

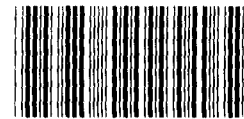
GAO

Fact Sheet for the Chairman, Task Force  
on International Narcotics Control,  
Committee on Foreign Affairs,  
House of Representatives

February 1988

# DRUG CONTROL

## River Patrol Craft for the Government of Bolivia



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This report was prepared and issued under the authority of the General Accounting Office on the basis of specific approval by the Office of the President.

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United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-225282

February 2, 1988

The Honorable Lawrence J. Smith  
Chairman, Task Force on International  
Narcotics Control  
Committee on Foreign Affairs  
House of Representatives

Dear Mr. Chairman:

As you requested during our July 29, 1987, testimony before the House Foreign Affairs Task Force on International Narcotics Control, we are providing information on events surrounding the selection and purchase of eight river patrol craft by the Department of State's Bureau of International Narcotics Matters (INM). These rivercraft are being provided to the government of Bolivia to assist in its narcotics interdiction effort. The rivercraft have been delivered to Bolivia and two are currently in operation.

The information is summarized below and described in more detail in the appendixes.

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## Background

In July 1986 the United States and Bolivia initiated Operation Blast Furnace, a joint operation designed to curb cocaine production in that South American country. As Operation Blast Furnace progressed, the United States began to examine ways that it could continue to assist Bolivia once the joint operation was concluded. The lack of a Bolivian capability to intercept drugs and precursor chemicals (chemicals used to process coca into cocaine) being transported along its rivers was viewed as a major weakness in any future narcotics interdiction effort.

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## The Need for and Selection of a Rivercraft for Bolivia

The United States provided the government of Bolivia with eight high-speed river patrol boats at a cost of about \$694,000, to be used in interdicting the transit of illegal drugs and precursor chemicals on the rivers of Bolivia. Although the documentation is limited and conflicting positions were taken by the various U.S. officials and agencies involved, the boats appear to have been selected and purchased before establishing a specific river interdiction strategy or an operational plan to govern their use. Also, these boats were purchased without a systematic evaluation of (1) the capabilities of various alternative boats, (2) the unique

conditions in Bolivia that may affect operations and the type of equipment needed to address those conditions, or (3) the technical expertise of the Bolivians to operate and maintain the boats.

In selecting the specific type of boat for Bolivia, five alternatives were considered. Two boats—a \$4,000 Bolivian-made boat and a 36-foot surplus U.S. Navy patrol boat that could be obtained for about \$10,000 to \$20,000 in overhaul costs—were viewed by U.S. military officials as either too slow or too unreliable. A third, a craft using a basic Boston Whaler hull and limited accessories, was also viewed as inadequate for river interdiction efforts in Bolivia. A fourth boat, the Raider patrol craft manufactured by Napco International, Inc., and priced at \$133,940, was viewed as too expensive. The selected alternative was a less expensive variation of the Raider, the Piranha.

According to individuals involved in this purchase, the decision to provide rivercraft to Bolivia was made by the U.S. mission in response to a recommendation by U.S. military representatives in La Paz. The decision to purchase the Napco Piranha was made by the Department of the Army in Washington, D.C., with the concurrence of U.S. military representatives in La Paz. The selection of the accessory package, which contributed to more than 50 percent of the boat's final cost, was made by officials of the Department of the Army's Deputy Chief of Staff for Logistics, in consultation with U.S. military representatives at the U.S. mission and Bolivian officials.

INM and Drug Enforcement Administration (DEA) representatives in La Paz were opposed to providing the Piranha rivercraft to the Bolivians. Officials from both agencies agreed that (1) providing such sophisticated rivercraft was a poor way of spending limited narcotics control resources, and (2) the boats were too complicated and expensive for the Bolivians to maintain. The costs associated with operating and maintaining the eight rivercraft will be funded by INM's Narcotics Assistance Unit in La Paz. This was estimated to be approximately \$100,000 for the first 6 months of operation. INM and DEA officials also believed U.S. representatives would have to be assigned to the boats to prevent their misuse.

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## Cost of the Rivercraft

The eight Piranha rivercraft, trailers, and associated spare parts delivered to Charleston, South Carolina, cost \$694,276. The \$76,110 cost of each rivercraft, excluding trailers and spare parts, greatly exceeded the \$35,000 cost initially envisioned for several reasons. These include (1) equipping the rivercraft with numerous accessories, including twin

140 horsepower outboard engines; (2) developing several unique modifications to respond to Department of the Army requirements; (3) allowing various additional costs and a higher profit because the Piranha was experimental; and (4) the manufacturer providing a warranty and some follow-on support.

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## Reasonableness of Costs

On March 6, 1987, the U.S. Army Troop Support Command and Napco entered into a sole-source negotiated contract to provide the eight Piranha rivercraft to the government of Bolivia. Before the contract negotiations with Napco began, the Defense Logistics Agency's Defense Contract Administration Services Management Area analyzed the cost elements and proposed profit level contained in the contract. The appropriateness of approximately \$34,000 in proposed costs for such items as marketing expenses and travel claimed by Napco, freight cost calculations, and the cost of the outboard motors was questionable, as was an 11.49 percent profit rate applied by the contractor. The Defense Logistics Agency's analysis was used to establish the Army's position in price negotiations with Napco. In addition to the costs questioned in the evaluation report, Army negotiators believed that a discount of approximately \$32,000 was appropriate and a profit rate of 7.2 percent was reasonable. The Army, therefore, began negotiations with Napco by questioning approximately \$100,000 of the contract's proposed \$702,600 total cost. The negotiations resulted in a reduction of \$8,323. According to officials involved in the negotiations, their pre-negotiation position was overly optimistic, and additional reductions were not possible because (1) the negotiators were not aware of a number of verbal agreements made by representatives of the Department of Army's Deputy Chief of Staff for Logistics and Napco before the contract negotiation stage, including the provision of a manufacturer's warranty; (2) the Piranha was in the development stage, thus some research and development costs were allowed; and (3) the Piranha was being custom-built to meet the specifications of the government of Bolivia.

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## Financing the Piranha Purchase

The provision of rivercraft to Bolivia was initially carried out by INM's Narcotics Assistance Unit and the U.S. military group in La Paz under two separate programs, each with differing goals and objectives. The INM effort centered on the development of a small river interdiction force and included the provision of aluminum launches and motors to the Bolivians. The military group's riverine concerns, however, were not targeted solely on narcotics interdiction. Rather, they generally focused on helping the Bolivian government gain effective control of its borders.

With the initiation of Operation Blast Furnace, the resources and manpower of all agencies at the U.S. mission in La Paz were directed towards narcotics control, as the highest priority. Therefore, when the decision was made to provide the Bolivians with Piranha rivercraft, it was determined that the military and INM's Narcotics Assistance Unit would share the cost of the new rivercraft. Each organization was to provide about \$360,000, with the military group's share to be provided through the Military Assistance Program.

However, congressional concern over Bolivia's failure to adequately combat narcotics production resulted in the Congress imposing sanctions which limited the amounts of military assistance and economic support funds provided to Bolivia in fiscal years 1986 and 1987 to only half of Bolivia's funding allotment in each year. According to cognizant officials, in meetings between INM and Department of Defense representatives in October 1986, it was decided that INM would fund almost all of the Piranha purchase. Subsequently, it was agreed that military assistance program funds were only to be used to finance transportation costs, to train the Bolivians to operate and maintain the boats, and to procure M-60 machine guns for the rivercraft.

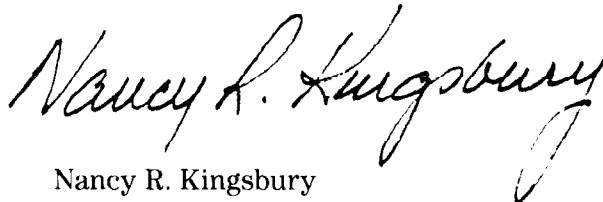
Our objective was to describe the circumstances related to the selection and procurement of rivercraft to assist the government of Bolivia in interdicting drugs. To address this objective, we obtained information from March to October 1987 as part of our overall review of U.S. narcotics control programs in Bolivia and Colombia, which we are conducting in response to Section 2007 of the Anti-Drug Abuse Act of 1986. Our field work included discussions with INM, DEA, and U.S. military representatives in the United States and Bolivia. We also discussed this purchase with representatives of the U.S. Southern Command in Panama and the Piranha's manufacturer, Napco International. We also examined the Departments of Army and State procurement records and other documents related to this procurement.

We did not obtain formal agency comments. However, we provided appropriate INM officials with a draft of this fact sheet and obtained their informal views. They generally agreed with the fact sheet's content. Unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 7 days from the date of issue. At that time, we will send copies to cognizant congressional committees and other interested parties and make copies available to others upon request.

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If you should need additional information on this matter, please call me on 275-5790.

Sincerely yours,

A handwritten signature in cursive script that reads "Nancy R. Kingsbury". The signature is written in black ink and is positioned above the printed name and title.

Nancy R. Kingsbury  
Associate Director

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## Abbreviations

DA/DCSLOG	Department of the Army/Deputy Chief of Staff for Logistics
DCASMA	Defense Contract Administration Services Management Area
DEA	Drug Enforcement Administration
DOD	Department of Defense
INM	Bureau of International Narcotics Matters
MAP	Military Assistance Program
NAU	Narcotics Assistance Unit
SCIATTS	Small Craft Inter-American Training Technical School





# Selection and Purchase of Narcotics Control Rivercraft for Bolivia

On July 15, 1986, the United States and Bolivia initiated Operation Blast Furnace, a joint operation designed to curb cocaine production by locating and destroying coca processing facilities. During this operation, the United States furnished Bolivian anti-narcotics police with helicopter support to transport them to the remote locations of the cocaine laboratories. In mid-August, as Operation Blast Furnace progressed, the U.S. mission in La Paz began to examine ways in which the United States could continue to assist Bolivian narcotics control efforts once the operation concluded. The primary goal of this undertaking was to sustain the narcotics control momentum gained by the joint operation.

According to a senior mission official, the two major problems affecting future Bolivian interdiction efforts were the lack of (1) helicopter support to transport the police on drug raids, and (2) a capability to intercept drugs and precursor chemicals (chemicals used to process coca into cocaine) as they are transported on the Bolivian rivers. The helicopter support problem was satisfied when the Department of State's Bureau of International Narcotics Matters (INM) leased six UH-1H helicopters from the Department of Defense (DOD) and loaned them to Bolivian anti-narcotics police. The remaining problem—river interdiction—was to be solved by using fast, versatile rivercraft to transport narcotics interdiction police.

## Origin of Request for Rivercraft

Recognizing that neither it nor the Bolivian Navy knew much about river interdiction operations, the U.S. mission in La Paz arranged for a team of riverine experts from the U.S. Navy's Small Craft Inter-American Training Technical School (SCIATTS) in Panama to visit Bolivia from August 25 to 27, 1986. During its 3-day visit, the team was tasked with developing a preliminary plan of action which, using existing Bolivian Navy and U.S. Drug Enforcement Administration (DEA) resources, would enable DEA and the Bolivians to conduct joint riverine drug interdiction operations. The team was also asked by DEA officials in La Paz to develop a general concept of operations that could be conducted with little lead time and minimal preoperational training and planning.

The SCIATTS team proposed an interdiction plan with small patrol craft operating from both Bolivian naval bases and large mobile support ships, or "mother ships." For the initial 6 months of operations, the plan called for the establishment of two shore bases, with a minimum of two mother ships per base. Each mother ship would support four small

patrol craft. For this phase of the interdiction program, the team recommended using 18-foot aluminum-hulled boats purchased by INM's Narcotics Assistance Unit (NAU). The number of shore bases, mother ships, and patrol craft would increase in the mid-term of the plan as the interdiction program progressed. Over the long-term, the plan envisioned an interdiction effort completely managed and implemented by the Bolivians.

For the mid-term (i.e., February 1987 through February 1988), the team listed several actions to enhance Bolivia's capability to intercept drug traffic on its waterways. These actions included expanding the number of fixed naval bases, increasing the level of training provided to the Bolivian Navy, and increasing the number of patrol craft. The SCIATTS team listed two specific rivercraft—surplus, U.S. Navy 36-foot patrol boats and 24-foot Boston Whaler boats—to increase the number of patrol craft available for interdiction. The team also verbally suggested to the U.S. mission Bolivian-made boats as a third alternative.

According to the SCIATTS team leader, their 3-day visit and resulting operational outline were designed to provide the U.S. mission in La Paz with information and options and were never meant to be recommendations of what was required to interdict drugs on the Bolivian rivers. The team leader stated that this was fully explained to U.S. mission officials on a number of occasions. However, many U.S. mission and headquarters officials viewed the SCIATTS' options as recommendations for action. Officials of the U.S. Southern Command in Panama, who oversee the activities of the military groups in South America, particularly liked the suggested rivercraft because cost, maintenance requirements, and high operating expenses precluded the recommendation of any high-tech, specialty type craft.

## Decision to Purchase the Piranha Rivercraft

Of the three alternatives suggested by the SCIATTS team, two were eliminated based on cost and performance considerations. According to the team leader, the Navy's 36-foot patrol craft could have been obtained at no cost. However, about \$10,000 to \$20,000 in overhaul costs would have been required for each craft, and additional costs would have been incurred in transporting each of the 18,000-pound patrol boats to Bolivia. Military officials at the U.S. Embassy in La Paz eliminated this alternative, viewing it as too expensive and the patrol craft too unreliable.

According to the team leader, the Bolivian-made boat, with some modifications, could accomplish the task of transporting Bolivian narcotics police. One such boat and accompanying outboard motors had been purchased by NAU for approximately \$4,000. This alternative, which was considered the most appropriate by NAU representatives in Bolivia, was dismissed by U.S. military officials in La Paz, who viewed them as being too slow and providing poor maneuverability.

The remaining option of a Boston Whaler craft was selected. According to officials contacted during this review, boats with the Boston Whaler hull have been frequently used in riverine and coastal operations and the hull is regarded as very stable and durable when used in calm waters. In suggesting this alternative, the SCIATTS team envisioned a basic craft with a standard Boston Whaler hull, medium-sized outboard motors, and some steering and fuel accessories. Since the Boston Whaler hull could be purchased separately through the General Services Administration for approximately \$15,000, officials estimated a cost of \$35,000 for a complete river interdiction craft.

U.S. Army officials in La Paz and in Washington, however, believed that the Boston Whaler hulled boat with the limited number of accessories was inadequate for river interdiction efforts in Bolivia. According to one U.S. Army official, Napco International was the only company that could "militarize" the Boston Whaler hull (i.e., reinforce specific areas of the hull and provide machine gun mounts). In late August 1986, Napco International responded to a request by the Department of the Army's Deputy Chief of Staff for Logistics (DA/DCSLOG) office, and quoted a price of \$133,940 for the Raider, a Boston Whaler hulled rivercraft it produces. According to a senior Napco official, the price quoted for this 7-meter rivercraft included a number of specific accessories and modifications verbally requested by DA/DCSLOG. Napco also provided DA/DCSLOG with a "bare bones" price quote of \$105,845 for a Raider patrol craft without radar or machine guns.

According to officials involved in this transaction, the Napco Raider was viewed as too expensive by DA/DCSLOG. Napco, in turn, offered DA/DCSLOG a slightly smaller boat it had under development with the accessories and modifications previously requested by DA/DCSLOG. This alternative boat, the Piranha, was a variation of the Raider and was quoted at a cost of \$81,131. The Napco Piranha is a 22-foot river patrol craft with a Boston Whaler hull and is equipped with two 140 horsepower outboard engines. According to Napco, this boat has a top speed in excess of 45 miles per hour and can carry between 5 and 7 individuals. Each Piranha

**Appendix I  
Selection and Purchase of Narcotics Control  
Rivercraft for Bolivia**

would be equipped with an M-60 machine gun, provided through the Military Assistance Program (MAP).

On October 15, 1986, the Bolivian Navy provided the U.S. mission in La Paz with a request for the sole-source procurement of eight Piranha rivercraft. In justifying this request, the Bolivian Navy stated that the Piranha was the only boat that had the desirable characteristics for riverine operations in Bolivia and Napco was the only manufacturer who could meet the short timeframe deemed critical to sustaining the momentum gained during Operation Blast Furnace. On November 1, 1986, the U.S. military group in La Paz formally confirmed the requirement for eight Piranha rivercraft and requested the expeditious procurement and delivery of these boats.

On March 6, 1987, the U.S. Army Troop Support Command and Napco International entered into a negotiated, sole-source contract whereby Napco would provide eight Piranha rivercraft, trailers, and associated spare parts. The contract had a ceiling price of \$702,599, which was subject to downwards negotiation. This amount was later reduced to \$694,276 because some costs claimed by Napco were disapproved by Army contract negotiators. Table I.1 shows the associated costs of this purchase.

**Table I.1: Cost of the Piranha Purchase, by Major Item**

Item	Quantity	Unit price	Amount
22-ft. Piranha rivercraft	8	\$76,110	\$608,880
Spare parts for Piranha	8	3,558	28,465
Trailer	8	6,596	52,765
Spare parts for trailer	4	1,041	4,166
<b>Total</b>			<b>\$694,276</b>

**Concern About the Piranha**

Although the decision to purchase a Boston Whaler hulled boat for Bolivia was made by the U.S. mission in La Paz, the decision to purchase the Piranha was made by DA/DCSLOG in Washington, D.C., with the concurrence of U.S. military officials in La Paz. Although they will fund the entire purchase, INM and NAU had very little input into the selection process. According to cognizant INM officials, INM had no input into either the decision to purchase river boats for Bolivia or the selection of the Piranha rivercraft. Several officials attributed NAU's minimal input to its general opposition to the provision of high-speed rivercraft to the Bolivians.

Perhaps even more importantly, officials involved in this transaction told us that prior to their decision to purchase rivercraft, and specifically the Piranha, no systematic or formal evaluation was made of

- the unique conditions in Bolivia and the types of equipment needed to adequately address these conditions,
- the need or appropriateness of the various accessories and modifications requested by DA/DCSLOG,
- the cost and capabilities of alternative boats and accessories or the benefits that would be derived, or
- the Bolivian's ability to operate and maintain the rivercraft.

Agency officials told us that there is no written or approved river interdiction strategy for Bolivia. According to a senior military official at the U.S. mission at La Paz, riverine interdiction operations will initially be guided by the general concept of operations developed by the SCIATTS team, with operational details (i.e., areas to be patrolled, methods of operations, etc.) developed later by the U.S. and Bolivian personnel concerned with the program.

The decision to provide Bolivia with eight Piranha rivercraft caused concern within the two organizations (NAU and DEA) primarily responsible for narcotics control and interdiction. NAU, which funded the entire \$694,276 purchase, raised concerns about (1) the ability of the Bolivians to operate and maintain the boats, (2) the annual operation and maintenance costs that would be paid by the United States, (3) the ability of the Bolivians to absorb the new technology (i.e., 8 boats and 6 UH-1H helicopters), (4) the possible misuse of the boats by the Bolivians, (5) the Piranha's speed, which, according to its manufacturer, is in excess of 45 miles per hour, and (6) the cost of the new boats. NAU felt the domestically produced, wooden-hulled boats were better suited for the narcotics interdiction mission. Overall, NAU officials believed that a less expensive, easier to maintain boat should have been purchased.

The DEA unit in La Paz joined NAU in opposing the purchase of the Piranha rivercraft for the Bolivians because it believed that (1) it was a poor way to spend limited narcotics funds and (2) the boats were too complicated and expensive to maintain in the Bolivian environment. Further, numerous officials involved in this purchase have questioned the Bolivian's ability to adequately operate and maintain the Piranha rivercraft. Officials stated that there were examples of misuse of U.S.-provided assets by the Bolivians, and cited other past instances where the Bolivians failed to maintain less complex U.S.-provided equipment. They also

noted the general lack of repair facilities and necessary equipment in Bolivia. These conditions led a senior INM official to state that it was a mistake to purchase all of the Piranha's at once, noting that it would have been wiser to buy two such boats to test the Bolivian's logistical and operational capability.

To ensure that the boats are properly maintained and used for their intended purpose, DEA representatives in La Paz believe it will be necessary to assign at least four DEA agents trained in riverine operations to the boats. While such specialists were not initially available, a senior DEA official in Washington told us that four riverine specialists will be assigned to Bolivia to accompany the Bolivians on all interdiction operations that involve the Piranha rivercraft.

Also, according to a U.S. official in Bolivia, it is not realistic to expect the Bolivians to adequately supply and maintain the Piranhas. Consequently, the costs associated with operating and maintaining the eight Piranha rivercraft will be funded by NAU. This was estimated to be approximately \$100,000 for the first 6 months of operations. Finally, according to Napco and DOD officials, the sales representative for an outboard motor company in La Paz will be used, if necessary, to repair the Piranha's engines. Some maintenance training has also been planned by DOD.

## Accessories and Modifications Increase Cost of the Piranha

The cost of \$76,110 for each Piranha rivercraft greatly exceeded the cost of approximately \$35,000 initially envisioned by the SCIATTS team because

- DA/DCSLOG ordered the Piranha rivercraft with numerous accessories and modifications, several of which are unique and had to be developed by the manufacturer.
- The Piranha is considered an experimental craft, therefore, various research and development costs and a higher profit percent were allowed.
- The manufacturer will provide a warranty on the boats and some follow-on support after they are delivered to Bolivia.

Appendix II lists the cost of basic Boston Whaler hull and the accessories and modifications for the rivercraft being provided to Bolivia. According to individuals involved in this purchase, the decision to add various accessories and to require the contractor to make specific modifications to the basic Boston Whaler hull originated at a meeting

between a senior Bolivian government official, a senior U.S. Army official, and a representative of DA/DCSLOG.

According to the DA/DCSLOG representative who attended this meeting, the senior Bolivian official outlined the conditions that would have to be overcome if river interdiction efforts were to succeed. While the Bolivian official did not list specific accessories, he did describe what he believed was required in a rivercraft. Officials from DA/DCSLOG and U.S. military group in La Paz then met to determine and select the accessories they felt were needed to satisfy the conditions outlined by the Bolivian official. They did not analyze the validity of these conditions. The DA/DCSLOG official responsible for the Piranha purchase told us that the accessory selection process was informal and no documentation of the process was developed. He further stated that the U.S. military group in La Paz was informed of, and concurred in, all accessories.

DA/DCSLOG required several unique modifications, which also contributed to the increased cost of the Piranha. For example, DA/DCSLOG requested that the rivercraft be equipped with (1) machine gun mounts which would allow for gun removal and the use of heavier guns in the future, (2) a stainless-steel shoe on the bow to protect the boat from floating debris, and (3) a radio with 10 times the power of a normal radio. According to the U.S. Army's contract negotiator, the requirement for special machine gun mounts resulted in the inclusion of (1) research and development costs incurred by Napco in designing the new mounts and (2) travel costs associated with Napco's consultations with design engineers.

According to a senior Napco official, the eight Piranha rivercraft provided to Bolivia were specifically designed and configured to meet the requirements of the Army, and are the only such boats in the world.

According to contracting officials of the U.S. Army Troop Support Command, the developmental nature of the Piranha and the modifications that had to be custom-made to meet DA/DCSLOG requirements resulted in the inclusion of various research and development costs in the contract and allowed the contractor to apply a higher than normal profit rate, 11.49 percent. Appendix III is a summary of the contract prices for the eight Piranha rivercraft, trailers, and associated spare parts.



## Army's Evaluation of the Reasonableness of Costs

Prior to the initiation of price negotiations with Napco, contracting officials of the U.S. Army Troop Support Command requested that an evaluation of the contract cost elements and the contractor's proposed profit be conducted by the Defense Logistics Agency's Defense Contract Administration Services Management Area (DCASMA). In its May 1, 1987, analysis of the proposal, DCASMA noted that it did not evaluate the largest part of the proposal (approximately \$400,000 or 63 percent of the proposed costs) because the subcontractor, Boston Whaler Inc., had a General Services Administration contract for the hull and some other items. The prices for the work to be performed by Boston Whaler, Inc., were taken from this contract and accepted.

The DCASMA evaluation questioned the appropriateness of approximately \$34,000 of the contract's remaining \$302,600 in proposed costs. This centered around the calculation of freight costs, the cost of the outboard motors, various marketing expenses claimed by Napco, and some travel costs for Napco officials. Although the analysis made no specific dollar recommendation about the profit due Napco, it also questioned the appropriateness of the 11.49 percent profit rate applied by the contractor. The analysis noted that a lower rate of profit was warranted because (1) 93 percent of the proposed costs were to be incurred by subcontractors or vendors, (2) cost risk was low because most of the costs were either taken from a General Services Administration catalog or a firm purchase order, and (3) such performance risk factors as technical, management, and cost were considered to be low.

The DCASMA analysis was reviewed by contracting officials of the U.S. Army Troop Support Command and used to establish the Army's position in price negotiations with Napco. In addition to the costs questioned by the analysis, Army contracting officials felt that due to the size of the subcontract with Boston Whaler, Inc., a discount of approximately \$32,000 was appropriate. These officials also believed that a profit rate of 7.2 percent was reasonable. The Army, therefore, began negotiations with Napco by questioning approximately \$100,000 of the contract's proposed \$702,600 total.

Contract negotiations between Napco and the Army were conducted during late May 1987 and resulted in a cost reduction of \$8,323. Table I.2 summarizes the areas in which Army contracting officials felt that cost reductions could be made and the actual reduction amounts that were negotiated.

Appendix I  
 Selection and Purchase of Narcotics Control  
 Rivercraft for Bolivia

**Table I.2: Areas of Potential and Actual Reductions in the Contract Proposal for Eight Piranha Rivercraft**

Contract area	Potential reductions	Actual reductions
Discount from subcontractor, Boston Whaler, Inc.	\$31,964	\$-0-
Reduction in Napco's profit	31,943	869
Marketing expenses	11,700	-0-
Trips and travel	6,975	1,125
Freight costs	6,100	2,260
Outboard motor costs	5,360	3,344
Other costs	5,913	725
<b>Total</b>	<b>\$99,955</b>	<b>\$8,323</b>

According to officials involved in the negotiations, their pre-negotiation position was overly optimistic and they were unable to further reduce the proposed Napco prices because (1) the negotiators were not aware of a number of verbal agreements between DA/DCSLOG and Napco; (2) the Piranha was in the developmental stage, thus some research and development costs were allowed, and (3) the Piranha, according to Napco, was being custom-built to meet the specifications of the Bolivian government. Some of the agreements reached between Napco and DA/DCSLOG included (1) a warranty on the Piranha by the manufacturer, (2) the provision of Napco and Boston Whaler technical representatives to oversee the delivery of the boats in Bolivia, and (3) the development of special machine gun mounts.

## Financing the Piranha Purchase

The provision of rivercraft to Bolivia was initially carried out by NAU and the U.S. military group in La Paz under two separate programs, each with differing goals and objectives.

NAU's involvement in the interdiction of narcotics and precursor chemicals being transported on Bolivian rivers originated with the August 1983 bilateral narcotics control agreement between the United States and Bolivia. Among other things, this agreement established a river patrol unit within the Bolivian Navy directed at narcotics trafficking. Under this agreement, the United States was obligated to provide four launches and motors, valued at an estimated \$96,000 to the patrolling unit. NAU has continued to provide the Bolivians with aluminum launches and small outboard motors.

Before Operation Blast Furnace, the military group's riverine concerns were not targeted solely on narcotics interdiction. Rather, they generally focused on helping the Bolivian government gain effective control of its

borders—one of the four major goals of the U.S. military group in La Paz. Therefore, according to a former mission official, all funds necessary to purchase rivercraft were provided through MAP as this was viewed strictly as military assistance. This view was consistent with the fiscal year 1987 Security Assistance congressional presentation for Bolivia, which stated that “MAP is intended to support (the) acquisition of communications gear, trucks and jeeps, riverine patrol craft, and vehicle and aircraft spare parts.”

With the initiation of Operation Blast Furnace, the resources and manpower of the U.S. mission in La Paz were directed towards narcotics control as the highest priority. According to the former commander of the military group, the Boston Whaler hulled rivercraft proposed by the SCIATTS team were now looked upon from a narcotics control point of view and were not considered a strictly military program. Consequently, it was determined that it would be appropriate for the military group and NAU to share equally in the cost of procuring the new rivercraft—about \$360,000 each—with the military group’s share being provided through MAP funds.

However, congressional concern over the Bolivian government’s failure to adequately combat narcotics production resulted in limits being imposed on the amounts of military assistance (i.e., assistance provided through MAP, international military education and training, and foreign military sales financing) and economic support funds that could be provided to Bolivia. As a result, Bolivia received half the economic support funds and military assistance originally allotted to it in fiscal years 1986 and 1987. For MAP, the limits reduced funding to approximately \$1.4 million and \$1.0 million, respectively, during those years.

When the overall level of MAP funds dropped significantly, MAP funds available for the Piranha purchase also were greatly reduced. According to cognizant officials, in meetings between INM and DOD representatives, it was decided that INM would fund most of the Piranha purchase, and that MAP funds would be used for (1) transporting the rivercraft from the United States to La Paz (an estimated \$84,000), (2) purchasing 14 M-60 machine guns (\$51,225), and (3) training the Bolivians in the operation and maintenance of the rivercraft (\$74,000 in 1987).

According to INM officials, the Piranhas were not purchased with INM funds to circumvent the legal restrictions placed on MAP funds, although MAP funds would have been used to finance this purchase if they had

**Appendix I  
Selection and Purchase of Narcotics Control  
Rivercraft for Bolivia**

been available, according to a senior official at the U.S. embassy in La Paz.

# Piranha Equipment Being Provided to Bolivia

Contract item	Description	Final negotiated price
1	22 ft. fiberglass basic hull	\$15,060
2	Olive green gelcoat	488
3	Bottom black	452
4	Aluminum gunwale (upgrade)	520
5	Aluminum command console (upgrade)	3,232
6	Heavy-duty rub rail	0
7	Outboard motor equipment package	1,832
8	Outboard installation & dynotest	840
9	Sea trials	640
10	Stainless steel propellers	432
11	2 each 300,000 candle-power spotlights	264
12	Commissioning package	468
13	Compass	200
14	2 each 140-h.p. Outboard Marine Company engines	8,710
15	Hydraulic steering (Upgrade)	353
16	129 gallon fuel tank	550
17	Explosafe 129 gallon tank	1,131
18	6 each heavy duty 10" springline cleats	148
19	Helicopter/Dockside crane lifting eyes	1,894
20	Bilge pump	189
21	Tailored boat cover	542
22	Tow post tower	2,240
23	Engine crash rail	608
24	Splashwell bulkhead	656
25	High horsepower transom modification	1,920
26	Self-bailing package	556
27	Aluminum leaning post/storing seat	1,432
28	2 each ammunition racks	620
29	Bow-mounted tripod for M-60 machine gun	1,950
30	Bow reinforcement for machine gun mount	1,740
31	M-60 machine gun cover	120
32	2 each seat/utility boxes	1,376
33	Heavy 1/8" stainless steel shoe	960
34	International navigational lights	0
35	VRC-6450 50 watt high frequency radio	5,640
36	Installation of VRC-6450 system	1,166
37	Manuals for 140-h.p. OMC engines	12
<b>Total (note a)</b>		<b>\$58,941</b>

Note a: This amount is exclusive of spare parts, trailers, freight and indirect Napco costs, general and administrative expenses, and profit fees.

# Contract Prices for the Production of Eight Piranha Rivercraft

<b>A.</b>	Sub contracting costs	
	1. To Boston Whaler, Inc.	\$399,544
	2. To other subcontractors	131,456
	<b>Total</b>	<b>\$531,000</b>
<b>B.</b>	Freight costs	
	1. Freight in (to Boston Whaler, Inc.)	\$5,747
	2. Freight out (to Charleston A.F.B.)	11,424
	<b>Total</b>	<b>17,171</b>
<b>C.</b>	Napco costs	
	1. Electrical installation	\$9,328
	2. Packaging + preparation	7,452
	3. Warehouse + delivery	6,086
	4. Napco indirect costs	11,700
	5. Travel expenses	5,850
	<b>Total</b>	<b>40,416</b>
	<b>Total Factory Costs</b>	<b>\$588,587</b>
	+ General and Administrative Expense (5.8%)	34,138
	<b>Total Cost</b>	<b>\$622,725</b>
	+ Profit Fee (11.49%)	71,551
	<b>Total Price</b>	<b>\$694,276</b>

Source: U.S. Army Troop Support Command.

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