOSE GOALS ARE MUTUALLY INTER-  
LINKED. FAILURE ON ANY ONE WILL SERIOUSLY JEOPARDIZE  
THE REST. OUR TOP PRIORITIES:

. -- SUSTAIN AND STRENGTHEN BOLIVIA'S DEVELOPMENT AS  
. A CONSTITUTIONAL DEMOCRACY;

. -- PROMOTE ECONOMIC RECOVERY AND SOUND ECONOMIC  
. DEVELOPMENT; AND

. -- ANTI-NARCOTICS; MEANING STRENGTHEN NARCOTICS  
. INTERDICTION, PROSECUTE TRAFFICKERS AND SLASH  
. COCA LEAF PRODUCTION.

14. REFTEL (LA PAZ 461 DTG152306Z JAN) OUTLINES THE  
OBJECTIVES OF YOUR VISIT. THE PROGRAM ESTABLISHED  
FOR THE VISIT WILL CONTRIBUTE SIGNIFICANTLY TO EN-  
HANCING U.S. INTERESTS IN BOLIVIA. WE LOOK FORWARD  
TO SEEING YOU ON JANUARY 28. (DRAFT: POL: WLOFSTROM:  
ECON: WWEST) ROWELL  
BT

~~SECRET~~



CONFIDENTIAL

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 LA PAZ 0610 DTG: 212219Z JAN 86 PSN: 053354  
EOB648 AN006782 TOR: 022/1137Z CSN: HCE643

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED ZDK RETRANS  
UTS6791  
DE RUEHLP #0610/01 0221123  
O 212219Z JAN 86 ZDK DUE TO NUMEROUS SVCS  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 0075

INFO AMEMBASSY ASUNCION 4112  
AMEMBASSY BOGOTA 4339  
AMEMBASSY BRASILIA 4550  
AMEMBASSY BUENOS AIRES 7361  
AMEMBASSY CARACAS 5207  
AMEMBASSY LIMA 2535  
AMEMBASSY QUITO 4270  
AMEMBASSY SANTIAGO 6718  
USMISSION USUN NEW YORK 3438  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 01 OF 02 LA PAZ 00610

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAO

E.O. 12356: DECLAS: OADR  
TAGS: PGOV, BL  
SUBJECT: CABINET CHANGES

1. (C) AT A MEETING WITH THE AMBASSADOR AND EMBOFFS  
LATE JANUARY 20, ADN CHIEF GENERAL HUGO BANZER GAVE THE  
AMBASSADOR A RESUME OF HIS TALKS EARLIER THAT DAY WITH  
PRESIDENT PAZ ESTENSORRO. BANZER SAID THE CABINET  
CHANGES WOULD PROBABLY BE ANNOUNCED BY THE MIDDLE OF  
THIS WEEK. MAJOR ELEMENTS:

-- MINISTER OF PLANNING: GONZALO SANCHEZ DE LOZADA  
(CURRENTLY PRESIDENT OF THE SENATE);

-- MINISTER OF FINANCE: JUAN CARIAGA (CURRENTLY  
PRESIDENT OF THE BANK OF SANTA CRUZ);

-- MINISTER OF FOREIGN AFFAIRS: GUILLERMO BEDREGAL  
(CURRENTLY MINISTER OF PLANNING);

-- MINISTER OF TRANSPORTATION OR OF COMMERCE AND  
INDUSTRY: CARLOS MORALES LANDIVAR (CURRENTLY  
PRESIDENT OF THE PRIVATE ENTREPRENEURS CONFEDERA-  
TION).

(COMMENT: SANCHEZ DE LOZADA TOLD THE AMBASSADOR FRIDAY  
NIGHT, JANUARY 17, THAT PRESIDENT PAZ HAD INSISTED THAT  
AFTERNOON THAT SANCHEZ DE LOZADA TAKE THE PLANNING  
MINISTRY AND BEDREGAL THE FOREIGN MINISTRY.)

2. (LOU) STRUCTURAL CHANGES:

A. BEDREGAL WILL CREATE A NEW UNDER-SECRETARY FOR  
ECONOMIC AFFAIRS IN THE FOREIGN MINISTRY. HE WILL TRY  
TO MANAGE MORE ACTIVELY BOLIVIA'S FOREIGN ECONOMIC  
RELATIONSHIPS, INCLUDING SOLICITATION OF CREDIT AND A  
MORE ACTIVE COMMERCIAL PRESENCE IN KEY COUNTRIES.

B. THE PRESENT MINISTRY OF INTEGRATION IS TO BE  
FOLDED INTO THE MINISTRY OF PLANNING UNDER AN UNDER-  
SECRETARY FOR INTEGRATION.

C. THE PRESENT MINISTRY OF AERONAUTICS IS TO BE  
FOLDED INTO THE MINISTRY OF TRANSPORTATION.

3. (C) MANAGING CONGRESS WITHOUT SANCHEZ DE LOZADA:

ASKED HOW THE GOVERNMENT AND/OR THE ADN-MNR ALLIANCE  
WOULD CONTROL THE CONGRESS WITH SANCHEZ DE LOZADA GONE  
FROM THE SENATE PRESIDENCY, BANZER SAID THEY ONLY HAVE  
TO GET THROUGH A VERY SHORT PERIOD -- THE REMAINING FEW  
WEEKS OF THE CURRENT SESSION. ONCE THE PROGRAMMED 120  
LEGISLATIVE DAYS (INCLUDING PREDICTABLE 30-DAY EXTENSION)  
HAVE ENDED -- 84 DAYS HAVE ALREADY PASSED -- THE CONGRESS  
WILL RECESS UNTIL ITS NEXT SESSION STARTS AUGUST 6. AT  
THAT TIME A NEW SLATE OF OFFICERS WILL BE ELECTED.  
PRESIDENT PAZ HAS AGREED THAT STARTING IN AUGUST THE ADN  
WILL HAVE THE PRESIDENCY OF ONE OF THE TWO CHAMBERS.  
(COMMENT: WE ASSUME THIS WILL PROBABLY BE THE SENATE.)

4. (C) COMMENT:

WE UNDERSTAND THAT VICE PRESIDENT JULIO GARRETT AYLLON  
WOULD CHAIR THE SENATE FOR THE REMAINDER OF THE CURRENT  
SESSION. THIS COULD BE A MIXED BLESSING. HIS MAIN  
TASK WOULD BE TO PASS THE GOVERNMENT'S PRIORITY LEGISLA-  
TIVE AGENDA IN THE SHORT TIME REMAINING IN THE SESSION.  
HE HAS THE POLITICAL AND LEGISLATIVE SKILLS TO DO THAT.  
ON THE OTHER HAND, SANCHEZ DE LOZADA HAS COMMENTED MORE  
THAN ONCE THAT "GARRETT IS AN UNGUIDED MISSILE" AND "NO  
ONE CAN CONTROL HIM". HIS FIRST PRIORITY APPEARS TO BE  
PERSONAL -- TO GROOM HIMSELF AS AN EVENTUAL SUCCESSOR TO  
PRESIDENT PAZ. HE OFTEN ACTS WITHOUT CONSULTING THE  
PARTY OR THE PRESIDENT, SOMETIMES LAUNCHING OUTRAGEOUS  
(BUT POPULARLY ATTRACTIVE) INITIATIVES ON THE SPUR OF  
BT

DECLASSIFIED

NLRP M353/1 #120157

BY BW NARA DATE 5/18/15

CONFIDENTIAL

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

13

PAGE 01  
EOB652

LA PAZ 0610  
AN006781

DTG: 212219Z JAN 86 PSN: 053356  
TOR: 022/1138Z CSN: HCE644

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:  
-----

OP IMMED  
STU4443  
DE RUEHLP #0610/02 0212223  
O 212219Z JAN 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 0076

INFO AMEMBASSY ASUNCION 4113  
AMEMBASSY BOGOTA 4340  
AMEMBASSY BRASILIA 4551  
AMEMBASSY BUENOS AIRES 7362  
AMEMBASSY CARACAS 5208  
AMEMBASSY LIMA 2536  
AMEMBASSY QUITO 4271  
AMEMBASSY SANTIAGO 6719  
USMISSION USUN NEW YORK 3439  
DIA WASHDC  
USAFSO HOWARD AFB PN//LAI//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DOI//

~~CONFIDENTIAL~~ SECTION 02 OF 02 LA PAZ 00610

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E. O. 12356: DECLAS: OADR  
TAGS: PGOV, BL  
SUBJECT: CABINET CHANGES

THE MOMENT -- FOR EXAMPLE, A U.N. STRIKE FORCE TO DEAL  
WITH THE NARCOTRAFFICKERS, AND A PROPOSAL THAT INDUSTRIAL  
NATIONS BUY ALL THE WORLD'S COCA OUTPUT. ROWELL  
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 LA PAZ 0637 DTG: 222040Z JAN 86 PSN: 054156  
EOB759 AN007316 TOR: 022/2020Z CSN: HCE863

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A4

WHTS ASSIGNED DISTRIBUTION:

SIT:

EOB:

ARAOZ AS FOREIGN MINISTER AND BEEF UP THE MINISTRY'S  
ROLE IN FOREIGN ECONOMIC AFFAIRS. SANCHEZ DE LOZADA  
WILL REPLACE BEDREGAL AS MINISTER OF PLANNING.  
THE NEW CABINET  
ARRANGEMENT WILL NOT SIMPLY BE A VERSION OF MUSICAL  
CHAIRS BUT LIKELY WILL FEATURE A NUMBER OF FRESH  
FACES IN KEY PORTFOLIOS.

3. (U) WE WILL PROVIDE MORE DETAILED REPORT AND  
COMMENTARY ONCE EXACT ASSIGNMENTS ARE KNOWN.

(DRAFTED BY: FFOULGER) ROWELL  
BT

OP IMMED  
UTS8191  
DE RUEHLP #0637 0222040  
O 222040Z JAN 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 0099

INFO AMEMBASSY ASUNCION 4122  
AMEMBASSY BOGOTA 4348  
AMEMBASSY BRASILIA 4558  
AMEMBASSY BUENOS AIRES 7369  
AMEMBASSY CARACAS 5216  
AMEMBASSY LIMA 2549  
AMEMBASSY QUITO 4279  
AMEMBASSY SANTIAGO 6726  
USMISSION USUN NEW YORK 3445  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//D01//

~~CONFIDENTIAL~~ LA PAZ 00637

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: PGOV, PINR, BL  
SUBJECT: BOLIVIAN CABINET RESIGNS IN PREFACE TO  
SHUFFLE

REF: LA PAZ 610

--

1. (C) AS ANTICIPATED IN REFTEL, PRESIDENT PAZ  
ESTENSORD'S CABINET RESIGNED EN MASSE ON THE EVENING  
OF JANUARY 21 IN A STANDARD PRELUDE TO WHAT PROBABLY  
WILL BE A MAJOR SHUFFLING OF MINISTERS. THE WHOLE-  
SALE WITHDRAWAL PROVIDES A COVER FOR REARRANGING  
THE CABINET RATHER THAN THE POLITICALLY MESSIER  
APPROACH OF TARGETING INDIVIDUAL MINISTERS FOR  
REMOVAL. OVER THE PAST FEW DAYS PAZ HAS BEEN  
CONSULTING WITH HIS OWN MNR PARTY LEADERS AS WELL  
AS OPPOSITION ADM CHIEF HUGO BANZER TO LAY THE  
GROUNDWORK FOR THE MOVE.

--

2. (C) ACCORDING TO EMBASSY SOURCES, PAZ INTENDS TO  
REMOVE CABINET DEADWOOD AND STRENGTHEN HIS ECONOMIC  
TEAM. THE GOVERNMENT'S TOUGH ECONOMIC POLICIES HAVE  
ENCOUNTERED PROBLEMS RECENTLY, IN PART DUE TO  
MANAGEMENT SLIPPAGE AT THE POLITICAL LEVEL. PAZ ALSO  
AIMS TO DEFUSE THE PUBLIC SPAT BETWEEN ECONOMIC CZAR  
GUILLERMO BEDREGAL AND SENATE PRESIDENT GONZALO  
SANCHEZ DE LOZADA. BEDREGAL WILL REPLACE GASTON

*Bolivia*

DECLASSIFIED

NLRP M353/1 #120158

BY *RW* NARA DATE *5/18/15*

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 LA PAZ 0688 DTG: 232227Z JAN 86 PSN: 056595  
EOB123 AN008213 TOR: 023/2233Z CSH: HCE383

DISTRIBUTION: BURG-01 HUGH-01 MORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:  
SIT: PUBS SIT  
EOB:

OP IMMED  
STU1866  
DE RUEHLP #0688/01 023223Z  
O 232227Z JAN 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 0134

INFO AMEMBASSY ASUNCION 4129  
AMEMBASSY BOGOTA 4355  
AMEMBASSY BRASILIA 4566  
AMEMBASSY BUENOS AIRES 7377  
AMEMBASSY CARACAS 5224  
AMEMBASSY LIMA 2560  
AMEMBASSY MONTEVIDEO 2154  
AMEMBASSY QUITO 4289  
AMEMBASSY SANTIAGO 6734  
USMISSION USUN NEW YORK 3452  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPM HOWARD AFB PN//DOI//

~~CONFIDENTIAL~~ SECTION 01 OF 03 LA PAZ 0688

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: PGOV, PINR, BL  
SUBJECT: NEW BOLIVIAN CABINET: PRESIDENT PAZ FORGES  
A STRONGER TEAM

REF: LA PAZ 637

1. (U) PRESIDENT VICTOR PAZ ESTENSORO ON THE EVENING OF JANUARY 22 SWORE IN HIS RECONSTITUTED 18-MEMBER CABINET. THERE ARE 11 NEW FACES, FIVE MINISTERS WHO REMAIN IN PLACE AND TWO WHO CHANGED PORTFOLIOS.

2. (C) MAJOR CHANGES OF INTEREST TO THE U.S. INCLUDE:

- GUILLERMO BEDREGAL: TRANSFERRED TO FOREIGN MINISTRY FROM PLANNING. THE FORCEFUL BEDREGAL SHOULD PROVE MORE ACTIVE THAN HIS PREDECESSOR GASTON ARAOZ, PARTICULARLY ON ISSUES SUCH AS BOLIVIA'S NEED FOR FOREIGN ASSISTANCE AND DEBT RELIEF. CONTROVERSIAL BEDREGAL MAY HAVE BEEN KICKED UPSTAIRS AWAY FROM DOMESTIC ECONOMIC MANAGEMENT.
- GONZALO SANCHEZ DE LOZADA: THE FORMER SENATE PRESIDENT REPLACES BEDREGAL AT PLANNING, WHERE HE FACES TOUGH ECONOMIC CHALLENGES. SANCHEZ DE LOZADA WAS PUBLICLY CRITICAL OF BEDREGAL'S

STYLE IN IMPLEMENTING THE GOVERNMENT'S AUSTERE ECONOMIC PLAN AND NOW WILL HAVE THE CHANCE TO TRY HIS OWN APPROACH. HE FIRMLY BELIEVES IN THE EXISTING ECONOMIC PROGRAM AND ITS VALIDITY.

-- FERNANDO BARTHELEMY: REMAINS AT INTERIOR. BARTHELEMY IS A KEY PLAYER IN BOLIVIA'S RECENTLY INITIATED ANTI-NARCOTICS EFFORT. THE EMBASSY HAS EMPHASIZED THE IMPORTANCE OF A SUSTAINED AND RIGOROUS EFFORT TO PRESIDENT PAZ. OCCASIONS.

-- JUAN CARIAGA OSORIO: A NEW MAN AT FINANCE, REPLACING THE RELATIVELY INEXPERIENCED ROBERTO GISBERT. THOUGH YOUNG (40), CARIAGA HOLDS IMPRESSIVE CREDENTIALS: GENERAL MANAGER OF BANK OF SANTA CRUZ (LA PAZ BRANCH); GOVERNOR FOR BOLIVIA AT LATIN AMERICAN FEDERATION OF BANKS; VICE PRESIDENT OF THE BOLIVIAN BANKING ASSOCIATION; CHARGE AT BOLIVIAN EMBASSY IN THE U.S. (1976-78); AND MORE. HE IS COMPETENT, SOFT-SPOKEN AND A FRIEND OF THE U.S. HE WILL NEED TO BE TOUGH, HOWEVER, TO STAKE OUT HIS TERRITORY AND DEAL ON AN EQUAL FOOTING WITH HARD-HITTING BEDREGAL, WHO INTENDS TO ESTABLISH AN UNDER-SECRETARIAT FOR ECONOMIC AFFAIRS AT THE FOREIGN MINISTRY. SOME OBSERVERS FEAR HE LACKS THE TOUGHNESS TO STAND UP TO PAZ IF THE PRESIDENT WANTS TO AUTHORIZE SOME BUDGET-BUSTING EXPENDITURES AS ALLEGEDLY HAPPENED EARLY IN JANUARY ON SOME MILITARY PROPOSALS.

-- FERNANDO VALLE: RECONFIRMED AS DEFENSE MINISTER.

ORIGINALLY CONSIDERED A LIGHTWEIGHT, VALLE HAS SETTLED COMFORTABLY INTO THE DEFENSE PORTFOLIO. HE DOES NOT TRY TO BE A COMMANDING GENERAL AND APPARENTLY MANAGES THE MINISTRY ACCEPTABLY. HE SEEMS TO HAVE GOOD RAPPORT WITH THE OFFICER CORPS, PERHAPS BECAUSE (AS ONE OF PAZ'S CLOSE CONFIDANTS TOLD US), HE DOES WHATEVER THEY ASK AND PAZ APPROVES.

-- ROBERTO GISBERT: MOVES FROM FINANCE, WHERE HE WAS OVER HIS HEAD, TO INDUSTRY/COMMERCE AND

BT

DECLASSIFIED

NLRR M3531 #120159

BY RW NARA DATE 5/18/15

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

16

PAGE 01 LA PAZ 0688 DTG: 232227Z JAN 86 PCN: 056599  
EOB124 AN08212 TOR: 023/2235Z CSN: HCE364

DISTRIBUTION: BURG-01 HUGH-01 MORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:  
SIT: PUBS SIT  
EOB:

OP IMMED  
STU1869  
DE RUEHLP #0688/02 0232234  
O 232227Z JAN 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 0135

INFO AMEMBASSY ASUNCION 4130  
AMEMBASSY BOGOTA 4356  
AMEMBASSY BRASILIA 4567  
AMEMBASSY BUENOS AIRES 7378  
AMEMBASSY CARACAS 5225  
AMEMBASSY LIMA 2561  
AMEMBASSY MONTEVIDEO 2155  
AMEMBASSY QUITO 4290  
AMEMBASSY SANTIAGO 6735  
USMISSION USUN NEW YORK 3453  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPMW HOWARD AFB PN//DOI//

~~CONFIDENTIAL~~ SECTION 02 OF 03 LA PAZ 00688

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: PGOV, PINR, BL  
SUBJECT: NEW BOLIVIAN CABINET: PRESIDENT PAZ FORGES

. TOURISM. MOST PUNDITS HAD ASSUMED GISBERT WOULD  
. BE DROPPED, AND HIS RETENTION IS A MINOR SURPRISE.  
. HE LACKS EXPERIENCE, PARTICULARLY IN POLITICS,  
. BUT HE HAS EARNED A REPUTATION FOR EXCEPTIONAL  
. HONESTY AND HE COMES ACROSS AS SINCERE AND WELL-  
. MEANING. PAZ APPARENTLY BELIEVES GISBERT CAN  
. BE BROUGHT ALONG AND SHOULD BE SAVED.

. -- ANDRES PETRICEVIC: NEW MINISTER OF TRANSPORT.  
. PETRICEVIC IS ONE OF THE WEALTHIEST MEN IN THE  
. MNR INNER CIRCLE AND HAS PAZ'S EAR. A BLUSTERY,  
. UNPREDICTABLE TYPE, HE IS NEVERTHELESS FUNDAMEN-  
. TALLY A FRIEND OF THE U.S.

. -- CARLOS MORALES LANDIVAR: AS ENERGY MINISTER  
. MORALES WILL OVERSEE THE BOLIVIAN STATE  
. PETROLEUM COMPANY (YPFB) WHICH GENERATES SOME  
. 90 PERCENT OF GOVERNMENT REVENUES AND IN A  
. SENSE IS THE TAIL THAT WAGS THE MINISTERIAL DOG.  
. THOUGH CARRYING A U.S. DOLS 158 MILLION DEBT,  
. A WELL-RUN, PRODUCTIVE YPFB IS EXTREMELY  
. IMPORTANT TO GOVERNMENT EFFORTS TO BALANCE ITS  
. BUDGET. YPFB PRESIDENT RENE GUACHALLA  
. RESIGNED JUST PRIOR TO THE CABINET CHANGE,  
. LEAVING THE FIELD FREE FOR MORALES TO CHOOSE

. HIS OWN MAN FOR THIS KEY JOB. MORALES IS AN  
. ARDENT BANZER SUPPORT AND PROVIDES PAZ A  
. CRUCIAL LINK TO THE ADN.

. -- EDIL SANDOVAL MORON: AGRICULTURE AND CAMPESINO  
MINISTER SANDOVAL MORON IS THE MOST LIKELY CLANGER IN  
THE GROUP. HE KNOWS NOTHING ABOUT EITHER AGRICULTURE  
OR PEASANTS, AND THERE IS CIRCUMSTANTIAL EVIDENCE  
SUGGESTING HE MAY HAVE SKIRTED THE FRINGES OF THE  
NARCOTICS TRADE IN THE PAST. GIVEN THE IMPORTANCE  
OF THE CAMPESINOS AS THE MNR POLITICAL BASE, WE ASSUME  
PRESIDENT PAZ WILL HANDLE CAMPESINO AFFAIRS HIMSELF,  
WORKING MAINLY THROUGH INTERIOR MINISTER BARTHELEMY.

3. (C) AT FIRST GLANCE, WE BELIEVE PAZ AS FORGED A  
STRONGER TEAM OVERALL AND FORTIFIED THE ECONOMIC  
PORTFOLIOS IN PARTICULAR. HE HAS RETAINED HIS  
STRONGEST KEY PLAYERS AND RECRUITED NEEDED TECHNICAL  
TALENT WITH GENERALLY SIMILAR PRAGMATIC OUTLOOKS. A  
PRELIMINARY ASSESSMENT SUGGESTS THAT THIS NEW TEAM  
SHOULD WORK EFFECTIVELY TOGETHER WITH THE POSSIBLE --  
AND IMPORTANT -- EXCEPTIONS OF THE OIL-AND-WATER  
COMBINATION OF BEDREGAL AND SANCHEZ DE LOZADA.

4. (U) FOLLOWING IS A LIST OF THE NEW CABINET. WE WILL  
PROVIDE BIO ASSESSMENT AND FURTHER COMMENT SEPARATELY.

. FOREIGN RELATIONS/  
. WORSHIP: . GUILLERMO BEDREGAL GUTIERREZ  
. . . . . REPLACES GASTON ARAOZ LEVY  
. INTERIOR/MIGRATION/  
. JUSTICE: . FERNANDO BARTHELEMY MARTINEZ  
. . . . . RECONFIRMED  
. DEFENSE: . FERNANDO VALLE QUEVEDO  
. . . . . RECONFIRMED  
. FINANCE . JUAN CARIAGA OSORIO  
. PLANNING/  
. COORDINATION: . GONZALO SANCHEZ DE LOZADA  
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

17

PAGE 01 LA PAZ 0688 DTG: 232227Z JAN 86 PSN: 056601  
EOB125 AN008211 TOR: 023/2236Z CCN: HCE385

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:  
SIT: PUBS SIT  
EOB:

OP IMMED  
UTS0877  
DE RUEHLP #0688/03 0232236  
O 232227Z JAN 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 0136

INFO AMEMBASSY ASUNCION 4133  
AMEMBASSY BOGOTA 4357  
AMEMBASSY BRASILIA 4568  
AMEMBASSY BUENOS AIRES 7379  
AMEMBASSY CARACAS 5226  
AMEMBASSY LIMA 2562  
AMEMBASSY MONTEVIDEO 2156  
AMEMBASSY QUITO 4291  
AMEMBASSY SANTIAGO 6736  
USMISSION USUN NEW YORK 3454  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PH//DO1//

~~CONFIDENTIAL~~ SECTION 03 OF 03 LA PAZ 00688

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: PGOV, PINR, BL  
SUBJECT: NEW BOLIVIAN CABINET: PRESIDENT PAZ FORGES

. EDUCATION/  
. CULTURE: . ENRIQUE IPINA MELGAR  
. RECONFIRMED  
. TRANSPORT/  
. COMMUNICATIONS: . ANDRES PETRICEVIC  
. INDUSTRY/ COMMERCE/  
. TOURISM: . ROBERTO GISBERT BERMUDEZ  
. WORK/LABOR  
. DEVELOPMENT: . WALTER RIOS GAMBOA  
. MINES/  
. METALLURGY: . JAIME VILLALOBOS CHAVEZ  
. CAMPESINO/  
. AGRICULTURE: . EDIL SANDOVAL MORON  
. ENERGY/  
. HYDROCARBONS: . CARLOS MORALES LANDIVAR  
--  
. SOCIAL SERVICES/  
. PUBLIC HEALTH: . CARLOS PEREZ GUZMAN

. URBAN AFFAIRS/  
. HOUSING: . JUAN FRANKLIN ANAYA  
. VASQUEZ  
. AERONAUTICS: . GENERAL ANTONIO TOVAR  
. PIEROLA  
. RECONFIRMED  
. SECRETARY GENERAL OF  
. THE PRESIDENCY: . JUAN CARLOS DURAN  
. SAUCEDO  
. INTEGRATION: . FERNANDO CACERES DIAS  
. RECONFIRMED  
. INFORMATION: . HERMAN ANTELO LAUGHLIN

(DRAFTED BY: POL - F.FOULGER) ROWELL  
BT

~~CONFIDENTIAL~~



# WITHDRAWAL SHEET

## Ronald Reagan Library

### Collection Name

Latin American Affairs Directorate, NSC: Records

### Withdrawer

KM 9/29/2011  
L

### File Folder

BOLIVIA (SAFE 1) 01/09/1986-04/06/1986

### FOIA

M10-353/1  
DENNISON

### Box Number

1

72

| <i>ID</i>    | <i>Document Type</i><br><i>Document Description</i> | <i>No of</i><br><i>pages</i> | <i>Doc Date</i> | <i>Restric-</i><br><i>tions</i> |
|--------------|---|------------------------------|-----------------|---------------------------------|
| 120160 CABLE |   | 3                            | 1/23/1986       | B1                              |
|              | 232328Z JAN 86                                      |                              |                 | B3                              |

The above documents were not referred for declassification review at time of processing  
Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

# WITHDRAWAL SHEET

## Ronald Reagan Library

### Collection Name

Latin American Affairs Directorate, NSC: Records

### Withdrawer

KM 9/29/2011  
L

### File Folder

BOLIVIA (SAFE 1) 01/09/1986-04/06/1986

### FOIA

M10-353/1  
DENNISON

### Box Number

1

72

| <i>ID</i> | <i>Document Type</i><br><i>Document Description</i> | <i>No of</i><br><i>pages</i> | <i>Doc Date</i> | <i>Restric-</i><br><i>tions</i> |
|-----------|---|------------------------------|-----------------|---------------------------------|
| 120161    | CABLE   | 1                            | 1/29/1986       | B1                              |
|           | 292122Z JAN 86                                      |                              |                 | B3                              |

The above documents were not referred for declassification review at time of processing  
Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

# WITHDRAWAL SHEET

## Ronald Reagan Library

### Collection Name

Latin American Affairs Directorate, NSC: Records

### Withdrawer

KM 9/29/2011  
L

### File Folder

BOLIVIA (SAFE 1) 01/09/1986-04/06/1986

### FOIA

M10-353/1  
DENNISON

### Box Number

1

72

| <i>ID</i> | <i>Document Type</i><br><i>Document Description</i> | <i>No of</i><br><i>pages</i> | <i>Doc Date</i> | <i>Restric-</i><br><i>tions</i> |
|-----------|---|------------------------------|-----------------|---------------------------------|
| 120162    | PAPER<br><br>RE BOLIVIA                             | 1                            | 1/31/1986       | B1<br>B3                        |

The above documents were not referred for declassification review at time of processing  
Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

~~SECRET~~NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01      BUENOS AIRES 1959      DTG: 052046Z MAR 86      PSN: 057275  
EOB796      AN010615      TOR: 064/2107Z      CSN: HCE575

DISTRIBUTION: BURG-01 DANZ-01 HUGH-01 NORT-01 RAY-01 TILL-01  
WIGG-01 /007 A4

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU4232  
DE RUEHBU #1959/01 0642048  
O 052046Z MAR 86  
FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC IMMEDIATE 1111

INFO AMEMBASSY LA PAZ IMMEDIATE 5545  
AMEMBASSY BOGOTA 3405  
AMEMBASSY BRASILIA 7367  
AMEMBASSY CARACAS 5595  
AMEMBASSY LIMA 5529  
AMEMBASSY QUITO 2345  
AMEMBASSY SANTIAGO 8203  
AMEMBASSY ASUNCION 7140

~~SECRET~~ SECTION 01 OF 02 BUENOS AIRES 01959

E.O. 12356: DECL: OADR  
TAGS: EPET, PREL, AR, BL  
SUBJ: ARGENTINE PURCHASES OF BOLIVIAN GAS  
REF: STATE 60512

1. (SECRET - ENTIRE TEXT.)

2. SUMMARY. IN RESPONSE TO DEMARCHE BY EMBOFFS, MFA UNDER SECRETARY ALCONADA SEMPE SAID THAT THE GOA, IN ACCORDANCE WITH PRESIDENT ALFONSIN'S DECISION, IS CURRENTLY ENGAGED IN GAS NEGOTIATIONS WITH GOB. ITS OBJECTIVE IS TO REDUCE THE GOA'S CONTROVERSIAL GAS PAYMENTS TO BOLIVIA TO A MORE POLITICALLY DEFENSIBLE FIGURE WHILE COMPENSATING FOR LOST REVENUES BY OTHER FORMS OF GOA ECONOMIC ASSISTANCE. END SUMMARY.

3. IN RESPONSE REFTL, POLITICAL AND ECONOMIC COUNSELORS CALLED ON FOREIGN MINISTRY UNDER SECRETARY RAUL ALCONADA SEMPE TO DISCUSS GOA GAS PURCHASES FROM BOLIVIA AND ENCOURAGE POSTPONEMENT OF ANY SUBSTANTIAL CONTRACT REVISIONS THAT WOULD REDUCE GOA'S FOREIGN EXCHANGE INCOME IN CONTEXT OF BOLIVIA'S DIFFICULT ECONOMIC SITUATION. AFTER LISTENING TO EMBOFFS EXPLANATION OF USG POSITION REGARDING ARGENTINA'S SUPPORT FOR BOLIVIAN DEMOCRACY AND IMPORTANCE OF CONTINUATION OF CURRENT LEVEL OF GAS PURCHASES IN THIS CRITICAL PERIOD, ALCONADA SAID THAT HE HAD JUST COME FROM A MEETING WITH PRESIDENT ALFONSIN WHERE NEGOTIATIONS BETWEEN VISITING BOLIVIAN NEGOTIATING TEAM AND GOA ECONOMIC OFFICIAL WERE DISCUSSED. ACCORDING TO ALCONADA, GOA HAS MADE FIRM DECISION TO RENEGOTIATE GAS CONTRACT AND REDUCE PAYMENTS TO BOLIVIA.

REDUCTION IN DIRECT GAS PAYMENTS, HOWEVER, WOULD BE GRADUAL AND COMPENSATED BY OTHER FORMS OF GOA ASSISTANCE (I.E., LOANS, CREDITS, FOOD ASSISTANCE). HE SAID THAT ARGENTINA COULD NO LONGER AFFORD THIS LEVEL OF OUTFLOW OF FOREIGN EXCHANGE (OVER \$400 MILLION IN 1985). HE ASSERTED THAT THEY NEEDED TO PUT THEIR COMMERCIAL RELATIONS WITH BOLIVIA IN BALANCE. HE NOTED THAT TO DO SO, BOLIVIA NEEDED TO SETTLE ITS INTEREST ARREARS (HE MENTIONED \$90 MILLION) ON THE OVER \$400 MILLION OF GOA LOANS TO BOLIVIA DATING FROM THE VIDELA/GARCIA MEZA PERIOD, AND TO BRING THEIR ALADI ACCOUNTS OF OVER \$40 MILLION IN BALANCE. THE GOA INTENDS TO NEGOTIATE A MORE REALISTIC GAS CONTRACT WHICH WILL REDUCE FLOWS BUT IS WILLING TO OFFSET MUCH OF THAT REDUCTION THROUGH COMMERCIAL CREDITS AND LOANS (PRESUMABLY THE MULTICOUNTRY SWAP ARRANGEMENT). HE MENTIONED, FOR EXAMPLE, THAT BOLIVIA NOW BUYS MANY MANUFACTURED GOODS FROM BRAZIL WHICH ARGENTINA ALSO PRODUCES, IMPLYING A GOA LINE OF CREDIT MIGHT MAKE ARGENTINE GOODS MORE ATTRACTIVE.

4. ALCONADA ALSO DISCUSSED THE PRICING FIGURES THE GOA HOPED TO ACHIEVE IN NEGOTIATIONS WITH THE GOB. HE NOTED THAT ARGENTINA HAD BEEN PAYING \$4.27 PER CUBIC FOOT FOR BOLIVIAN GAS, MORE THAN TWICE THE WORLD MARKET PRICE (WHICH HE CITED AT \$1.40 PER CUBIC FOOT), AND DOMESTIC GAS COSTS ONLY \$.70 PER CUBIC FOOT. HE CITED \$1.90 PER CUBIC FOOT AS THE TARGET FOR THE NEW GAS CONTRACT. HE DID NOT MENTION WHETHER OR NOT THE GOA INTENDED TO REDUCE THE VOLUME OF PURCHASES AS WELL. AS OF DECEMBER 1985, ALCONADA SAID THAT GOA AND GOB HAD AGREED ON GOA PAYMENT OF \$3.30 A CUBIC FOOT FOR GAS AND THAT

ARGENTINA (WITH NORMAL 60 DAY LAPSE) WAS NOW CURRENT ON ITS PAYMENTS TO GOB FOR 1985. BOLIVIANS IN TURN HAD AGREED TO SPEND 50 PERCENT OF 1985 GAS PURCHASES FOR GOA GOODS PER COUNTER TRADE ACCOUNT.

5. ALCONADA SAID THAT THE PRESIDENT HAS DETERMINED THAT POLITICAL JUSTIFICATION FOR CONTINUING UNREALISTICALLY HIGH PAYMENT FOR BOLIVIAN GAS CAN NO LONGER BE SUSTAINED. ALCONADA EMPHASIZED AGAIN, HOWEVER, THAT GOA WANTS TO CONTINUE SUPPORT FOR DEMOCRACY SO THAT REDUCTION WILL BE GRADUAL AND COMPENSATED -- AT LEAST IN PART -- BY OTHER FORMS OF GOA ASSISTANCE. SUCH ASSISTANCE, HOWEVER, CAN NO LONGER BE IN THE BT

DECLASSIFIED

NLRR M353/1 # 120163  
BY RW NARA DATE 5/18/15

~~SECRET~~

~~SECRET~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

24

PAGE 01 BUENOS AIRES 1959 DTG: 052046Z MAR 86 PSN: 057280  
EOB801 AN010614 TOR: 064/2109Z CSN: HCE576

DISTRIBUTION: BURG-01 DANZ-01 HUGH-01 NORT-01 RAY-01 TILL-01  
WIGG-01 /007 A4

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

ASSISTANCE TO BOLIVIA. HE PERSONALLY PLEDGED TO CONVEY THESE CONCERNS TO PRESIDENT ALFONSIN. ALCONADA MADE IT CLEAR, HOWEVER, THAT THE PRESIDENT HIMSELF HAS DECIDED TO REVISE THE CURRENT SYSTEM OF GOA GAS PURCHASES WHILE COMPENSATING A GRADUAL REDUCTION IN ARGENTINE PAYMENTS WITH OTHER FORMS OF ECONOMIC ASSISTANCE FROM THE GOA AND HOPEFULLY OTHER LA COUNTRIES SUPPORTIVE OF BOLIVIAN DEMOCRACY.

OP IMMED  
STU4236  
DE RUEHBU #1959/02 0642049  
O 052046Z MAR 86  
FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC IMMEDIATE 1112

INFO AMEMBASSY LA PAZ IMMEDIATE 5546  
AMEMBASSY BOGOTA 3406  
AMEMBASSY BRASILIA 7368  
AMEMBASSY CARACAS 5596  
AMEMBASSY LIMA 5530  
AMEMBASSY QUITO 2346  
AMEMBASSY SANTIAGO 8204  
AMEMBASSY ASUNCION 7141

~~SECRET~~ SECTION 02 OF 02 BUENOS AIRES 01959

E.O. 12356: DECL: OADR  
TAGS: EPET, PREL, AR, BL  
SUBJ: ARGENTINE PURCHASES OF BOLIVIAN GAS

FORM OF A CONTRACTUAL OBLIGATION FAR ABOVE THE WORLD PRICE AND DIFFICULT TO DEFEND POLITICALLY. IN RESPONSE TO USG CONCERN, HE SAID GOA IS CONSCIOUS OF DANGERS WHICH COULD RESULT FROM ANY REAL REDUCTION OF GOB INCOME AT THIS CRITICAL MOMENT. INDEED, HE SAID THE GOA PLANS TALKS WITH VENEZUELA, BRAZIL AND COLOMBIA TO EXPLORE WHAT ASSISTANCE THESE COUNTRIES CAN PROVIDE TO FILL ANY GAP AND BOOST BOLIVIAN DEMOCRACY. (ALCONADA DID NOT MENTION NOR DID EMBOFFS RAISE ARTICLE IN BA MORNING PRESS REGARDING ANNOUNCEMENT OF USG DECISION TO SUSPEND AID TO BOLIVIA DUE TO NON-COMPLIANCE WITH CONGRESSIONALLY MANDATED TARGETS ON REDUCTION OF COCA CULTIVATION.)

6. ALCONADA PREDICTED CURRENT ROUND OF NEGOTIATIONS BETWEEN BOLIVIAN AND ARGENTINE OFFICIALS WOULD LAST ANOTHER DAY OR SO. HE SAID BOLIVIANS ARE UNREALISTICALLY SEEKING TO MAINTAIN OR EVEN INCREASE CURRENT PRICE ON GAS PURCHASES. AT WEEK'S END IF TALKS PROGRESS, ALCONADA SAID HE MAY PERSONALLY FLY TO LA PAZ TO CONTINUE DISCUSSIONS WITH THE GOB. (FYI: ALTHOUGH HE MIGHT NOT BE ADVERSE TO CONTACT WITH AMBASSADOR ROWELL, WHOM HE HAS NOT MET, ALCONADA IMPLIED THAT HIS MISSION COULD MAKE ANY MEETING AWKWARD. SUGGEST EMBASSY LA PAZ CONTACT ARGENTINE EMBASSY FOR FURTHER READ OUT ON TALKS IF ALCONADA DOES VISIT LA PAZ. END FYI.)

7. CORDIAL AS ALWAYS, ALCONADA SEVERAL TIMES SAID THAT HE APPRECIATED USG'S INTEREST AND CONCERNS ABOUT LEVEL OF GOA GAS PAYMENTS AND

8. COMMENT. IN SEVERAL PREVIOUS CONVERSATIONS WITH MFA'S DIRECTOR OF SOUTH AMERICAN AFFAIRS, EMBASSY HAD REPORTED GOA'S INTENTIONS TO REDUCE GAS PAYMENTS BEGINNING IN 1986. FROM ALCONADA'S COMMENTS, IT IS OBVIOUS THAT PRESIDENT ALFONSIN, WHO HAS BEEN VERY SUPPORTIVE OF BOLIVIAN DEMOCRACY, REACHED THIS DECISION. THE OPEN QUESTION AT THIS POINT IS HOW MUCH ECONOMIC ASSISTANCE, IN WHAT FORM AND WHEN THE GOA WILL BE WILLING TO PROVIDE BOLIVIA WHEN GAS PAYMENTS ARE REDUCED. BUSHNELL  
BT

~~SECRET~~

# WITHDRAWAL SHEET

## Ronald Reagan Library

### Collection Name

Latin American Affairs Directorate, NSC: Records

### Withdrawer

KM 9/29/2011  
L

### File Folder

BOLIVIA (SAFE 1) 01/09/1986-04/06/1986

### FOIA

M10-353/1  
DENNISON

### Box Number

1

72

| <i>ID</i> | <i>Document Type</i><br><i>Document Description</i> | <i>No of</i><br><i>pages</i> | <i>Doc Date</i> | <i>Restric-</i><br><i>tions</i> |
|-----------|---|------------------------------|-----------------|---------------------------------|
| 120164    | CABLE<br><br>LA PAZ 02365                           | 2                            | 3/20/1986       | B1                              |

The above documents were not referred for declassification review at time of processing  
Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.



27

NATIONAL SECURITY COUNCIL  
SECRETARIAT

~~SECRET~~

~~SECRET~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

27

PAGE 02 OF 02 LA PAZ 2388

DTG: 211329Z MAR 86 PSN: 011088

. THEIR CONFIDENCE IN THE RESPONSIBLE ROLE THEY ARE  
. PLAYING. CONVERSELY, ANY SLIGHT UNDERMINES THAT  
. CONFIDENCE AND IMPUGNS THE SENSE OF STATUS AND  
. DIGNITY OF THE ARMED FORCES LEADERS.

-- FU-86 IS PROBABLY THE ONLY SIGNIFICANT, SHOWY  
. RESPONSIBLE MILITARY ACTIVITY SCHEDULED FOR  
. CALENDAR-YEAR 1986. IT HAS TWO MAJOR PAYOFFS:  
. IT PROVIDES TRAINING AND ASSISTANCE IN MILITARY  
. PROFESSIONALIZATION OUTSIDE THE CONTEXT OF NORMAL  
. MAP AND IMET PROGRAMS; AND IT PROVIDES SIGNIFICANT  
. POLITICAL REINFORCEMENT AND LEGITIMIZATION. THE  
. POLITICAL COMPONENT IS AT LEAST AS IMPORTANT TO THE  
. HIGH COMMAND AS IS THE PROFESSIONALIZATION ELEMENT.  
. THIS IS WHY, DESPITE RESOURCES THAT ARE SO TIGHT  
. THAT ALL BOLIVIAN AIR FORCE PLANES ARE GROUNDED,  
. THE BOLIVIAN HIGH COMMAND HAS ENTHUSIASTICALLY  
. EMBRACED FU-86 UNTIL THIS WEEK.

-- IN TERMS OF OVERALL SENSITIVITY, GENERAL GALVIN'S  
. VISIT AT THE END OF JANUARY WAS A HIGH POINT AND  
. WAS A MAJOR REINFORCEMENT TO THE PAZ ESTENSORO  
. GOVERNMENT AND THE FURTHER CONSOLIDATION OF DEMO-  
. CRACY.

-- NEWSPAPER STORIES AT THE BEGINNING OF MARCH ALLEGING  
. THAT ALL AID HAD BEEN SUSPENDED WAS A COLD BATH FOR  
. THE BOLIVIAN MILITARY. LATER CLARIFICATIONS DID  
. NOT/NOT HELP MUCH, SINCE CURRENT CONGRESSIONAL HOLDS  
. DO AFFECT FY-1986 MAP AND IMET.

-- WHEN THE USMILGP COMMANDER HAD TO TELL THE HIGH  
. COMMAND THAT COST PROBLEMS WERE FORCING THE ELIMINA-  
. TION OF U.S. AIR SUPPORT ELEMENTS FOR THE PROPOSED  
. FIELD EXERCISE (FTX) PORTION OF FU-86, THIS WAS  
. LIKE THE "STRAW THAT BROKE THE CAMEL'S BACK". THE  
. HIGH COMMAND HAD BEEN COUNTING ON THE MORE SPECTACU-  
. LAR ASPECTS OF THE FTX TO BE THE CORE OF THE  
. "POLITICAL/PSYCHOLOGICAL" RETURNS IT HOPED TO GET  
. FROM THE EXERCISE. IN EFFECT, THE HIGH COMMAND IS  
. LEFT WITH NO RPT NO OBVIOUS EXTERNAL EVIDENCE OF  
. U.S. SUPPORT OR APPROVAL (AS THEY SEE IT) TO SHOW  
. THEIR FORCES OR BOLIVIAN SOCIETY AS A WHOLE.

5. VALLE SAID HE WOULD MEET AGAIN WITH THE BOLIVIAN  
HIGH COMMAND AT 9:30 A.M. MARCH 20. HE SAID HE IN-  
TENDED TO:  
BT

~~SECRET~~

~~SECRET~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 OF 02 LA PAZ 2388  
EOB351 AN008846

DTG: 211329Z MAR 86 PSN: 011089  
TOR: 080/1809Z CSN: HCE780

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT: VP SIT  
EOB:

ROUTINE  
STU4909  
DE RUEHLP #2388/02 0801335  
R 211329Z MAR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 1187  
SECDEF WASHDC  
JCS WASHDC  
USCINCSO QUARRY HEIGHTS PN//J2/INTAF/SCJ2-PLOPS//

~~SECRET~~ SECTION 02 OF 02 LA PAZ 02388

EXDIS  
MILITARY ADDRESSEES HANDLE AS SPECAT EXCLUSIVE

E.O. 12356: DECL: OADR  
TAGS: BL, MASS, PGOV  
SUBJECT: BOLIVIAN MILITARY DISSUADED FROM POSTPONEMENT

-- REEMPHASIZE THE POINTS HE HAD MADE TO GENERAL LOPEZ;

-- STATE THAT PRESIDENT PAZ HAD PERSONALLY INSTRUCTED  
HIM (VALLE) TO MEET WITH SENIOR OFFICIALS IN THE  
STATE DEPARTMENT AND DOD/ISA DURING HIS STAY IN  
WASHINGTON; AND

-- DISCUSS THE ISSUE OF NARCO-TRAFFICKING IN  
RELATION TO GUERRILLA AND TERRORIST MOVEMENTS,  
POTENTIAL DIRECT MILITARY INVOLVEMENT IN THE FIGHT  
AGAINST NARCO-TRAFFICKING, AND THE CRITICAL NEED  
FOR ASSISTANCE TO ENABLE THE ARMED FORCES TO DEAL  
WITH THOSE ISSUES.

6. THANKS TO OUTSTANDING EFFORTS BY USCINCSO, FUNDS  
FOR KEY AIR SUPPORT FOR THE FIELD TRAINING EXERCISE  
WERE FOUND AND RESTORED MARCH 19. AT MY SUGGESTION  
(AND WITH VALLE'S STRONG ENCOURAGEMENT), GENERAL  
GALVIN COMMUNICATED WITH GENERAL LOPEZ LATE MARCH 19  
REAFFIRMING STRONG SUPPORT FOR AND HIGH APPRECIATION OF  
GENERAL LOPEZ AND THE BOLIVIAN HIGH COMMAND AND ARMED  
FORCES.

7. DURING THE HIGH COMMAND'S MEETING WITH VALLE EARLY  
MARCH 20, I TELEPHONED GENERAL LOPEZ, CONFIRMED THE  
GOOD NEWS ON AIR SUPPORT, REITERATED TO HIM GENERAL  
GALVIN'S MESSAGE, AND EMPHASIZED THAT GENERAL GALVIN  
HAD ACTED TO SHOW HIS OWN PERSONAL AND THE U.S. ARMED  
FORCES' SUPPORT FOR LOPEZ AND A BOLIVIAN MILITARY WHO  
ARE DOING SUCH AN OUTSTANDING JOB IN SUPPORT OF DEMO-  
CRACY. GENERAL LOPEZ WAS EFFUSIVELY APPRECIATIVE AND  
SAID HE WOULD RETURN TO HIS MEETING AND INFORM THE  
HIGH COMMAND IMMEDIATELY.

~~SECRET~~

~~SECRET~~

30

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 02 OF 02 LA PAZ 2388

DTG: 211329Z MAR 86 PSN: 011089

8. DEFENSE MINISTER VALLE LATER CALLED ME TO SAY THAT THE REACTION IN THE HIGH COMMAND MEETING WAS EXTREMELY POSITIVE AND ENTHUSIASTIC. HE EXPRESSED HIS OWN DEEP APPRECIATION -- AS A CIVILIAN MINISTER -- TO ME AND TO GENERAL GALVIN.

9. WE NEED TO REMEMBER THAT THE PRESENT MEMBERS OF THE BOLIVIAN HIGH COMMAND WERE SERVICE COMMANDERS DURING THE DIFFICULT DEMOCRATIC TRANSITION OF 1985. THE PAZ ESTENSSORO GOVERNMENT -- WHICH IS THE BEST BET THE UNITED STATES WILL HAVE FOR FURTHER CONSOLIDATING DEMOCRACY, ESTABLISHING A PRIVATE SECTOR BASED ECONOMIC RECOVERY, AND EFFECTIVELY ATTACKING NARCO-TRAFFICKING -- DEPENDS ON THE ARMED FORCES FOR A CONTINUED LOYALTY TO DEMOCRACY AND FOR INTERNAL ORDER IN THE FACE OF MOUNTING SOCIAL PROTEST OVER ECONOMIC AUSTERITY. IN ADDITION, THE ARMED FORCES ALREADY HAVE A CRITICAL LOGISTICS SUPPORT ROLE FOR ANTI-NARCOTICS POLICE ON STRIKE OPERATIONS, AND SOME MILITARY ELEMENTS IN REMOTE REGIONS MAY TAKE ON A DIRECT INTERDICTION ROLE OF THEIR OWN. FOR ALL OF THESE REASONS, PRESIDENT PAZ ESTENSSORO HAS TWICE PERSONALLY PRESSED ME TO TRY TO DELIVER PROMPTLY MORE MILITARY ASSISTANCE AND TRAINING TO THE BOLIVIAN ARMED FORCES. IT IS A TRAVESTY THAT THIS BOLIVIAN MILITARY ESTABLISHMENT IS TRAPPED, FOR NO FAULT OF ITS OWN, IN A SITUATION IN WHICH IT RECEIVES LESS ASSISTANCE THAN DID THE BOLIVIAN MILITARY UNDER THE SILES ADMINISTRATION. THAT ADMINISTRATION WAS RIDDLED WITH COMMUNISTS AND DID NOTHING EFFECTIVE AGAINST NARCOTICS.

10. I GREATLY APPRECIATE THE SUPPORT WE ARE RECEIVING FROM USCINCSO. ROWELL  
BT

~~SECRET~~

CONFIDENTIAL

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 LA PAZ 2439 DTG: 221304Z MAR 86 PSN: 012740  
EOB883 AN809296 TOR: 081/13212 CSN: HCE078

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU7637  
DE RUEHLP #2439/01 0811308  
O 221304Z MAR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1226

INFO AMEMBASSY ASUNCION 4422  
AMEMBASSY BOGOTA 4658  
AMEMBASSY BRASILIA 4860  
AMEMBASSY BUENOS AIRES 7667  
AMEMBASSY CARACAS 5515  
AMEMBASSY LIMA 2911  
AMEMBASSY QUITO 4604  
AMEMBASSY SANTIAGO 7024  
USMISSION USUN NEW YORK 3697  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DOI//

C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 02439

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: PGOV, ELAB, ECON, BL  
SUBJECT: GOVERNMENT TAKES OFFENSIVE TO PASS TAX  
AND BUDGET PROPOSALS

REF: (A) LA PAZ 2370  
(B) LA PAZ 2401

SUMMARY

1. (C) PRESIDENT PAZ ESTENSSORO KICKED OFF THE GOVERNMENT'S CAMPAIGN TO PASS TAX AND BUDGET LAWS WITH A DRAMATIC NATIONALLY TELEvised SPEECH ON MARCH 20. "THE FUTURE OF THE COUNTRY IS IN THE HANDS OF THE LEGISLATURE," HE SAID. THE LAWS ARE CRUCIAL FOR THE SUCCESS OF THE GOVERNMENT'S ECONOMIC POLICIES AND AN IMF STAND-BY. INITIAL CONGRESSIONAL REACTIONS RANGED FROM NEGATIVE (PRESIDENTS OF BOTH THE SENATE AND THE CHAMBER OF DEPUTIES) TO NON-COMMITTAL. TO INCREASE PRESSURE ON CONGRESS TO APPROVE THE PROPOSALS, THE GOVERNMENT HAS TIED ITS OFFER TO INCREASE TEACHERS' SALARIES TO PASSAGE OF THE TAX AND BUDGET LAWS. DESPITE THE INITIAL RECEPTION, PAZ AND HIS ECONOMIC TEAM ARE IN FULL-COURT PRESS TO COMPEL RESPONSIBLE CONGRESSIONAL CONSIDERATION. WE ANTICIPATE THAT REINFORCEMENT IN THE FORM OF ENDORSEMENTS FROM INFLUENTIAL PRIVATE SECTOR GROUPS AND OTHERS WILL MATERIALIZE AS WELL. THE GOING WILL BE TOUGH, BUT

ODDS marginally FAVOR PAZ. THE EMBASSY WILL ADD ITS WEIGHT TO THE EFFORT AT EVERY APPROPRIATE OPPORTUNITY. END SUMMARY.

A WEAK AND CONTENTIOUS CONGRESS MUST ACT

2. (LOU) THE EXECUTIVE BRANCH'S TAX INITIATIVES AND BUDGET PROPOSALS MUST BE APPROVED BY CONGRESS. THIS CONGRESS, WHICH HAS BEEN QUERULOUS AND SLOW TO ACT, IS NOW FACED WITH THE URGENT NECESSITY TO PASS PROMPTLY A TAX LAW AND A BUDGET IN A COUNTRY WHICH IN RECENT YEARS HAS OPERATED WITH NEITHER A BUDGET NOR AN EFFECTIVE OR ENFORCED TAX COLLECTION SCHEME.

GOVERNMENT BEGINS PUBLIC RELATIONS CAMPAIGN

3. (U) PRESIDENT PAZ ESTENSSORO ON MARCH 20 KICKED OFF THE GOVERNMENT'S CASE WITH A POWERFUL AND ELOQUENT NATIONALLY BROADCAST TELEVISION SPEECH ON HIS TAX PROPOSAL. PAZ, LOOKING POISED AND HEALTHY, SAID TAX REVENUES MUST BE INCREASED AND HIS BUDGET PASSED IN ORDER TO FIGHT HYPERINFLATION AND THE POSSIBILITY OF TOTAL BANKRUPTCY. ONE OF THE MOST DRAMATIC MOMENTS OCCURRED WHEN PAZ AVOWED IT WAS UP TO CONGRESS TO PASS THE LAWS NECESSARY FOR BOLIVIA'S SURVIVAL. "THE FUTURE OF THE COUNTRY IS IN THE HANDS OF THE LEGISLATURE." HE PLEDGED TO CALL AN EXTRAORDINARY EXTENDED SESSION IF NECESSARY TO ASSURE APPROVAL OF THE MEASURES.

4. (U) ON THE SAME DAY, FINANCE MINISTER JUAN CARIAGA AND PLANNING MINISTER GONZALO SANCHEZ DE LOZADA HELD A PRESS CONFERENCE WHERE THEY PRESENTED ARGUMENTS IN FAVOR OF THE GOVERNMENT'S TAX LAW. CARIAGA SAID THAT:

-- THE CURRENT CRITICAL SITUATION WAS CAUSED BY THE PREVIOUS GOVERNMENT WHICH FAILED TO RAISE MONEY TO COVER ITS EXPENDITURES. IT "PAID" FOR ITS GROWING DEFICITS BY "UNBACKED CURRENCY EMISSIONS."

BT

DECLASSIFIED

NLRR M353/1 #120167  
BY RW NARA DATE 5/18/15

CONFIDENTIAL

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 LA PAZ 2439 DTG: 221304Z MAR 86 PSN: 012741  
EOB884 AN009295 TOR: 081/1322Z CSN: HCE079

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/0005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU7641  
DE RUEHLP #2439/02 0811310  
O 221304Z MAR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1227

INFO AMEMBASSY ASUNCION 4423  
AMEMBASSY BOGOTA 4659  
AMEMBASSY BRASILIA 4861  
AMEMBASSY BUENOS AIRES 7668  
AMEMBASSY CARACAS 5516  
AMEMBASSY LIMA 2912  
AMEMBASSY QUITO 4605  
AMEMBASSY SANTIAGO 7025  
USMISSION USUN NEW YORK 3698  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 02 OF 03 LA PAZ 02439

DIA FOR IR BRANCH; USCINCSO ALSO FOR PDLAD

E.O. 12356: DECL: OADR  
TAGS: PGOV, ELAB, ECON, BL  
SUBJECT: GOVERNMENT TAKES OFFENSIVE TO PASS TAX

- . -- TO SOLVE THE CURRENT ECONOMIC CRISIS IT IS NOT  
ENOUGH TO RESTRICT PUBLIC EXPENDITURE. RATHER,  
IT IS NECESSARY TO INCREASE THE GOVERNMENT'S  
ABILITY TO RAISE REVENUES.
- . -- PASSAGE OF THE TAX LAW IS NECESSARY FOR THE  
GOVERNMENT'S PROPOSED BUDGET.

PRELIMINARY CONGRESSIONAL REACTION: NON-COMMITTAL-

TO-NEGATIVE

5. (LOU) PRELIMINARY (MARCH 21) REACTION TO THE  
GOVERNMENT'S PUBLIC RELATIONS CAMPAIGN THUS FAR HAS  
BEEN MIXED TO NEGATIVE. THE LEFT PARTIES, A MINORITY,  
PREDICTABLY WERE MOST CRITICAL. THE NATIONALIST  
DEMOCRATIC ACTION (ADN) PARTY HAS YET TO PROVIDE ITS  
OFFICIAL REACTION, BUT SENATOR ORMACHEA (A STRONG  
BANZER BACKER) SPOKE OUT STRONGLY IN FAVOR OF PAZ'S  
PACKAGE, WHILE ADN DEPUTY WILLY VARGAS COMPLAINED  
THAT THE MNR HAD NOT CONSULTED WITH THE ADN.  
ACCORDING TO MID-DAY MARCH 21 RADIO REPORTS, SENATE  
PRESIDENT ZAMORA (A MAOIST IN MNR CLOTHING) AND  
CHAMBER OF DEPUTIES PRESIDENT ENCINAS (MIR-MOVEMENT

OF THE REVOLUTIONARY LEFT) AND SOME MEMBERS OF THEIR  
PARTIES HAVE REJECTED THE TAX PROPOSALS.

6. (C) LABATT DISCUSSED THE MATTER WITH A MIR  
DEPUTY (WHO IS ALSO A TOP BOLIVIAN WORKERS CENTRAL  
(COB) OFFICIAL) WHO SAID THAT HE OPPOSED THE GOVERN-  
MENT'S TAX PROPOSAL IN BOTH HIS CAPACITIES AND THAT  
THE COB EXECUTIVE BOARD HAD AGREED EARLY MARCH 21  
TO REJECT IT. THE COB REJECTED THE MEASURE NOT ONLY  
BECAUSE THEY ARE DISPOSED TO REJECT ANYTHING THE  
GOVERNMENT PROPOSES BUT ALSO SAID THE DEPUTY, BECAUSE  
THE PROPOSED INCOME TAX PORTION OF THE BILL IS  
REGRESSIVE. (COMMENT: WHILE THIS IS TRUE WITH THE  
INCOME TAX, MAJOR PORTIONS OF THE NEW TAX PROGRAM  
ARE PROGRESSIVE (SEPTIL). END COMMENT)

TEACHER PAY RAISE TIED TO TAX APPROVAL

7. (U) THE GOVERNMENT ALSO ANNOUNCED MARCH 20 THAT IT  
WILL INCREASE TEACHERS' PAY -- A MAJOR SOURCE OF RECENT  
DEMONSTRATIONS (REF B) -- JUST AS SOON AS CONGRESS  
PASSES THE TAX AND BUDGET LAWS.

8. (C) THIS ATTACKS THE EFFORT BY THE RENEGADE GOVERN-  
MENT PARTY (MNR) MEMBERS AND KEY DEPUTY ERWIN RODRIGUEZ  
(HEAD OF THE CHAMBER ECONOMIC COMMITTEE) TO HOLD UP A  
DISCUSSION OF THE BUDGET OR TAX LAWS UNTIL THE GOVERN-  
MENT INCREASES TEACHERS' SALARIES (REF A). FURTHERMORE,  
IT PLACES RESPONSIBILITY FOR INCREASING TEACHERS'  
SALARIES ON CONGRESS. THE GOVERNMENT ALSO HOPES TO  
DEFLECT GROWING PRESSURE AND IRE FROM THE GENERAL  
PUBLIC (AS THE LENGTH OF TIME SCHOOLS REMAIN CLOSED  
INCREASES) FROM THE EXECUTIVE BRANCH TO THE CONGRESS.

COMMENT

9. (C) JUDGING BY THE INITIAL REACTIONS TO ITS  
PROPOSALS, THE GOVERNMENT FACES A TOUGH UPHILL FIGHT  
IN CONGRESS. A TRUE READING OF ADN REACTION WILL  
HAVE TO AWAIT BANZER'S RETURN MARCH 22 AND HIS  
SUBSEQUENT CONSULTATIONS WITH PAZ. DESPITE THESE  
PROBLEMS, PAZ AND HIS ECONOMIC TEAM ARE COMMITTED TO  
BT

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~  
NATIONAL SECURITY COUNCIL  
SECRETARIAT

33

PAGE 01  
EOB885

LA PAZ 2439  
AN009294

DTG: 221304Z MAR 86 PSN: 012742  
TOR: 081/1323Z CSN: HCE080

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU7642  
DE RUEHLP #2439/03 0811311  
O 221304Z MAR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1228

INFO AMEMBASSY ASUNCION 4424  
AMEMBASSY BOGOTA 4660  
AMEMBASSY BRASILIA 4862  
AMEMBASSY BUENOS AIRES 7669  
AMEMBASSY CARACAS 5517  
AMEMBASSY LIMA 2913  
AMEMBASSY QUITO 4606  
AMEMBASSY SANTIAGO 7026  
USMISSION USUN NEW YORK 3699  
DIA WASHDC  
USAFSO HOWARD AFB PN//LAI//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DOI//

~~CONFIDENTIAL~~ SECTION 03 OF 03 LA PAZ 02439

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: PGOV, ELAB, ECON, BL  
SUBJECT: GOVERNMENT TAKES OFFENSIVE TO PASS TAX

PASSAGE OF THE MEASURES AND AT THIS POINT THE ODDS  
ARE MARGINALLY IN FAVOR OF THEIR APPROVAL. WE WILL  
DO EVERYTHING POSSIBLE TO ASSURE THAT RESULT.

(DRAFTED BY: H. O'HARA) ROWELL  
BT

~~CONFIDENTIAL~~

UNCLASSIFIED

NATIONAL SECURITY COUNCIL  
SECRETARIAT

39

PAGE 01 LA PAZ 2606 DTG: 271332Z MAR 86 PSN: 022293  
EOB314 AN000256 TOR: 086/1341Z CSN: EHA564

DISTRIBUTION: BURG-01 VP-01 HUGH-01 NORT-01 RAY-01 LEVN-01  
STRK-01 TILL-01 BARM-01 /009 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

ROUTINE  
DE RUEHLP #2606/01 0861334  
R 271332Z MAR 86  
FM AMEMBASSY LA PAZ

TO USIA WASHDC 3931

INFO SECSTATE WASHDC 1339  
WHITEHOUSE WASHDC  
AMEMBASSY ASUNCION 4444  
AMEMBASSY BOGOTA 4680  
AMEMBASSY BRASILIA 4881  
AMEMBASSY BUENOS AIRES 7691  
AMEMBASSY CARACAS 5527  
AMEMBASSY LIMA 2938  
AMEMBASSY QUITO 4627  
AMEMBASSY SANTIAGO 7047  
USMISSION USUN NEW YORK 3713  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DOI//

UNCLAS SECTION 01 OF 02 LA PAZ 02606

USIA FOR AR  
WHITEHOUSE FOR FOR J. TILLMAN  
DIA FOR IR BRANCH  
USCINCSO FOR POLAD

E.O. 12356: N/A  
TAGS: SNAR, BL, SOC1  
SUBJECT: HEIGHTENED BOLIVIAN ACTION ON NARCOTICS

SUMMARY

1. BOLIVIAN PRESS HAS PROVIDED EXTENSIVE COVERAGE OF RECENT DECLARATIONS BY INTERIOR MINISTER REASSERTING GOB'S COMMITMENT TO REDUCE EXCESS COCA CULTIVATION AND INTERDICT DRUG TRAFFIC, DECLARATIONS BY OTHER TOP OFFICIALS, INCLUDING BOLIVIA'S NEW AMBASSADOR TO THE U.S., EMPHASIZING IMPORTANCE OF COCA REDUCTION, HAVE ALSO APPEARED IN PRESS LATELY. IN ADDITION, REPORTS OF SUCCESSFUL POLICE OPERATIONS AGAINST TRAFFICKERS ARE SURFACING REGULARLY, AS ARE REPORTS OF A GROWING DOMESTIC DRUG ABUSE PROBLEM.

INTERIOR MINISTER'S STATEMENTS KEEP THE PRESSURE ON

2. LEADING DAILY PRESENCIA OF MARCH 26 CARRIES DECLARATIONS BY INTERIOR MINISTER FERNANDO BARTHELEMEY IN WHICH HE EXPRESSES CONCERN THAT "NARCOTICS TRAFFICKING IS BUYING (PEOPLES') CONSCIENCES," REFERRING TO THE REFUSAL BY A SANTA CRUZ JUDGE TO TURN OVER TO THE

STATE PROPERTY CONFISCATED FROM A NARCOTICS TRAFFICKER. REGARDING THIS DECISION, THE INTERIOR MINISTER SAID THAT SUCH ATTITUDES "DO NOT CONTRIBUTE TO THE GOVERNMENT'S EFFORTS TO CONFRONT NARCOTICS TRAFFICKING."

3. THE CONFISCATED PROPERTY BELONGED TO ONE GUIVER "PACO" SUAREZ AND CONSISTED OF FIVE SMALL AIRPLANES, A HANGAR AT EL TROMPILLO AIRPORT IN SANTA CRUZ, THREE RURAL PROPERTIES AND 20 KILOS OF COCAINE. ON MARCH 25, RADIO PANAMERICANA OF LA PAZ REPORTED THAT THE INTERIOR MINISTER HAD STATED THAT "THE DRUG TRAFFICKING PROBLEM, IN ADDITION TO HAVING TARNISHED THE COUNTRY'S IMAGE ABROAD... IS DAMAGING THE MORAL AND PHYSICAL STANDARDS OF BOLIVIAN CITIZENS."

IN OTHER STATEMENTS PUBLISHED IN THE PRESS RECENTLY, BARTHELEMEY HAS MADE THE FOLLOWING POINTS:

--THE GOVERNMENT IS AWARE OF THE TREMENDOUS ECONOMIC . INFLUENCE NARCOTICS TRAFFICKERS WIELD AND THEIR . ABILITY TO DESTROY THE DEMOCRATIC PROCESS AND . DESTABILIZE THE GOVERNMENT IF THEY SO CHOOSE.

--BOLIVIA IS TRYING TO COMPLY WITH ITS RESPONSIBILITIES . UNDER EXISTING AGREEMENTS TO REDUCE COCA CULTIVATION, . BUT THE TASK IS DIFFICULT, GIVEN THAT THE 1983 . BI-LATERAL ACCORDS SIGNED BY THE PRECEDING GOVERNMENT . DID NOT PROVIDE SPECIFICS OF HOW THE REDUCTION PROGRAM . WOULD BE CONDUCTED.

--IT IS POSSIBLE THAT THE GOVERNMENT WILL USE THE . SPECIAL ANTI-NARCOTICS POLICE ("LEOPARDS") IN ITS . EFFORTS TO REDUCE EXCESS COCA CULTIVATION IN THAT AREA . OF THE CHAPARE WHERE THE CAMPESINOS HAVE REJECTED

. PARTICIPATION IN THE VOLUNTARY REDUCTION PROGRAM.

INTERDICTION EFFORTS SUCCESSFUL

4. PRESS REPORTS OF LATE HAVE ALSO CITED SEVERAL SUCCESSFUL POLICE ACTIONS AIMED AT DISRUPTING NARCOTICS TRAFFICKING HERE. THE MOST NOTEABLE:

--YESTERDAY'S PAPERS (MARCH 26) REPORT THE . CONFISCATION OF THREE TONS OF SULFURIC ACID IN ORURO . IN LESS THAN A MONTH. THE ARTICLE STATES THAT THE  
BT

UNCLASSIFIED

UNCLASSIFIED

NATIONAL SECURITY COUNCIL  
SECRETARIAT

38

PAGE 01 LA PAZ 2606 DTG: 271332Z MAR 86 PSN: 022295  
EOB316 AN00255 TOR: 086/1342Z CSN: EHA565

DISTRIBUTION: BURG-01 VP-01 HUGH-01 NORT-01 RAY-01 LEVN-01  
STRK-01 TILL-01 BARM-01 /009 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

ROUTINE  
DE RUEHLP #2606/02 0861336  
R 271332Z MAR 86  
FM AMEMBASSY LA PAZ

TO USIA WASHDC 3932

INFO SECSTATE WASHDC 1340  
WHITEHOUSE WASHDC  
AMEMBASSY ASUNCION 4445  
AMEMBASSY BOGOTA 4641  
AMEMBASSY BRASILIA 4882  
AMEMBASSY BUENOS AIRES 7692  
AMEMBASSY CARACAS 5528  
AMEMBASSY LIMA 2939  
AMEMBASSY QUITO 4628  
AMEMBASSY SANTIAGO 7048  
USMISSION USUN NEW YORK 3714  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DOI//

UNCLAS SECTION 02 OF 02 LA PAZ 02606

USIA FOR AR  
WHITEHOUSE FOR FOR J. TILLMAN  
DIA FOR IR BRANCH  
USCINCSO FOR POLAD

E.O. 12356: N/A  
TAGS: SNAR, BL, SOCI  
SUBJECT: HEIGHTENED BOLIVIAN ACTION ON NARCOTICS

. SULFURIC ACID ENTERS BOLIVIA ILLEGALLY FROM CHILE AND  
. IS SUBSEQUENTLY TRANSPORTED TO THE COCHABAMBA VALLEY  
. WHERE IT IS USED IN COCAINE PRODUCTION.

--ON MARCH 25, THE PRESS REPORTED THE SEIZURE OF 107  
. KILOS OF COCAINE BASE, FOUR AUTOMOBILES AND 57 ARRESTS  
. IN THE CHAPARE, THE LARGEST COCA-GROWING REGION IN  
. BOLIVIA.

--ON MARCH 21, THE PRESS REPORTED THE SEIZURE OF NEARLY  
. 39 KILOS OF COCAINE BASE (38,950 GRAMS) AND 24 ARRESTS  
. IN THE PRECEDING 48 HOURS BY NARCOTICS POLICE  
. OPERATING IN SANTA CRUZ, COCHABAMBA AND THE CHAPARE.

NEW AMBASSADOR TO U.S. ADDS HIS VOICE

5. RETURNING TO LA PAZ FOR THE FIRST TIME SINCE  
PRESENTING HIS CREDENTIALS AS AMBASSADOR TO UNITED  
STATES, FERNANDO ILLANES TOLD THE PRESS MARCH 22  
THAT THE UNITED STATES "IS INFLEXIBLE REGARDING  
NARCOTICS TRAFFICKING. BOLIVIA HAS TO COMPLY WITH THE  
COMMITMENTS IT HAS MADE WITH RESPECT TO COCA

REDUCTION." ILLANES CONTINUED: "WHAT WE SEEK IS TO  
CONVINCE THE U.S. GOVERNMENT AND ITS CONGRESSMEN THAT  
BOLIVIA IS TRYING TO COMBAT NARCOTICS TRAFFICKING. IT  
IS A TASK THAT REQUIRES PERSISTENCE AND TIME."

WORSENING ABUSE PROBLEM PUBLICIZED

6. NEWSPAPERS IN ALL THREE PRINCIPAL CITIES ON MARCH 18  
PROVIDED FRONT-PAGE COVERAGE OF A PRESS CONFERENCE BY  
THE DIRECTOR OF THE EDUCATIONAL CAMPAIGN ON DRUGS (KNOWN  
BY ITS SPANISH ACRONYM, CESE) IN WHICH HE PROVIDED  
DETAILS OF A WORSENING DRUG-ABUSE SITUATION IN BOLIVIA,  
INCLUDING INCREASED USE OF COCA-PASTE CIGARETTES BY  
CHILDREN UNDER THE AGE OF 12. DAILY "OPINION" OF  
COCHABAMBA CARRIED THE FOLLOWING HEADLINE ON ITS FRONT  
PAGE: "COCHABAMBA AND LA PAZ." DAILY "LOS TIEMPOS," ALSO OF  
COCHABAMBA, CARRIED THE STORY IN THE UPPER RIGHT-HAND  
CORNER OF ITS FRONT PAGE UNDER THE FOLLOWING HEADLINE:  
"DRUG CONSUMPTION CONTINUES TO GROW." DAILY "EL  
DIARIO" OF LA PAZ ALSO PROVIDED FRONT-PAGE COVERAGE,  
CARRYING THE FOLLOWING THREE-COLUMN HEADLINE:  
"CONSUMPTION OF DRUGS AMONG BOLIVIAN HAS INCREASED."  
ROWELL  
BT

UNCLASSIFIED

~~CONFIDENTIAL~~NATIONAL SECURITY COUNCIL  
SECRETARIAT

36

PAGE 01 LA PAZ 2631 DTG: 271942Z MAR 86 PSN: 022958  
EOB987 AN010725 TOR: 086/1956Z CSN: HCE072

DISTRIBUTION: BURG-01 GRIM-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/006 A1  
WHSR COMMENT: 5 LINER

WHTS ASSIGNED DISTRIBUTION:  
SIT: VP PUBS SIT  
EOB:

OP IMMED  
STU2937  
DE RUEHLP #2631 0861944  
O 271942Z MAR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1357

INFO AMEMBASSY PANAMA IMMEDIATE 6260  
AMEMBASSY CARACAS PRIORITY 5530  
AMEMBASSY BOGOTA PRIORITY 4684  
AMEMBASSY QUITO PRIORITY 4630  
AMEMBASSY LIMA PRIORITY 2941  
AMEMBASSY SANTIAGO PRIORITY 7050.  
AMEMBASSY BRASILIA PRIORITY 4884  
AMEMBASSY ASUNCION PRIORITY 4447  
MSGBN QUANTICO VA PRIORITY  
USSOUTHCOM QUARRY HEIGHTS, PRIORITY

~~CONFIDENTIAL~~ LA PAZ 02631

TERREP

SECSTATE FOR DS/CC, DS/OSP, S/CT AND DS/PSD  
PANAMA FOR ADS AND CO CO D

E.O. 12356: DECL: OADR  
TAGS: ASEC, PTER, BL  
SUBJECT: EXPLOSION ON ROOF OF CHANCERY BUILDING -  
- UPDATE NO. 1

REF: LA PAZ 2610

1. ~~CONFIDENTIAL~~ - ENTIRE TEXT.

2. ALL THROUGHOUT THE MORNING AND THE EARLY AFTERNOON, BOLIVIAN POLICE HAVE BEEN INTERVIEWING THE MANY OCCUPANTS OF THE ADJACENT BUILDING MENTIONED IN REFTEL. NO RESULTS HAVE BEEN REPORTED UP TO THIS TIME.

3. EMBASSY WILL REQUEST BOLIVIAN POLICE TO STATION ONE OF THEIR MEN ON THE ROOF OF A BUILDING ADJACENT TO THE CHANCERY. THIS WOULD TEND TO DISCOURAGE A REPETITION OF THIS MORNING'S INCIDENT.

4. THE EAC RECOMMENDED TO THE AMBASSADOR THE CANCELLATION OF TWO PLANNED EASTER-ORIENTED EVENTS. THE THIRD, THE LA PAZ COMMUNITY CHURCH'S SUNDAY MORNING CHURCH SERVICE WAS NOT CAPABLE OF BEING CANCELLED, IN THE EAC'S ESTIMATE, BUT EXTRA SECURITY PROTECTION WILL BE PROVIDED. A MAJOR CONSIDERATION THROUGHOUT HAS BEEN RUMOR CONTROL AND PUBLICATION VIS-A-VIS THE BEHAVIOR OF THE AMERICAN COMMUNITY, WHICH THE EAC FEELS IS CURRENTLY UNDER CONTROL.

5. TODAY, IN ORDER TO BREAK THE ROUTINE OF MISSION EMPLOYEES, DEPARTING AT 5:30 PM, THE EMBASSY WILL CLOSE 30 MINUTES EARLIER. ALSO, THE COM'S MOBILE SECURITY DETAIL WILL BE REINFORCED, AT LEAST FOR THE WEEKEND, WITH A LEAD VEHICLE. INCREASED PATROLS BY OFFICERS OF THE SY DETAIL WILL BE CONDUCTED AT THE COM RESIDENCE AND CHANCERY. GSO PERSONNEL ARE NOW EFFECTING THE NECESSARY REPAIRS ON THE ROOF.

6. AT APPROXIMATELY 1200 HRS, A TELEPHONE CALLER IDENTIFYING HIMSELF ONLY AS "JAVIER" ALLEGEDLY REPRESENTING A GROUP CALLED "COMANDO DEL PUEBLO," TOLD A LOCAL RADIO STATION THAT HIS GROUP WAS RESPONSIBLE FOR THE BOMBING. HE ADDED THAT THE BOMBING HAD BEEN IN RETALIATION FOR U.S. POLICY TOWARD LIBYA AND NICARAGUA, AND THAT NEXT TIME, HIS GROUP WOULD HAVE NO RESPECT FOR HUMAN LIFE. THE "COMANDO DEL PUEBLO" GROUP IS NOT KNOWN TO THE EMBASSY, THOUGH THE STATEMENT THAT THERE MAY BE A NEXT TIME IS SOMEWHAT WORRISOME.

7. INFORMATION JUST BROUGHT TO OUR ATTENTION REVEALS THAT PHYSICAL EVIDENCE FOUND ON 15TH FLOOR OF ADJACENT BUILDING MENTIONED IN REFTEL, WAS ALMOST CERTAINLY THE SPOT FROM WHICH THE DYNAMITE WAS TOSSED. REPORTEDLY, MATCHES AND UNUSED FUSE MATERIAL WERE FOUND.

8. POST FEELS THAT A STURDY WIRE MESH STRUCTURE SHOULD BE BUILT TO COVER THE ENTIRE ROOF OF THE CHANCERY IN ORDER TO PREVENT A REPETITION OF THIS MORNING'S INCIDENT. WE ARE THUS REQUESTING THE SUM OF USD 15,000 WHICH WILL BE NEEDED TO BUILD SUCH A STRUCTURE.

9. WILL ADVISE OF ANY FURTHER DEVELOPMENTS. (DRAFTED BY RSO - G. GOLDSTEIN). ROWELL  
BT

DECLASSIFIED

NLRR M353/1 #120169

BY RW NARA DATE 5/18/15

~~CONFIDENTIAL~~



UNCLASSIFIED

NATIONAL SECURITY COUNCIL  
SECRETARIAT

37

PAGE 01 LA PAZ 2648 DTG: 272120Z MAR 86 PSN: 023172  
EOB228 AN010738 TOR: 086/2133Z CSN: EHA600

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
DE RUEHLP #2648 0862126  
O 272120Z MAR 86  
FM AMEMBASSY LA PAZ

TO USIA WASHDC IMMEDIATE 3936

INFO SECSTATE WASHDC IMMEDIATE 1370  
WHITEHOUSE WASHDC IMMEDIATE  
AMEMBASSY ASUNCION IMMEDIATE 4448  
AMEMBASSY BOGOTA IMMEDIATE 4685  
AMEMBASSY BRASILIA IMMEDIATE 4885  
AMEMBASSY BUENOS AIRES IMMEDIATE 7693  
AMEMBASSY CARACAS IMMEDIATE 5531  
AMEMBASSY LIMA IMMEDIATE 2942  
AMEMBASSY QUITO IMMEDIATE 4631  
AMEMBASSY SANTIAGO IMMEDIATE 7051  
USMISSION USUN NEW YORK IMMEDIATE 3716  
DIA WASHDC IMMEDIATE  
USAFSO HOWARD AFB PN//LA//IMMEDIATE  
USCINCSO QUARRY HEIGHTS PN//SCJ3-SOD/ IMMEDIATE  
24COMFW HOWARD AFB PN//D01// IMMEDIATE

UNCLAS LA PAZ 02648

USIA FOR AR  
WHITEHOUSE FOR FOR J. TILLMAN  
DIA FOR IR BRANCH  
USCINCSO FOR POLAD

E.O. 12356: N/A  
TAGS: BL, ASEC, PTER  
SUBJECT: STATEMENT ON MARCH 27 EXPLOSION AT EMBASSY

1. POST TRANSMITS HERewith OFFICIAL STATEMENT RELEASED  
TO LOCAL AND U.S. PRESS ON THIS MORNING'S EXPLOSION AT  
THE CHANCERY IN LA PAZ. BEGIN STATEMENT:

2. "AT APPROXIMATELY NINE THIRTY THIS MORNING, AN  
EXPLOSIVE DEVICE --APPARENTLY DYNAMITE-- WAS THROWN FROM  
AN ADJACENT BUILDING ONTO THE ROOF OF THE U.S. EMBASSY  
BUILDING IN LA PAZ. THERE WERE NO INJURIES AND ONLY  
MINOR DAMAGE TO SOME GLASS WINDOWS ON THE ROOF. THE  
APPROPRIATE BOLIVIAN AUTHORITIES WERE NOTIFIED AND  
NORMAL EMBASSY BUSINESS CONTINUES. AT THIS POINT THE  
PERSON OR PERSONS RESPONSIBLE HAVE NOT BEEN IDENTIFIED."

3. SUBSEQUENT TO THE RELEASE OF THE ABOVE STATEMENT, A  
LOCAL RADIO STATION RECEIVED A COMMUNIQUE FROM THE  
SO-CALLED "LOS COMANDOS DEL PUEBLO," IN WHICH THE GROUP  
CLAIMS RESPONSIBILITY FOR THE EXPLOSION. THIS  
COMMUNIQUE FOLLOWS IN ITS ORIGINAL SPANISH AND IN  
ENGLISH.

4. BEGIN SPANISH: UN GRUPO DE PATRIOTAS BOLIVIANOS  
HEMOS RESUELTO EXPRESAR NUESTRO REPUDIO HACIA ACCIONES  
BELICAS QUE EL IMPERIALISMO NORTEAMERICANO HA INICIADO  
CONTRA EL PUEBLO DE LIBIA A TRAVES DE UN ATAQUE A LAS  
INSTALACIONES DE LA EMBAJADA DE ESTADOS UNIDOS EN  
BOLIVIA. ESTA PRIMERA ACCION ES SOLO UNA ADVERTENCIA DE  
LO QUE ESTAMOS DISPUESTOS A HACER SI LA ADMINISTRACION  
REAGAN INSISTE EN PISOTEAR LA DIGNIDAD DE NUESTROS  
PUEBLOS. HEMOS ELEGIDO UN BLANCO QUE PROCURE NO EXPONER  
LA VIDA DE NINGUNA PERSONA PERO SI LAS ACCIONES CONTRA  
NICARAGUA, LA INTERVENCION EN EL SALVADOR, LA HOSTILIDAD  
CONTRA CUBA Y LA AGRESION CONTRA CUALQUIER PAIS EN EL  
TERCER MUNDO CONTINUAN, GOLPEAREMOS NUEVAMENTE CON MAYOR  
DUREZA Y NO NOS HAREMOS RESPONSABLES POR LAS BAJAS  
HUMANAS QUE DERIVEN DE NUESTRAS RESPUESTAS. FIRMA EL  
COMANDANTE JAVIER, POR LOS COMANDOS DEL PUEBLO. END  
SPANISH.

BEGIN ENGLISH: WE, A GROUP OF BOLIVIAN PATRIOTS, HAVE  
DECIDED TO EXPRESS OUR REPUDIATION OF THE BELICOSE  
ACTIONS THAT NORTH AMERICAN IMPERIALISM HAS INITIATED  
AGAINST THE PEOPLE OF LIBYA, THROUGH AN ATTACK ON THE  
INSTALLATIONS OF THE AMERICAN EMBASSY IN BOLIVIA. THIS  
FIRST ACTION IS A WARNING OF WHAT WE ARE PREPARED TO DO  
IF THE REAGAN ADMINISTRATION INSISTS ON TRAMPLING THE  
DIGNITY OF OUR PEOPLE. WE HAVE CHOSEN A TARGET WHICH  
WILL NOT ENDANGER THE LIFE OF ANY PERSON, BUT IF THE  
ACTIONS AGAINST NICARAGUA, THE INTERVENTION IN EL  
SALVADOR, THE HOSTILITY AGAINST CUBA OR THE AGRESSION  
AGAINST ANY COUNTRY IN THE THIRD WORLD CONTINUE, WE WILL  
STRIKE AGAIN MORE SEVERELY AND WE WILL NOT BE  
RESPONSIBLE FOR THE LOSS OF HUMAN LIFE THAT RESULTS FROM  
OUR RESPONSE. SIGNED BY COMANDER JAVIER, FOR "THE  
PEOPLE'S COMMANDOS". END ENGLISH. ROWELL

BT

UNCLASSIFIED

CONFIDENTIAL

NATIONAL SECURITY COUNCIL  
SECRETARIAT

120172

31

PAGE 01 LA PAZ 2657 DTG: 281624Z MAR 86 PSN: 024925  
EOB037 AN000203 TOR: 087/1703Z CSN: HCE383

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU5471  
DE RUEHLP #2657/01 0871629  
O 281624Z MAR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1380

INFO AMEMBASSY ASUNCION 4451  
AMEMBASSY BOGOTA 4694  
AMEMBASSY BRASILIA 4888  
AMEMBASSY BUENOS AIRES 7702  
AMEMBASSY LIMA 2951  
AMEMBASSY QUITO 4640  
AMEMBASSY SANTIAGO 7060

DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

C O N F I D E N T I A L SECTION 01 OF 04 LA PAZ 02657

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: PGDV, ECON, BL  
SUBJECT: PRESIDENT PAZ AND ADN LEADER BANZER REAFFIRM  
PLEDGE TO COOPERATE IN CONFRONTING BOLIVIA'S  
PROBLEMS

SUMMARY

1. (C) IN A TWO-HOUR MEETING ON MARCH 26, PRESIDENT PAZ ESTENSSORO AND OPPOSITION NATIONALIST DEMOCRATIC ACTION (ADN) LEADER HUGO BANZER REAFFIRMED THEIR COMMITMENT TO THE "PACT FOR DEMOCRACY," AND AGREED TO COOPERATE ON PASSAGE OF CRUCIAL BUDGET AND TAX LEGISLATION NOW BEFORE CONGRESS. THE ADN PERCEIVES "SIGNIFICANT DEFICIENCIES" IN BOTH DRAFT BILLS AND WILL PROPOSE CORRECTIVE AMENDMENTS. AN MNR/ADN WORKING GROUP IS TO MEET MARCH 27 TO START DISCUSSING CHANGES IN THE LEGISLATION. THE ADN ALSO INTENDS TO INTRODUCE A STATUTE TO DEAL WITH THE POTENTIALLY EXPLOSIVE ISSUE OF TEACHERS' SALARIES IN ORDER TO END THEIR CURRENT STRIKE.

2. (C) NONE OF THIS WILL BE EASY. BOLIVIA'S ECONOMIC INERTIA, SELF-DESTRUCTIVE POLITICAL INFIGHTING AND OPPORTUNISTIC LEFTIST OPPOSITION CONTINUE TO COMPLICATE PAZ'S ATTEMPTS TO PURSUE RESPONSIBLE POLICIES (WITH CONSCIENTIOUS BACKING FROM BANZER). STILL, THE POLITICAL COMMITMENT OF BOTH LEADERS IS CLEAR AND UNWAVERING. THEIR COMBINED INFLUENCE SHOULD IN TURN

APPLY THEIR RESPECTIVE PARTIES TO THE DIFFICULT TASK AT HAND WITH A BETTER THEN EVEN CHANCE OF SUCCESS. END SUMMARY.

BANZER DETERMINED AND REALISTIC

3. (C) ADN CHIEF HUGO BANZER MET WITH THE AMBASSADOR, THE PAPAL NUNCIO AND THE AMBASSADORS OF FRG, SPAIN AND ISRAEL AT A RELAXED DINNER ON THE EVENING OF MARCH 26 TO EXPRESS HIS APPRECIATION FOR ASSISTANCE RENDERED ON HIS RECENT SUCCESSFUL VISIT TO EUROPE AND THE U.S. LA PAZ MAYOR RONALD MACLEAN, SEVERAL OF BANZER'S CLOSE ADVISORS AND EDITORS FROM THREE RESPECTED NEWSPAPERS ALSO WERE PRESENT. BANZER CAME TO THE DINNER STRAIGHT FROM A TWO-HOUR TETE-A-TETE WITH PRESIDENT PAZ ESTENSSORO. IN BOTH GROUP CONVERSATION AND PRIVATE ASIDES WITH THE AMBASSADOR, BANZER COMMENTED SPECIFICALLY ON HIS EXCHANGE WITH PAZ AS WELL AS THE SITUATION IN HIS PARTY AND BOLIVIA GENERALLY. BANZER CAME ACROSS AS REALISTIC AND DETERMINED TO TAKE A RESPONSIBLE LEADERSHIP ROLE IN CONFRONTING BOLIVIA'S MANIFOLD PROBLEMS.

STRONG REAFFIRMATION OF BIPARTISAN COOPERATION

4. (C) BANZER INFORMED THE AMBASSADOR THAT HE AND PAZ HAD CATEGORICALLY REAFFIRMED THE BIPARTISAN "PACT FOR DEMOCRACY." BANZER SAID THAT DESPITE CERTAIN INTERNAL ADN "CONTROVERSIES," WHICH WERE BOTH WELL- AND ILL-INTENDED, THE PACT IS WHAT BOLIVIA NEEDS. FOR THAT REASON IT WILL BE SUSTAINED.

5. (C) BANZER REPEATED HIS CONTENTION THAT THE PACT DOES NOT SIGNIFY CO-GOVERNMENT WITH THE MNR. HE ACKNOWLEDGED THAT THE ADN IS BEING CRITICIZED BOTH FROM WITHIN AND WITHOUT FOR ITS ALLEGED COMPLICITY WITH THE MNR. HE ALSO CONCEDED THAT THE GOVERNMENT'S ECONOMIC PROGRAM IS NOT DOING WELL AND THAT THE ADN HAS BEEN ASSOCIATED WITH THAT ILL PERFORMANCE. HE MADE A CLEAR DISTINCTION, HOWEVER, BETWEEN GOVERNMENT POLICY MAKING AND THE ADN'S SUPPORTIVE ROLE IN THE ADMINISTRATION OF SOME STATE ENTERPRISES. PAZ AND HIS GOVERNMENT, BANZER SAID, REMAIN FULLY ACCOUNTABLE BT

DECLASSIFIED

NLRP M35311 #120172

BY RW NARA DATE 5/18/15

CONFIDENTIAL



~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

39

PAGE 01 LA PAZ 2657 DTG: 281624Z MAR 86 PSN: 024932  
EOB039 AN000202 TOR: 087/1704Z CSN: HCE384

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU5473  
DE RUEHLP #2657/02 0871631  
O 281624Z MAR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1381

INFO AMEMBASSY ASUNCION 4452  
AMEMBASSY BOGOTA 4695  
AMEMBASSY BRASILIA 4889  
AMEMBASSY BUENOS AIRES 7703  
AMEMBASSY LIMA 2952  
AMEMBASSY QUITO 4641  
AMEMBASSY SANTIAGO 7061  
DIA WASHDC  
USAFSO HOWARD AFB PN//LAI//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DOI//

~~CONFIDENTIAL~~ SECTION 02 OF 04 LA PAZ 02657

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: PGOV, ECON, BL  
SUBJECT: PRESIDENT PAZ AND ADN LEADER BANZER REAFFIRM

FOR POLICY DECISIONS AND IMPLEMENTATION.

6. (C) (COMMENT: WHILE BANZER'S THEORETICAL  
DISTINCTION IS PRECISE ENOUGH, THIS NUANCED  
DIFFERENTIATION LIKELY WILL BE LOST ON THE PUBLIC  
AND ON DISSIDENTS IN HIS OWN PARTY WHO PERCEIVE --  
AND OPPOSE -- INCREASING ADN COOPERATION WITH PAZ AND  
THE MNR. IN THE END, BANZER'S PERSONAL AUTHORITY  
RATHER THAN SUCH JUSTIFICATIONS WILL MAKE THE  
DIFFERENCE WITH HIS OWN PEOPLE. DENIALS OF "CO-  
GOVERNMENT" AND EQUAL RESPONSIBILITY WILL CONTINUE TO  
BE PART OF THE ADN CAMPAIGN FOR PUBLIC CONSUMPTION IN  
ANY CASE. END COMMENT.)

EROSION OF PUBLIC CONFIDENCE IN GOVERNMENT

7. (C) BANZER COMMENTED THAT THE PAZ GOVERNMENT HAS  
SUFFERED AN EROSION OF PUBLIC CONFIDENCE, PRIMARILY  
BECAUSE OF POOR ECONOMIC PERFORMANCE. THE GOVERNMENT'S  
INITIAL PROGRESS ON THE ECONOMIC FRONT AND ITS  
CREDIBILITY WERE DAMAGED IN DECEMBER AS UNBACKED  
CURRENCY EMISSIONS THREATENED THE ECONOMIC PROGRAM  
AND FORCED EVERYTHING BACK TO SQUARE ONE. ALTHOUGH  
THE MNR HAD ADOPTED MANY ASPECTS OF THE ADN'S ECONOMIC  
PROGRAM, PAZ'S SUPREME DECREE 21060 LAST AUGUST ALSO  
CONTAINED WHAT BANZER CHARACTERIZED AS UNHELPFUL

"EMBELLISHMENTS." FOR EXAMPLE, HE SAID, THE DECREE  
CALLED FOR AMBITIOUS DE-CENTRALIZATION OF STATE  
ENTERPRISES THAT THE CENTRAL GOVERNMENT SIMPLY WAS  
NOT ABLE TO CARRY OUT IN THE SHORT TERM. HE CITED  
THE CASE OF COMIBOL (STATE MINING CORPORATION) AS A  
PRIME EXAMPLE. THIS FAILURE TO CARRY THROUGH SERIOUSLY  
ERODED PUBLIC CONFIDENCE IN THE GOVERNMENT'S ABILITY  
TO CARRY OUT ITS POLICIES. (COMMENT: TO A LARGE  
DEGREE, THE GOVERNMENT'S INABILITY TO CARRY OUT THE  
PROPOSED RATIONALIZATION AND DECENTRALIZATION OF  
COMIBOL IS DUE TO THE UNEXPECTED CRISIS IN THE WORLD  
TIN MARKET AND, MORE RECENTLY, DECLINING PETROLEUM  
PRICES, AND THE CONCOMITANT FALL IN BOLIVIAN REVENUES.  
END COMMENT.)

TAX AND BUDGET LAWS MUST BE AMENDED AND PASSED

8. (C) BANZER SAID HE TOLD PAZ THAT BOLIVIA MUST HAVE  
A BUDGET LAW AND A TAX LAW TO INCREASE REVENUES.  
BANZER, HOWEVER, CITED "SIGNIFICANT DEFICIENCIES" IN  
BOTH MNR DRAFT BILLS. HE STATED THAT THE ADN WILL  
PROPOSE CORRECTIVE AMENDMENTS AND WORK WITH THE MNR  
TO PASS THE MEASURES. PAZ READILY AGREED THAT BOTH  
BILLS COULD STAND IMPROVEMENT. AN ADN/MNR WORKING  
GROUP WILL HOLD ITS FIRST SESSION MARCH 27.

LESS PROBLEM WITH BUDGET -- SAYS ADN

9. (C) THE BUDGET, BANZER SAID, WILL BE EASIER TO  
DEAL WITH, AND CONGRESSIONAL ACTION SHOULD BE COMPLETED  
ON THAT BILL FIRST. THE PROBLEM WITH THE PROPOSED  
BUDGET IS THAT IT CONTAINS NO INVESTMENT BUDGET FOR  
THE STATE PETROLEUM ENTERPRISE (YPFB), THE ONE ENTITY  
THAT GENERATES REVENUE FOR THE GOVERNMENT. THAT OVER-  
SIGHT COULD SERIOUSLY HAMPER AND POTENTIALLY DESTROY  
THE YPFB.

10. (C) BANZER AND OTHERS ACKNOWLEDGED THAT IF THE  
GOVERNMENT'S SHARE OF REVENUES IS CUT, THE GOVERNMENT  
WILL NEED TO OFFSET SUCH A LOSS BY NEW TAXES, IMPROVED  
TAX ADMINISTRATION OR CUTS ELSEWHERE IN THE BUDGET.  
THEY ALSO CONCEDED THAT NEITHER COST CUTTING NOR  
IMPROVED TAX ADMINISTRATION ARE REALISTIC PROSPECTS  
IN THE NEAR TERM. YET THEY CONTINUED TO INSIST THAT  
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

40

PAGE 01 LA PAZ 2657 DTG: 281624Z MAR 86 PSN: 024934  
EOB040 AN000201 TOR: 087/1706Z CSN: HCE385

FOCUSES ON IMMEDIATE INCREASES IN REVENUE RATHER THAN  
REFORM OF THE TAX SYSTEM.

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A2

SOME TAX BILL PROVISIONS POSSIBLY UNCONSTITUTIONAL

WHTS ASSIGNED DISTRIBUTION:

SIT:

EOB:

OP IMMED

UTS7168

DE RUEHLP #2657/03 0871633

O 281624Z MAR 86

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1382

INFO AMEMBASSY ASUNCION 4453

AMEMBASSY BOGOTA 4696

AMEMBASSY BRASILIA 4890

AMEMBASSY BUENOS AIRES 7704

AMEMBASSY LIMA 2953

AMEMBASSY QUITO 4642

AMEMBASSY SANTIAGO 7062

DIA WASHDC

USAFSO HOWARD AFB PN//LA1//

USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//

24COMPW HOWARD AFB PN//DOI//

~~CONFIDENTIAL~~ SECTION 03 OF 04 LA PAZ 02657

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR

TAGS: PGOV, ECON, BL

SUBJECT: PRESIDENT PAZ AND ADN LEADER BANZER REAFFIRM

BECAUSE THE PRESENT PROPOSED BUDGET ONLY ASSUMED  
INCOME FROM BOLIVIA'S EXISTING REVENUE STRUCTURE (AND  
NOT FROM THE PENDING TAX LAW), IT SHOULD BE EASY TO  
MODIFY THE YPFB PORTION AS THE ADN WANTS.

11. (C) (COMMENT: WE THINK THE ADN AND MNR TASK FORCE  
WILL FIND IT HAS TO RESOLVE DIFFERENCES IN BOTH THE  
BUDGET AND TAX LAWS BEFORE PROCEEDING WITH EITHER ONE  
IN THE CONGRESS. IF THEY DO NOT, BOLIVIAN MAY RUN  
INTO TROUBLE WITH THE IMF ON ITS PENDING STAND-BY  
AGREEMENT. END COMMENT)

TAXES -- IMMEDIATE ADDED REVENUES ESSENTIAL

12. (C) TURNING TO THE TAX LAW, BANZER COMMENTED THAT  
THE GOVERNMENT DRAFT REPRESENTS A MAJOR REFORM OF THE  
TAX SYSTEM. THE ADN AGREES IN PRINCIPLE THAT REFORM  
IS DESIRABLE. THE VALUE-ADDED TAX OF 10 PERCENT  
CONTAINED IN THE PROPOSED BILL IS AN ESPECIALLY GOOD  
IDEA, BANZER AND HIS FRIENDS SAID. HOWEVER, FAR-  
REACHING TAX REFORM IS "TRICKY" AND WILL REQUIRE  
CONSIDERABLE DEBATE. BOLIVIA'S REVENUE NEEDS ON  
THE OTHER HAND ARE IMMEDIATE. THE ADN WILL PROPOSE  
AMENDMENTS TO THE TAX REFORM BILL. IF THIS ADN EFFORT  
IS NOT QUICKLY SUCCESSFUL, HOWEVER, THE ADN WILL THEN  
INTRODUCE A SIMPLIFIED SUBSTITUTE TAX MEASURE THAT

13. (C) BANZER SAID THAT THE ADN ALSO IS CONCERNED  
THAT IMPORTANT PROVISIONS OF THE PRESENT MNR DRAFT  
MAY BE EITHER ILLEGAL OR UNCONSTITUTIONAL. THE MNR  
BILL WOULD FURTHER CONCENTRATE TAX AUTHORITY IN THE  
HANDS OF THE CENTRAL GOVERNMENT TO THE DETRIMENT OF  
MUNICIPAL REVENUES. THE ADN WANTS TO RESTORE SUFFICIENT  
TAX AUTHORITY TO MUNICIPALITIES TO FUND LOCAL NEEDS.

14. (C) (COMMENT: THIS ISSUE IS IMPORTANT FOR SEVERAL  
REASONS. MUNICIPAL GOVERNMENTS, POPULARLY ELECTED  
LAST JULY FOR THE FIRST TIME IN 35 YEARS, RECOGNIZE  
THAT TAX AUTHORITY IS ESSENTIAL FOR THEM TO DEAL WITH  
ENDEMIC URBAN PROBLEMS. INCIPIENT ADMINISTRATIVE  
DECENTRALIZATION WHICH AIMS TO TRANSFER AUTHORITY  
BACK TO LOCAL JURISDICTIONS ALSO IS DEAR TO THE ADN.  
PERHAPS MOST IMPORTANT, URBAN CENTERS GENERALLY ARE  
STRONGHOLDS OF ADN POLITICAL SUPPORT. END COMMENT.)

15. (C) BANZER ALSO IDENTIFIED QUIRKS IN THE TAX  
STRUCTURE SUGGESTED IN THE MNR BILL. HE CITED HEAVIER  
TAXES ON CERTAIN DOMESTICALLY PRODUCED COMMODITIES,  
WINE FOR EXAMPLE, THAN ON IMPORTS OF THE SAME GOODS.  
THIS DISCREPANCY IS UNFAIR BY PENALIZING BOLIVIAN  
PRODUCTS AND SHOULD BE REDRESSED.

DRAFT EDUCATION BILL ALSO ON TAP

16. (C) BANZER ALSO SAID THAT THE ADN IS DRAFTING A  
LAW ON EDUCATION TO DEAL WITH THE QUESTION OF PUBLIC  
SCHOOL TEACHERS' SALARIES IN AN EFFORT TO END THEIR  
NATIONAL STRIKE. THE PAPAL NUNCIO STRONGLY  
EMPHASIZED THE NEED TO DEAL QUICKLY AND RESPONSIVELY  
WITH THIS PROBLEM THAT HAS POTENTIALLY EXPLOSIVE  
SOCIAL (AND POLITICAL) IMPLICATIONS FOR BOLIVIA.

COMMENT

17. (C) BOTH PAZ AND BANZER ARE ACTING AS STATESMEN,  
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

41

PAGE 01  
EOB041

LA PAZ 2657  
AN000200

DTG: 281624Z MAR 86 PSN: 024935  
TOR: 087/1707Z CSN: HCE386

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A2

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU5477  
DE RUEHLP #2657/04 0871635  
O 281624Z MAR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1383

INFO AMEMBASSY ASUNCION 4454  
AMEMBASSY BOGOTA 4697  
AMEMBASSY BRASILIA 4891  
AMEMBASSY BUENOS AIRES 7705  
AMEMBASSY LIMA 2954  
AMEMBASSY QUITO 4643  
AMEMBASSY SANTIAGO 7063  
DIA WASHDC  
USAFSO HOWARD AFB PN//LAI//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DOI//

~~CONFIDENTIAL~~ SECTION 04 OF 04 LA PAZ 02657

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E. O. 12356; DECL: OADR  
TAGS: PGOV, ECON, BL  
SUBJECT: PRESIDENT PAZ AND ADN LEADER BANZER REAFFIRM

RE-EMPHASIZING THAT THE COOPERATION ENVISIONED IN THE "PACT FOR DEMOCRACY" TRANSCENDS NARROW PARTISAN INTEREST AND AIMS AT ADDRESSING BOLIVIA'S FUNDAMENTAL STRUGGLE FOR DEMOCRATIC AND ECONOMIC SURVIVAL. THIS MESSAGE WILL NOT BE LOST ON THOSE CADRES OF THE MNR AND ADN WHO LATELY, FOR A VARIETY OF NARROW REASONS, HAVE BEEN MORE ACTIVE IN TRYING TO UNDERMINE THE ACCORD. EQUALLY ESSENTIAL, WE NOW SEE RENEWED ENERGY AT THE TOP OF BOTH PARTIES TO DEAL RESPONSIBLY WITH THE URGENT SPECIFICS OF TAX AND BUDGET LEGISLATION. SUCH DETERMINATION IS ESSENTIAL. THE CHALLENGE REMAINS FORMIDABLE AND TIME IS SHORT.

(DRAFTED BY: F. FOULGER) ROWELL  
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

120174

YV

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036048  
EOB699 AN003475 TOR: 093/1908Z CSN: HCE461

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

TAX BILL GOES TO CONGRESS WITH PAZ' PUBLIC BACKING

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU0862  
DE RUEHLP #2843/01 0931840  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1518

INFO AMEMBASSY ASUNCION 4470  
AMEMBASSY BOGOTA 4710  
AMEMBASSY BRASILIA 4905  
AMEMBASSY BUENOS AIRES 7717  
AMEMBASSY LIMA 2976  
AMEMBASSY QUITO 4657  
AMEMBASSY SANTIAGO 7077  
USMISSION USUN NEW YORK 3727  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 01 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM  
LEGISLATION; SERIOUS ATTEMPT AT RAISING REVENUE

REF: LA PAZ 2657

SUMMARY

1. (C) ON MARCH 18 THE BOLIVIAN EXECUTIVE BRANCH SUBMITTED A NEW TAX PROPOSAL TO CONGRESS. THE MOST SIGNIFICANT ELEMENT IS A NEW TEN PERCENT VALUE ADDED TAX (VAT) ON THE SALE OF ALL GOODS AND SERVICES. THE VAT CONTAINS SEVERAL IMPORTANT INCENTIVES WHICH SHOULD INCREASE COMPLIANCE. NEW MAJOR TAXES ALSO WOULD BE LEVIED ON RURAL PROPERTY INCLUDING SMALL CAMPESINO HOLDINGS. THE RURAL PROPERTY TAX IS PROGRESSIVE AND WOULD BE USED MAINLY FOR RURAL DEVELOPMENT. THERE ARE ALSO SOME IMPORTANT MODIFICATIONS IN URBAN PROPERTY TAXES INCLUDING MORE PROGRESSIVE RATES ON HOMES AND AUTOMOBILES. THE INCOME TAX (RAISED FROM FIVE PERCENT TO TEN PERCENT) WOULD REMAIN FLAT. THE GOVERNMENT HOPES THAT THE PROPOSED TAX REFORM WILL GENERATE REVENUE OF ABOUT TEN PERCENT OF GDP AFTER 12 MONTHS OF IMPLEMENTATION. ON PAPER NEW PROPOSAL REPRESENTS A MAJOR EFFORT AT TAX REFORM. THE BILL IS ONLY NOW BEING REVIEWED BY THE GOVERNMENT'S OPPOSITION PARTNER IN THE "PACT FOR DEMOCRACY", THE ADN (NATIONALIST DEMOCRATIC ACTION). SOME CHANGES ARE LIKELY. END SUMMARY.

2. (U) THE TAX PACKAGE CONTAINS 95 ARTICLES WHICH, ACCORDING TO THE GOVERNMENT, OFFER A COMPREHENSIVE REFORM OF THE NATION'S ENTIRE TAX STRUCTURE. IN A LETTER ACCOMPANYING THE TAX PROPOSAL, PRESIDENT VICTOR PAZ ESTENSSORO INFORMED CONGRESS THAT BOLIVIA'S GRAVE ECONOMIC CRISIS COULD ONLY BE SOLVED THROUGH THE IMPOSITION OF A NEW TAX SYSTEM THAT WILL ENSURE A CONSTANT STREAM OF REVENUE AND PERMIT THE FINANCING OF ESSENTIAL GOVERNMENT EXPENDITURES. THE PRESIDENT SAID A VIABLE TAX SYSTEM WILL ENABLE A SHARP REDUCTION IN THE FISCAL DEFICIT, ELIMINATION OF HYPERINFLATIONARY PRESSURES AND STABILIZATION OF THE ECONOMY. PAZ ADDED THAT FULL IMPLEMENTATION OF THE TAX PLAN WOULD PUSH THE BOLIVIAN ECONOMY INTO A SECOND PHASE WHICH WOULD BE CHARACTERIZED BY POSITIVE ECONOMIC EXPANSION AND LONG-TERM NATIONAL RECOVERY.

3. (U) A SUMMARY OF THE TAX REFORM PROGRAM WITH GOVERNMENT REVENUE PROJECTIONS FOLLOWS.

TAX REFORM PROGRAM

VALUE ADDED TAX (VAT)

4. (U) THE BILL SHOULD CREATE VALUE ADDED TAX OF TEN PERCENT ON SALES OF ALL GOODS AND SERVICES IN THE NATIONAL ECONOMY. IMPORTS ARE ALSO SUBJECT TO VAT. BUSINESSES SHALL ISSUE A RECEIPT SHOWING CUSTOMER PAYMENT OF THE VAT.

5. (U) BY PRESENTING RECEIPTS TO THE INTERNAL REVENUE SERVICE, CONSUMERS CAN DEDUCT VAT PAYMENTS UP TO 100 PERCENT OF INCOME TAX OBLIGATIONS. FOR EXAMPLE, AN INDIVIDUAL WHO PAYS 20,000,000 PESOS PER MONTH IN VAT WOULD BE EXEMPT FROM PAYING THE FIRST 240 MILLION PESOS OF ANNUAL INCOME TAX THAT MIGHT BE OWED.

BT

DECLASSIFIED

NLRR M353/1 #120174

BY RW NARA DATE 5/18/15

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

43

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036049  
EOB698 AN003474 TOR: 093/1910Z CSN: HCE462

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU0865  
DE RUEHLP #2843/02 0931842  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1519

INFO AMEMBASSY ASUNCION 4471  
AMEMBASSY BOGOTA 4711  
AMEMBASSY BRASILIA 4906  
AMEMBASSY BUENOS AIRES 7718  
AMEMBASSY LIMA 2977  
AMEMBASSY QUITO 4658  
AMEMBASSY SANTIAGO 7078  
USMISSION USUN NEW YORK 3728  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 02 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356; DECL: OADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

6. (U) THE BOLIVIAN GOVERNMENT RESERVES THE RIGHT  
TO INCREASE THE VAT FROM TEN PERCENT TO TWENTY PERCENT.

INCOME TAXES

7. (U) INCOME IS DEFINED AS WAGES, RENT, INTEREST  
AND PROFIT. MOREOVER, THIS INCLUDES AS TAXABLE  
INCOME PREVIOUSLY TAX EXEMPT SOURCES SUCH AS SOCIAL  
SECURITY BENEFITS, YEAR END WAGE BONUSES, AND  
REPRESENTATIONAL EXPENSES. THE NEW INCOME TAX IS A  
FLAT RATE OF TEN PERCENT.

8. (U) INDIVIDUALS EARNING LESS THAN 130 MILLION  
BOLIVIAN PESOS (65 DOLLARS) PER MONTH ARE EXEMPT  
FROM PAYMENT OF INCOME TAX.

9. (U) INDIVIDUALS AND CORPORATE ENTITIES SUBJECT  
TO PAYMENT OF VAT CAN DEDUCT VAT PAYMENTS FROM THEIR  
INCOME TAX OBLIGATIONS.

CORPORATE TAXES

10. (U) A TWO PERCENT TAX WOULD APPLY ON ALL NET  
FIXED ASSETS OWNED BY PUBLIC AND PRIVATE SECTOR  
CORPORATE ENTITIES. THE GOVERNMENT DEFINES FIXED  
ASSETS AS ALL CORPORATE PROPERTY USED IN THE PRODUCTION  
OF GOODS AND SERVICES (LAND, BUILDINGS, CAPITAL GOODS,  
EQUIPMENT ETC.). FIRMS WILL BE PERMITTED TO REDUCE  
FROM THE VALUE OF THEIR FIXED ASSETS ANNUAL RATES  
OF DEPRECIATION. THEY ARE REQUIRED, HOWEVER, TO  
REVALUE FIXED ASSETS ON AN ANNUAL BASIS USING SOME  
KIND OF INFLATION INDEX. THE GOVERNMENT RESERVES  
THE RIGHT TO RAISE CORPORATE TAXES UP TO THREE  
PERCENT OF TOTAL VALUE OF FIXED ASSETS.

RURAL PROPERTY TAXES

11. (U) LAND TAX - CREATION OF NEW TAX ON OWNERS  
OF AGRICULTURAL LAND. THE TAX IS PROGRESSIVE. THE  
RATE INCREASES WITH THE SIZE OF THE AGRICULTURAL  
HOLDING. AGRICULTURAL HOLDINGS ARE ALSO DEFINED BY  
TYPE OF LAND SUCH AS MOUNTAINOUS, VALLEY, SUBTROPICAL,  
ETC.

12. (U) FOLLOWING ARE TABLES SHOWING TAX RATES  
FOR OWNERS OF CULTIVABLE AND PASTURE LAND BASED  
ON SIZE AND TYPE OF HOLDING.

TABLE 1

SMALL CULTIVABLE HOLDINGS  
(IN THOUSANDS OF BOLIVIAN PESOS)

| TYPE OF LAND         | SIZE OF HOLDING<br>(HECTARES) | TAX PER HECTARE |
|----------------------|-------------------------------|-----------------|
| SOUTHERN ALTIPLANO   | 1-35                          | 400             |
| CENTRAL ALTIPLANO    | 1-15                          | 800             |
| LAKE TITICACA        | 1-10                          | 1,000           |
| CLOSED VALLEYS<br>BT | 1-10                          | 3,000           |

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

44

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036053  
EOB700 AN003473 TOR: 093/1911Z CGN: HCE463

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

|                        |        |       |
|------------------------|--------|-------|
| OPEN VALLEYS           | 12-150 | 3,600 |
| SUBTROPICAL YUNGAS     | 10-150 | 3,750 |
| SUBTROPICAL CHACO      | 80-600 | 2,250 |
| SUBTROPICAL SANTA CRUZ | 50-500 | 4,500 |

//EXAMPLE: THE OWNER OF 200 HECTARES IN THE SOUTHERN ALTIPLANO PAYS 200 X 900,000 1,800,000,000 PESOS.

OP IMMED  
STU0867  
DE RUEHLP #2843/03 0931844  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1520

INFO AMEMBASSY ASUNCION 4472  
AMEMBASSY BOGOTA 4712  
AMEMBASSY BRASILIA 4907  
AMEMBASSY BUENOS AIRES 7719  
AMEMBASSY LIMA 2978  
AMEMBASSY QUITO 4659  
AMEMBASSY SANTIAGO 7079  
USMISSION USUN NEW YORK 3729  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2//INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 03 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

|                        |      |       |
|------------------------|------|-------|
| OPEN VALLEYS           | 1-12 | 2,700 |
| SUBTROPICAL YUNGAS     | 1-10 | 3,000 |
| SUBTROPICAL CHACO      | 1-80 | 1,500 |
| SUBTROPICAL SANTA CRUZ | 1-50 | 3,750 |

TABLE II

MEDIUM CULTIVABLE HOLDINGS  
(IN THOUSANDS OF BOLIVIAN PESOS)

| TYPE OF LAND       | SIZE OF HOLDING<br>(HECTARES) | TAX PER<br>HECTARE// |
|--------------------|-------------------------------|----------------------|
| SOUTHERN ALTIPLANO | 35-350                        | 900                  |
| CENTRAL ALTIPLANO  | 15-250                        | 1,200                |
| LAKE TITICACA      | 10-150                        | 2,250                |
| CLOSED VALLEYS     | 10-80                         | 3,750                |

TABLE III

LARGE CULTIVABLE HOLDINGS  
(IN THOUSANDS OF BOLIVIAN PESOS)

| TYPE OF LAND           | SIZE OF HOLDING<br>(HECTARES) | TAX PER<br>HECTARE |
|------------------------|-------------------------------|--------------------|
| SOUTHERN ALTIPLANO     | 350-800                       | 1,200              |
| CENTRAL ALTIPLANO      | 250-800                       | 1,500              |
| LAKE TITICACA          | -----                         | -----              |
| CLOSED VALLEYS         | 80-230                        | 4,500              |
| OPEN VALLEYS           | 150-500                       | 4,200              |
| SUBTROPICAL YUNGAS     | 150-2,000                     | 4,500              |
| SUBTROPICAL CHACO      | 600-2,000                     | 3,000              |
| SUBTROPICAL SANTA CRUZ | 500-2,000                     | 5,250              |

TABLE IV

BT

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

40

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036057  
EOB702 AN003472 TOR: 093/1914Z CSN: HCE465

DISTRIBUTION: BURG-01 HUGH-01 MORT-01 RAY-01 TILL-01  
/005 A1

MEDIUM PASTURE LANDS  
(IN THOUSANDS OF BOLIVIAN PESOS)

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

| TYPE OF LAND           | SIZE OF HOLDING<br>(HECTARES) | TAX PER<br>HECTARE |
|------------------------|-------------------------------|--------------------|
| SOUTHERN ALTIPLANO     | 35-350                        | 75                 |
| CENTRAL ALTIPLANO      | 15-250                        | 120                |
| LAKE TITICACA          | 10-150                        | 150                |
| CLOSED VALLEYS         | 10-80                         | 225                |
| OPEN VALLEYS           | 12-150                        | 225                |
| SUBTROPICAL YUNGAS     | 10-150                        | 180                |
| SUBTROPICAL CHACO      | 80-600                        | 225                |
| SUBTROPICAL SANTA CRUZ | 50-500                        | 105                |

TABLE VI

LARGE PASTURE LANDS  
(IN THOUSANDS OF BOLIVIAN PESOS)

| TYPE OF LAND       | SIZE OF HOLDING<br>(HECTARES) | TAX PER<br>HECTARE |
|--------------------|-------------------------------|--------------------|
| SOUTHERN ALTIPLANO | 350-800                       | 105                |
| CENTRAL ALTIPLANO  | 250-800                       | 150                |
| LAKE TITICACA      | -----                         | ---                |
| CLOSED VALLEYS     | 80-230                        | 300                |
| BT                 |                               |                    |

~~CONFIDENTIAL~~ SECTION 04 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: DADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

SMALL PASTURE LANDS  
(IN THOUSANDS OF BOLIVIAN PESOS)

| TYPE OF LAND           | SIZE OF HOLDING<br>(HECTARES) | TAX PER<br>HECTARE |
|------------------------|-------------------------------|--------------------|
| SOUTHERN ALTIPLANO     | 1-35                          | 50                 |
| CENTRAL ALTIPLANO      | 1-105                         | 90                 |
| LAKE TITICACA          | 1-10                          | 105                |
| CLOSED VALLEY          | 1-10                          | 150                |
| OPEN VALLEY            | 1-12                          | 150                |
| SUBTROPICAL YUNGAS     | 1-10                          | 120                |
| SUBTROPICAL CHACO      | 1-80                          | 150                |
| SUBTROPICAL SANTA CRUZ | 1-50                          | 150                |

TABLE V

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~  
NATIONAL SECURITY COUNCIL  
SECRETARIAT

46

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036105  
EOB725 AN003471 TOR: 093/1944Z CSN: HCE478

DISTRIBUTION: BURG-01 HUGH-01 MORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU0875  
DE RUEHLP #2843/05 0931846  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1522

INFO AMEMBASSY ASUNCION 4474  
AMEMBASSY BOGOTA 4714  
AMEMBASSY BRASILIA 4909  
AMEMBASSY BUENOS AIRES 7721  
AMEMBASSY LIMA 2980  
AMEMBASSY QUITO 4661  
AMEMBASSY SANTIAGO 7081  
USMISSION USUN NEW YORK 3731  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 05 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

|                        |           |     |
|------------------------|-----------|-----|
| OPEN VALLEYS           | 150-500   | 300 |
| SUBTROPICAL YUNGAS     | 150-2,000 | 225 |
| SUBTROPICAL CHACO      | 600-2,000 | 300 |
| SUBTROPICAL SANTA CRUZ | 500-2,000 | 300 |

13. (U) A NEW PROPERTY TAX IS CREATED FOR OWNERS  
OF CATTLE LAND.

TABLE VII

CATTLE HOLDINGS  
(IN THOUSANDS OF BOLIVIAN PESOS)

|                |                 |                |
|----------------|-----------------|----------------|
| SMALL HOLDINGS | MEDIUM HOLDINGS | LARGE HOLDINGS |
| 8,640/HECTARE  | 4,320/HECTARE   | 5,400/HECTARE  |

14. (U) ONLY ONE PERCENT OF THE RURAL PROPERTY TAXES  
COLLECTED WOULD GO TO THE CENTRAL GOVERNMENT. THE

REMAINING 99 PERCENT WOULD BE EARMARKED FOR RURAL  
DEVELOPMENT PROJECTS (ELECTRIFICATION, ROADS, IRRIGATION,  
BRIDGES) FOR THE TOWNSHIPS WHERE THE TAX IS PAID.

URBAN PROPERTY TAXES

15. (U) A NEW PROPERTY TAX WOULD BE LEVIED ON HOMES,  
AUTOMOBILES, BOATS, AND AIRPLANES. THIS TAX IS SIMILAR  
TO THE FORCED-LOAN SCHEME INTRODUCED BY THE GOVERNMENT  
LAST DECEMBER, BUT IT IS A TAX, NOT A LOAN.

TAX ON HOMEOWNERS

16. (U) IN ADDITION, ALL HOMEOWNERS WILL BE SUBJECT  
TO A PROGRESSIVE TAX BASED ON THE VALUE OF THEIR HOMES.  
HOMEOWNERS WITH HOUSES VALUED ABOVE 40,000 DOLLARS  
WOULD BE SUBJECT TO AN ADDITIONAL FIXED TAX BASED ON  
PROGRESSIVE CATEGORIES OF THE HOMES' VALUE. FOLLOWING  
TABLE SHOWS TAX RATES FOR HOMES:

TABLE VIII

HOMEOWNER'S TAX  
TAX ON OWNERS OF AUTOMOBILES, MOTORCYCLES, PLEASURE  
BOATS, AIRPLANES, HELICOPTERS

17. (U) THE DRAFT TAX ON OWNERS OF THESE ITEMS IS

PROGRESSIVE. OWNERS OF PROPERTY VALUED ABOVE  
5,000 DOLLARS ARE SUBJECT TO AN ADDITIONAL FIXED  
TAX IN ACCORDANCE WITH THE ACTUAL VALUE OF THE PROPERTY.  
FOLLOWING IS THE TAX TABLE IN U.S. DOLLAR EQUIVALENTS:

TABLE IX

|                                      |           |   |
|--------------------------------------|-----------|---|
| VALUE OF PROPERTY<br>IN U.S. DOLLARS | FIXED TAX | PERCENT TAX ON<br>DIFFERENCE BETWEEN<br>VALUE OF PROPERTY<br>AND BASE OF PROPERTY'S<br>TAX CATEGORY// |
| BT                                   |           |   |

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

4x

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036063  
EOB704 AN003470 TOR: 093/1917Z CSN: HCE468

ADDITIONAL SALES TAX ON CONSUMER AND LUXURY GOODS

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

20. (U) IN ADDITION THERE WOULD BE SALES TAXES ON  
SPECIFIC CONSUMER ITEMS SUCH AS BEVERAGES, CIGARETTES,  
AND LUXURY ITEMS. FOLLOWING IS TABLE ON SPECIFIC  
COMMODITY SALES TAXES:

TABLE X

OP IMMED  
UTS8153  
DE RUEHLP #2843/06 0931848  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1523

INFO AMEMBASSY ASUNCION 4475  
AMEMBASSY BOGOTA 4715  
AMEMBASSY BRASILIA 4910  
AMEMBASSY BUENOS AIRES 7722  
AMEMBASSY LIMA 2981  
AMEMBASSY QUITO 4662  
AMEMBASSY SANTIAGO 7082  
USMISSION USUN NEW YORK 3732  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO//

~~CONFIDENTIAL~~ SECTION 06 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

|               |     |   |
|---------------|-----|---|
| 0- 5,000      | -   | 1 |
| 5,000-10,000  | 50  | 2 |
| 15,000-30,000 | 250 | 3 |
| 30,000-60,000 | 700 | 4 |
| ABOVE 60,000  | 900 | 5 |

//FOR EXAMPLE, TAX FORMULA FOR INDIVIDUAL OWNING  
AIRPLANE VALUED AT 35,000 DOLLARS IS:  
35,000 - 30,000 5,000 X FOUR PERCENT (.04)  
200 DOLLARS 700 DOLLARS (FIXED TAX) 900 DOLLARS.

18. (U) GOVERNMENT RESERVES DISCRETION TO INCREASE  
BY 100 PERCENT ALL URBAN PROPERTY TAXES.

COMMERCIAL TRANSACTIONS SALES TAX

19. (U) THERE WOULD BE AN ANNUAL ONE PERCENT SALES  
TAX ON THE TOTAL VALUE OF COMMERCIAL AND PROFESSIONAL  
TRANSACTIONS OF PUBLIC AND PRIVATE SECTOR ENTERPRISES.

| PRODUCT                            | SALES TAX PERCENT |
|------------------------------------|-------------------|
| BEER                               | 30                |
| HARD LIQUORS<br>(WHISKY, RUM, ETC) | 30                |
| SINGANI (LIGHT<br>BOLIVIAN BRANDY) | 30                |
| WINES                              | 30                |
| ETHYL ALCOHOL                      | 50                |
| CIGARETTES (LIGHT TOBACCO)         | 50                |
| CIGARETTES (BLACK TOBACCO)         | 50                |
| PERFUMES AND COSMETICS             | 30                |
| FURS                               | 50                |
| JEWELRY AND PRECIOUS STONES        | 50                |

TAX PENALTIES

21. (U) NEW PENALTIES FOR TAX FRAUD:

(A) PRISON TERMS OF ONE MONTH TO FIVE YEARS.  
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036000  
EOB712 AN003469 TOR: 093/1930Z CSN: HCE472

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU0880  
DE RUEHLP #2843/07 0931849  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1524

INFD AMEMBASSY ASUNCION 4476  
AMEMBASSY BOGOTA 4716  
AMEMBASSY BRASILIA 4911  
AMEMBASSY BUENOS AIRES 7723  
AMEMBASSY LIMA 2982  
AMEMBASSY QUITO 4663  
AMEMBASSY SANTIAGO 7083  
USMISSION USUN NEW YORK 3733  
DIA WASHDC  
USAFSO HOWARD AFB PN//LAI//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DDI//

~~CONFIDENTIAL~~ SECTION 07 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

(B) FINES OF 50-100 PERCENT OF AMOUNT OF TAX FRAUD.

(C) LOSS OF BUSINESS OR COMMERCIAL LICENSE.

LATE PAYMENT OF TAX CAN BE SUBJECT TO PENALTIES OF  
100 MILLION TO ONE BILLION PESOS.

CENTRALIZATION OF TAX SYSTEM

22. (U) WITH THE EXCEPTION OF RURAL PROPERTY TAXES,  
ALL TAXES CONTAINED IN THIS LAW WOULD GO TO THE  
NATIONAL TREASURY. THE NATIONAL TREASURY WOULD  
DISTRIBUTE TAXES COLLECTED IN THE FOLLOWING PERCENTAGES:

- . CENTRAL GOVERNMENT - 75 PERCENT
- . REGIONAL DEVELOPMENT CORPORATIONS// - TEN PERCENT
- . MUNICIPALITIES - TEN PERCENT
- . UNIVERSITIES - FIVE PERCENT

//REGIONAL DEVELOPMENT CORPORATIONS THAT RECEIVE MINING  
AND PETROLEUM ROYALTY PAYMENTS WOULD HAVE THOSE  
ROYALTIES DEDUCTED FROM CENTRAL GOVERNMENT TRANSFERS  
THEY WOULD OTHERWISE BE ELIGIBLE TO RECEIVE.

ABOLITION OF OLD TAXES

23. (U) WITH THE EXCEPTION OF MINING AND PETROLEUM  
ROYALTY TAXES TO THE REGIONAL CORPORATIONS, ALL  
EXISTING SALES, INCOME, AND CORPORATE TAXES WOULD BE  
ABOLISHED. EXISTING MUNICIPAL TAXES ALSO WOULD BE  
ABOLISHED, ALTHOUGH MUNICIPALITIES CAN CREATE NEW  
TAXES WHICH ARE NOT ANALOGOUS TO TAXES CREATED BY  
THE CENTRAL GOVERNMENT.

IMF STAND-BY CONDITIONED ON TAX REFORM

24. (C) THE DRAFT LETTER OF INTENT AGREED UPON BY  
THE GOVERNMENT AND THE IMF FOR A STAND-BY AGREEMENT  
IN MARCH, SPECIFICALLY REQUIRES EFFECTIVE TAX  
LEGISLATION BEFORE A STAND-BY CAN BE IMPLEMENTED.  
THE PROPOSED TAX LAW WAS DRAFTED PRINCIPALLY BY AN  
IMF-FUNDED TEAM CONSISTING OF TWO ARGENTINES.

GOVERNMENT COMMITTED TO TAX REFORM

25. (U) THE GOVERNMENT IS NOW FIRMLY CONVINCED THAT  
TAX REFORM IS A CRITICAL FACTOR IN ECONOMIC RECOVERY.  
ONE OF ITS STRONGEST PROPONENTS, FINANCE MINISTER  
JUAN CARIAGA, STATED IN A PRESS CONFERENCE ON  
MARCH 19 THAT, WHILE THE GOVERNMENT HAS AGAIN CON-  
TROLLED INFLATION SINCE MID-JANUARY, THIS IS IN-  
SUFFICIENT TO ENSURE FISCAL STABILITY OR ANY KIND  
OF ECONOMIC RECOVERY. THE GOVERNMENT'S FAILURE TO  
MEET PAYMENTS TO SUPPLIERS HAS BEEN SLOWLY INCREASING  
THE GOVERNMENT'S CURRENT LIABILITIES. SATISFYING  
THOSE LIABILITIES WITHOUT ADDED REVENUES WOULD  
SPUR INFLATION. CARIAGA SAID THAT WITHOUT A TAX  
REFORM PROGRAM THERE ALSO WOULD BE NO RESERVES  
AVAILABLE TO PERMIT INCREASES IN PUBLIC SECTOR WAGES.

26. (U) IN THE SAME PRESS CONFERENCE PRESIDENT  
VICTOR PAZ ESTENSSORO SAID THE TAX REFORM PROGRAM  
SUBMITTED TO CONGRESS REPRESENTED A TOTAL REFORM OF  
THE OLD TAX SYSTEM. ACCORDING TO PAZ THE NEW SYSTEM  
REQUIRES ALL CITIZENS TO MAKE SOME CONTRIBUTION TO  
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

49

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036082  
EOB713 AN003468 TOR: 093/19322 CSN: HCE473

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU0885  
DE RUEHLP #2843/08 0931850  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1525

INFO AMEMBASSY ASUNCION 4477  
AMEMBASSY BOGOTA 4717  
AMEMBASSY BRASILIA 4912  
AMEMBASSY BUENOS AIRES 7724  
AMEMBASSY LIMA 2983  
AMEMBASSY QUITO 4664  
AMEMBASSY SANTIAGO 7084  
USMISSION USUN NEW YORK 3734  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA//  
USCINCSO QUARRY HEIGHTS PN//J2//INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 08 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

THE GOVERNMENT. WHILE NOT A PERFECT SYSTEM, PAZ  
EXPLAINED THAT IN ESSENCE IT CREATES A MORE JUST AND  
PROGRESSIVE TAX STRUCTURE IN WHICH INDIVIDUALS WITH  
GREATER FINANCIAL RESOURCES WOULD CARRY MORE OF THE  
BURDEN. ~~HE STATED THAT~~ INDIVIDUALS EARNING UNDER  
130,000,000 PESOS (65 DOLLARS) PER MONTH WOULD BE  
EXEMPT FROM INCOME AND VAT TAX PAYMENTS.

27. (U) PAZ STRESSED THAT THE NEW TAX PROGRAM REMOVES  
13 TAXES UNDER THE OLD STRUCTURE THAT WERE NOT EFFECTIVE  
IN GENERATING REVENUE. THE NEW TAXES WERE CONCEIVED  
WITH AN EYE FOR FACILITATING ADMINISTRATION AND  
COLLECTION. HE ALSO SUGGESTED THAT THE NEW PROGRAM  
CREATES INCENTIVES FOR THE INFORMAL ECONOMY TO CONTRIBUTE  
TO THE TAX SYSTEM.

GOVERNMENT'S OPTIMISTIC REVENUE PROJECTIONS UNDER  
NEW TAX STRUCTURE

28. (C) ECON OFFICERS DISCUSSED THE NEW TAX PROGRAM  
WITH MINISTRY OF FINANCE SUBSECRETARY FOR FINANCIAL  
AFFAIRS MARCELO MONTERO ON MARCH 19. MONTERO CLAIMS  
THAT UNDER THE OLD SYSTEM TAX REVENUES WERE EXPECTED  
TO BE IN THE RANGE OF ONLY 60 MILLION DOLLARS OR ABOUT  
1.7 PERCENT OF GDP FOR 1986. THE NEW TAX STRUCTURE

COULD GENERATE AS MUCH AS 170 MILLION DOLLARS, HE SAID,  
OR OVER FIVE PERCENT OF GDP DURING FIRST 12 MONTHS  
OF IMPLEMENTATION. MONTERO ALSO HOPED THAT REFORMS  
OF CUSTOMS SERVICE COULD RESULT IN ROUGHLY 90 MILLION  
DOLLARS IN ADDITIONAL REVENUES OVER THE SAME PERIOD.  
BASED ON THESE ASSUMPTIONS, 12 MONTH REVENUE PROJECTIONS  
WHICH INCLUDE TAXES, CUSTOMS AND YPFB CONTRIBUTIONS  
TO THE TREASURY COULD YIELD 782.7 MILLION DOLLARS IN  
REVENUE OR OVER 25 PERCENT OF GDP.

EMBASSY ANALYSIS

CENTRALIZATION LIKELY TO FAIL

29. (C) AS PRESENTED, THE NEW TAX LEGISLATION COULD  
PROVIDE INVALUABLE NEW REVENUE SOURCES. AT THE SAME  
TIME IT WOULD REDUCE THE NUMBER OF CENTRAL GOVERNMENT  
TAX CATEGORIES FROM SOME 15 TO SEVEN AND IT WOULD  
ABOLISH ALL MUNICIPAL AND REGIONAL GOVERNMENT TAXES--  
LEAVING THE LATTER ENTITIES NO LOCAL REVENUE SOURCES  
EXCEPT SOME USE FEES. THE INCREASED CENTRALIZATION  
THEORETICALLY IS SIMPLER AND COULD IMPROVE COLLECTION  
AND ADMINISTRATION. BUT IT HAS STIRRED UP A HORNET'S  
NEST OF OPPOSITION AS ALL PARTIES VIEW THE REVOCATION  
OF LOCAL TAX AUTHORITY AS UNDERMINING THE JUST-RESTORED  
(1985) SYSTEM OF LOCAL ELECTIONS, LOCAL AUTHORITY  
AND LOCAL RESPONSIBILITY. CONGRESS WILL RETAIN LOCAL  
TAX AUTHORITY.

VAT'S THE KEY

30. (C) THE MOST IMPORTANT PROPOSED NEW TAX IS THE  
VAT. (IN REALITY, OUR INITIAL IMPRESSION IS THAT IT  
IS MORE A SPANISH-STYLE "CASCADE TAX".) THE GOVERNMENT  
IS COUNTING ON THIS TAX TO BRING IN ROUGHLY 50 PERCENT  
OF TOTAL PROJECTED TAX REVENUE. THE VAT PROVIDES  
IMPORTANT NEW INCENTIVES THAT SHOULD IMPROVE COLLECTION.  
FIRST OF ALL, ALLOWING INDIVIDUAL CITIZENS TO DISCOUNT  
VAT PAYMENTS UP TO 100 PERCENT OF TOTAL INCOME TAX  
OBLIGATIONS, SHOULD ENCOURAGE INDIVIDUALS AND BUSINESS  
FIRMS TO DEMAND RECEIPTS FROM SELLERS--PROVIDED THE  
GOVERNMENT HAS SOME WAY TO CHECK ON THE BUYERS' INCOME  
BT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036087  
EOB715 AN003467 TOR: 093/1933Z CSN: HCE474

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
STU0888  
DE RUEHLP #2843/09 0931852  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1526

INFO AMEMBASSY ASUNCION 4478  
AMEMBASSY BOGOTA 4718  
AMEMBASSY BRASILIA 4913  
AMEMBASSY BUENOS AIRES 7725  
AMEMBASSY LIMA 2984  
AMEMBASSY QUITO 4665  
AMEMBASSY SANTIAGO 7085  
USMISSION USUN NEW YORK 3735  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DOI//

~~CONFIDENTIAL~~ SECTION 09 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: ECON, EFIN, BL  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

TAX LIABILITIES. DEMAND FOR RECEIPTS COULD FORCE UNDERGROUND BUSINESS OPERATIONS TO THE SURFACE. THE BOLIVIAN VENTURE CAPITALISTS HAVE BEEN TOLD THAT VATS INTRODUCED IN VENEZUELA, URUGUAY AND ARGENTINA IN RECENT YEARS HAVE BEEN A SUCCESS. PROPERLY EXPLAINED, THE VAT COULD BE A POPULAR TAX WITH BOLIVIA'S URBAN, SALARIED MIDDLE CLASSES SINCE IT POTENTIALLY REDUCES THEIR OVERALL TAX OBLIGATIONS. BOTH MAJOR OPPOSITION PARTIES HAVE TALKED ABOUT IT FAVORABLY. THE VAT STANDS A GOOD CHANCE OF APPROVAL.

INCOME TAX  
-----

31. (C) THE ECONOMIC (###)EEE MENTIONED IN REF, THE BOLIVIAN WORKERS CENTRAL (COB) HAS PROTESTED THIS TAX BECAUSE IT IS FLAT (REGRESSIVE). NONETHELESS, THE ABILITY TO DISCOUNT INCOME TAX OBLIGATIONS THROUGH PAYMENT OF VAT MAKES THIS TAX ALMOST IRRELEVANT UNDER THE NEW SCHEME.

CORPORATE TAXES  
-----

32. (C) CORPORATE TAXES REMAIN ESSENTIALLY UNCHANGED. THE GOVERNMENT HOPES THAT IMPROVED ADMINISTRATION A

REDUCED CORRUPTION CAN INCREASE REVENUES FROM TAX SOURCE. THE IMPORTANT POINT VIS-A-VIS THIS TAX IS CLOSE SCRUTINY OF CORPORATE ESTIMATES OF NET FIXED ASSETS.

RURAL PROPERTY TAX  
-----

33. (U) IN KEEPING WITH PRESIDENT VICTOR PAZ ESTENSORO'S BELIEF THAT "ALL" CITIZENS SHOULD PAY TAX OBLIGATIONS, THE RURAL PROPERTY TAX INCLUDES SMALL CAMPESINO PLOTS. PREVIOUS EXPERIENCE SINCE THE 1952 AGRICULTURAL REFORM SUGGESTS THAT CAMPESINOS WILL GLADLY PAY BECAUSE THEY THINK THE TAX RE-LGITIMIZES THEIR OWNERSHIP OF LAND, AND BECAUSE 99 PERCENT OF THE REVENUE WILL STAY IN THEIR COMMUNITIES.

34. (C) THE STEEP TAXES ON CATTLE GRAZING LAND (BETWEEN TWO DOLLARS AND FOUR DOLLARS PER HECTARE) MAY FACE STRONG OPPOSITION FROM CATTLE GROWERS IN SANTA CRUZ AND BENI DEPARTMENTS. THEY ARE LIKELY TO ARGUE THAT A 10,000 HECTARE CATTLE RANCH IN THESE REGIONS IS CONSIDERED A "SMALL" PLOT, YET WOULD REQUIRE TAX PAYMENTS OF OVER 20,000 DOLLARS PER YEAR. THIS IS AN IMPORTANT ADM CONSTITUENCY (IT INCLUDES GENERAL BANZER) AND WE SUSPECT CONGRESS WILL MAKE SOME CHANGES IN THIS PART OF THE RURAL PROPERTY TAX BEFORE IT BECOMES LAW.

URBAN PROPERTY TAX  
-----

35. (C) THE NEW TAX RATES ON URBAN HOMES, AUTOMOBILES

AND LUXURY PROPERTIES ARE NOT MUCH HIGHER THAN THOSE UNDER THE EXISTING TAX SYSTEM. THEY ARE, HOWEVER, MORE PROGRESSIVE CONTAINING SHARP INCREASES IN PROPORTIONAL RATES ON HIGHER VALUED PROPERTY.

COMMERCIAL TRANSACTIONS TAX  
-----

36. (U) THESE TAXES, WHICH ARE ESSENTIALLY LEVIED ON BT

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

51

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036094  
EOB719 AN003466 TOR: 093/1940Z CSN: HCE475

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:

SIT:

EOB:

OP IMMED

STU0890

DE RUEHLP #2843/10 0931854

O 031756Z APR 86

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1527

INFO AMEMBASSY ASUNCION 4479

AMEMBASSY BOGOTA 4719

AMEMBASSY BRASILIA 4914

AMEMBASSY BUENOS AIRES 7726

AMEMBASSY LIMA 2985

AMEMBASSY QUITO 4666

AMEMBASSY SANTIAGO 7086

USMISSION USUN NEW YORK 3736

DIA WASHDC

USAFSO HOWARD AFB PN//LA1//

USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//

24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 10 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR

TAGS: ECON, EFIN, BL

SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

ON PROFESSIONAL SERVICES SUCH AS MEDICAL CLINICS, LEGAL SERVICES AND THE LIKE, ARE ACTUALLY REDUCED FROM TEN TO FIVE PERCENT. THE REDUCTION IS MORE THAN COMPENSATED BY MAKING THESE SAME SERVICES SUBJECT TO THE NEW TEN PERCENT RATE.

SALES TAX ON CONSUMER GOODS AND LUXURY ITEMS

37. (U) THE NEW SALES TAX RATES ON CONSUMMABLES SUCH AS BEVERAGES, CIGARETTES AND LUXURY ITEMS (JEWELRY, PERFUME, ETC.), ARE NOT MUCH DIFFERENT FROM THE CURRENT LEVELS. SOME OF THE RATES FOR TAXES WHICH THE GOVERNMENT CONSIDERS EASY TO COLLECT, SUCH AS SALES TAXES ON BEER, WINE AND CIGARETTES, ARE INCREASED. THE TAX ON LUXURY ITEMS, WHICH TRADITIONALLY HAS BEEN CHARACTERIZED BY LOW LEVELS OF COMPLIANCE, HAS BEEN REDUCED.

CONCLUSION

38. (C) THE GOVERNMENT PARTY (MNR) AND ITS OPPOSITION PARTNER (ADN) ARE NOW REVIEWING THE PROPOSED LAW. THE ADN IS SKEPTICAL ABOUT RUSHING SUCH EXTENSIVE TAX REFORM. THE ADN (AND THE OTHER MAIN

OPPOSITION PARTY, THE DEMOCRATIC LEFT MIR) ALSO ADAMANTLY OPPOSES THE EMASCULATION OF LOCAL GOVERNMENT REVENUE AUTHORITY. ON THE OTHER HAND, ALL ARE INCREASINGLY ENAMORED OF THE VAT DESPITE ITS REGRESSIVE NATURE.

39. (C) THE GOVERNMENT CLAIMS THAT THE REVENUE IMPACT OF NEW TAX MEASURES SHOULD BE EVIDENT WITHIN TWO MONTHS OF IMPLEMENTATION. WE ARE SKEPTICAL, AND THE IMF APPARENTLY IS DISCOUNTING TAX REVENUE IN ITS FISCAL DEFICIT CALCULATION FOR 1986. THE IMF BELIEVES THAT SIGNIFICANT INFLOW OF TAX REVENUES WILL NOT BE EVIDENT UNTIL LATE 1986, AND HAS THEREFORE CALLED ON THE GOVERNMENT TO IMPLEMENT SHORT-TERM NON-TAX REVENUE MEASURES (E.G. GASOLINE PRICE INCREASES).

TABLE XI

|                                 | MONTHLY REVENUE PROJECTIONS                      |     |     |     |     |     |     |
|---------------------------------|--|-----|-----|-----|-----|-----|-----|
|                                 | WITH NEW TAX REFORM PROGRAM OVER 12 MONTH PERIOD |     |     |     |     |     |     |
|                                 | (IN MILLIONS OF U.S. DOLLARS) //                 |     |     |     |     |     |     |
|                                 | JAN  | FEB | MAR | APR | MAY | JUN | JUL |
| CUSTOMS                         | 5.0  | 6.1 | 7.4 | 8.1 | 8.2 | 8.6 | 8.8 |
| VAT                             | 2.6  | 2.6 | 4.0 | 5.4 | 6.6 | 8.3 | 9.9 |
| HOME-OWNERS TAX                 | 0.5  | 0.9 | 1.3 | 1.7 | 1.8 | 1.8 | 1.9 |
| AUTO-MOBILE, OTHER PROPERTY TAX | 0.3  | 0.5 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| CORPORATE TAXES                 | 1.5  | 1.5 | 2.4 | 3.1 | 3.2 | 3.3 | 3.4 |
| OTHER BT                        |  |     |     |     |     |     |     |

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL  
SECRETARIAT

52

PAGE 01 LA PAZ 2843 DTG: 031756Z APR 86 PSN: 036097  
EOB722 AN003465 TOR: 093/1941Z CSN: HCE476

DISTRIBUTION: BURG-01 HUGH-01 NORT-01 RAY-01 TILL-01  
/005 A1

WHTS ASSIGNED DISTRIBUTION:  
SIT:  
EOB:

OP IMMED  
UTS8162  
DE RUEHLP #2843/11 0931855  
O 031756Z APR 86  
FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 1528

INFO AMEMBASSY ASUNCION 4480  
AMEMBASSY BOGOTA 4720  
AMEMBASSY BRASILIA 4915  
AMEMBASSY BUENOS AIRES 7727  
AMEMBASSY LIMA 2986  
AMEMBASSY QUITO 4667  
AMEMBASSY SANTIAGO 7087  
USMISSION USUN NEW YORK 3737  
DIA WASHDC  
USAFSO HOWARD AFB PN//LA1//  
USCINCSO QUARRY HEIGHTS PN//J2/INTAFF/SCJ2-PLOPS//  
24COMPW HOWARD AFB PN//DO1//

~~CONFIDENTIAL~~ SECTION 11 OF 11 LA PAZ 02843

DIA FOR IR BRANCH; USCINCSO ALSO FOR POLAD

E.O. 12356: DECL: OADR  
TAGS: ECON, EFIN, BI  
SUBJECT: GOVERNMENT FORMULATES SIGNIFICANT TAX REFORM

|       |      |      |      |      |      |      |      |
|-------|------|------|------|------|------|------|------|
| TAXES | 1.0  | 1.0  | 1.0  | 1.0  | 1.1  | 1.1  | 1.2  |
| VPFB  | 37.0 | 38.0 | 39.0 | 40.1 | 41.2 | 42.3 | 43.5 |
| TOTAL | 47.9 | 50.6 | 55.7 | 60.3 | 63.2 | 66.2 | 69.5 |

//ASSUMES 85 PERCENT ANNUAL RATE OF INFLATION

TABLE XI (CONTINUED)

MONTHLY REVENUE PROJECTIONS  
WITH NEW TAX REFORM PROGRAM OVER 12 MONTH PERIOD  
(IN MILLIONS OF U.S. DOLLARS) //

|         | AUG  | SEP  | OCT  | NOV  | DEC  | TOTAL | GDP |
|---------|------|------|------|------|------|-------|-----|
| CUSTOMS | 9.0  | 9.3  | 9.6  | 9.8  | 10.0 | 100.0 | 4.8 |
| VAT     | 10.6 | 10.8 | 11.1 | 11.5 | 11.8 | 95.4  | 4.4 |

HOME-

|                                 |      |      |      |      |      |       |       |
|---------------------------------|------|------|------|------|------|-------|-------|
| OWNERS TAX                      | 2.0  | 2.0  | 2.1  | 2.1  | 2.2  | 20.3  | 0.9   |
| AUTO-MOBILE, OTHER PROPERTY TAX | 0.9  | 0.9  | 0.9  | 0.9  | 1.0  | 10.2  | 0.4   |
| CORPORATE TAXES                 | 3.5  | 3.5  | 3.6  | 3.7  | 3.8  | 36.5  | 1.05  |
| OTHER TAXES                     | 1.2  | 1.2  | 1.2  | 1.3  | 1.4  | 13.7  | 0.07  |
| VPFB                            | 44.5 | 46.3 | 47.2 | 48.1 | 49.5 | 516.7 | 20.02 |
| TOTAL                           | 71.7 | 74.0 | 75.7 | 77.7 | 80.5 | 729.8 | 32.09 |

//ASSUMES 85 PERCENT ANNUAL RATE OF INFLATION

(DRAFTED ECON: HUGO LLORENS) ROWELL  
BT

~~CONFIDENTIAL~~