



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

January 8, 2006

The Honorable Charles E. Grassley
Co-Chairman, Caucus on International Narcotics Control
Hart Senate Office Building, Room 818-C
Washington, D.C. 20510

Dear Senator Grassley:

In November of 2005, we released an analysis prepared by the Institute for Defense Analysis (IDA) showing recent trends in U.S. retail cocaine price and purity, drawing on information from the Drug Enforcement Administration (DEA) dataset known as STRIDE. Retail cocaine levels for that analysis were defined as purchase amounts of 2 pure grams or less, with an attached purity analysis as well as a calculation of price-per-pure-gram.

Though we readily acknowledge limitations inherent in the STRIDE data, it has nevertheless proved to be a valuable source for determining long-term trends of retail cocaine price and purity when handled by appropriate statistical methods.

At the time of our November report, we noticed an inflection point in what had otherwise been long-term trends in retail cocaine price and purity. Previous analyses of the STRIDE data conducted by RAND Corporation under contract to ONDCP had examined the time period from 1981 to the second quarter of 2003. Cocaine purity had been increasing steadily, and price correspondingly decreasing steadily, during much of that time period. The analysis conducted by IDA carried forward the data from the second quarter of 2003 until February of 2005, during which time cocaine purity continued to climb and price continued to drop, when compared to the previous time series.

RAND Corporation statistical methods and assumptions differ somewhat from the analytic methods and assumptions chosen by IDA (the first being termed an "expected value" methodology, while the second is known as a "weighted median" analysis). Additionally, the expected value method was applied to cocaine powder and crack separately, while the weighted median analysis was applied to the combined set of specimens.

Against the backdrop of these aforementioned long-term trends there was a distinct change in the data trends for cocaine price/purity from February to September of 2005 that was detectable regardless of the analytic method used. The long-term rise in purity ceased and began to drop, and the long-term decline in price-per-pure-gram not only ceased falling, it began to rise. This realization formed the basis of our November, 2005 report.

At that time, we reported a 15 percent decrease in retail cocaine purity between February and September, 2005, accompanied by a 19 percent increase in price.

In response to inquiries from Congress, we offered to provide an update on retail cocaine price and purity information for the time period subsequent to September, 2005. In order for trends to become apparent, we determined that one year's worth of additional data would be necessary in order to establish some sense of relative stability in the data. That update we provide to you here.

Please note that, owing to the continued updating and populating of the STRIDE records, there are gradients of finality associated with STRIDE as a function of the relative completeness of the data for any given time period. That is, the most recent months for which STRIDE data are available will also be the months with the lowest proportion of completed data. As a consequence, a retrospective on trends from the vantage point of a later time period will likely modify to some extent an earlier analysis.

Those caveats notwithstanding, we believe that data through the third quarter of 2006 are now sufficient to ascertain what has happened since the third quarter of 2005 when we last reported.

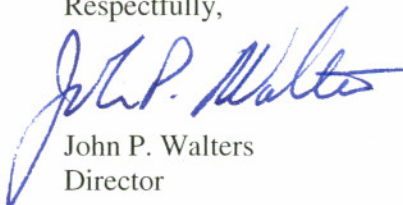
Effectively, as will be seen in the accompanying graphics, there is both good news and bad news in the data for the subsequent time period. On the negative side, the sharp decline in purity that manifested between February and September of 2005 did not continue in subsequent months, and purity can be seen to have trended somewhat toward former levels. Currently, and granting that the latest months covered are the least complete, the IDA model indicates an overall decline in retail cocaine purity from its peak in February, 2005 that now stands at a 9 percent (vs. a 15 percent, as reported) decline.

The price data present a somewhat more complicated story, in that prices began to drop after October, 2005 (largely because of the reciprocal nature of the price-per-pure-gram measure as purity increases), then rose again in the second quarter of 2006, only to fall once again until by the end of the third quarter of 2006. Currently the price change stands at an 11 percent decrease when compared to February, 2005. It is somewhat anomalous for the price to be falling at a time coincident with a decline in purity, which happens at the very end of this time period. There could be several reasons for this phenomenon, including limited data or demand variability.

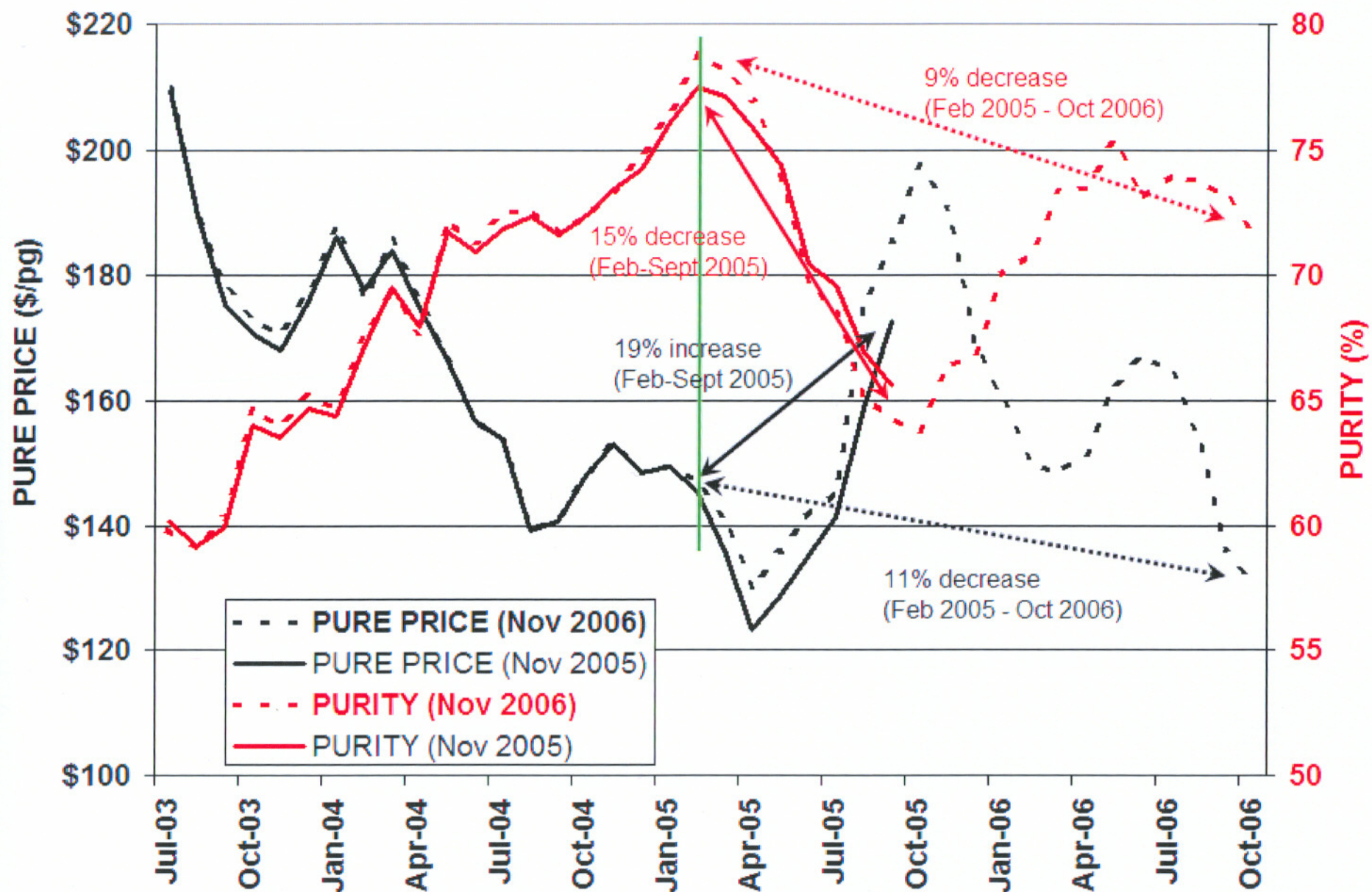
In an effort to improve data collection regarding the U.S. retail cocaine situation, in October 2006, we have in partnership with DEA initiated the Cocaine Domestic Monitor Program. The Cocaine Domestic Monitor Program is a cocaine retail-level purchase program designed to systematically collect cocaine price and purity in 11 metropolitan areas. In the future, the Cocaine Domestic Monitor Program data will be used in conjunction with STRIDE data to enhance our understanding of retail cocaine price and purity trends.

Finally, on the positive side of the ledger, it remains important to realize that the steady increase in cocaine retail purity depicted by the IDA model, as seen between July of 2003 and February of 2005, is not continuing. Subsequent quarters of data will be of great interest. At this time, we posit that the cocaine production system, under continuing law enforcement and eradication pressure as well as that from successive years of record seizures, is in flux.

Respectfully,



John P. Walters
Director



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