

## Report from Rio by Lorenzo Carrasco

### The Uruguayan Connection

*Uruguay has gone into money laundering, with the help of the world's biggest banks and Brazilian "debt reduction" schemes.*

**T**he Uruguayan government of Julio Maria Sanguinetti has taken the opportunity offered by the crackdowns against dirty money laundering, particularly in Miami and Panama, to turn his country into South America's money-laundering champion. The Brazilian daily *Gazeta Mercantil* reported at the beginning of November that Uruguay had come to that point, thanks to its 1976 financial sector deregulation. It stressed that the opening to dirty money was substantially widened when Sanguinetti came to power in 1985.

By now, 80% of the total banking deposits in Uruguay are in foreign currencies. The equivalent of about \$4 billion is stashed there.

The Uruguayan banking system's "new clients," *Gazeta Mercantil* reported, "are Brazilian businessmen who since last year have been making informal conversions of Brazilian foreign debt [into equity assets] and the narcotics-trafficking chiefs who are under pressure from the U.S. government on several investigative fronts in Florida, in Panama, and in the traditional Caribbean tax 'paradises.'"

The linkage made between laundering narcotics dollars and informal conversion of Brazilian debt is not mere conjecture, as was demonstrated in the mid-October indictment of the Bank of Credit and Commerce International (BCCI) for its involvement in dirty money laundering. "The Uruguayan Connection was recently employed to recycle U.S. Treasury certificates, bought by BCCI branches in

the Caribbean," *Gazeta Mercantil* reported.

The president of the BCCI Brazilian subsidiary's board of directors is ex-minister Ernane Galvêas. And Sergio Côrrea da Costa, the former Brazilian ambassador to the United States and current Kissinger Associates, Inc. partner, is also a senior partner in BCCI's Brazilian operation. The Brazilian branch was planning large-scale foreign debt conversions.

J. Carlos de Assis, an economic adviser to the National Confederation of Industries, charges that those operations were being aided by Finance Minister Maílson da Nóbrega, whose career was promoted by none other than Galvêas. Assis emphasized, "Minister da Nóbrega lacks character and he defends the interests of people who are linked to him and who are involved in debt conversion."

The list of international banks and companies under investigation by the U.S. government on suspicion of laundering narcotics money correlates closely with the biggest players in exchanging Brazilian debt for equity. Such is the case with Deutsche Suda-merikanische Bank, Barclays Bank, Security Pacific Bank, Manufacturers Hanover Trust, Morgan Guaranty Trust, and most notoriously, Safra Bank. The owner of the last, Edmund Safra, was implicated in the Irangate arms-trafficking scandal; he is also a major gold operator; 30 tons of gold were smuggled out of Brazil last year. Gold is the metal preferred by the biggest drug dealers for laundering nar-

co-dollars.

*Gazeta Mercantil* described the following procedure: Brazilian "businessmen" deposit dollars in Uruguay "by means of a shell company (which can be opened in Uruguay for \$1,500) or directly in an international bank, which immediately sends it to its Grand Caymans branch" or to another "tax paradise" in the Caribbean or beyond. "The Grand Caymans branch buys Brazilian foreign debt paper on the secondary market at a discount of more than 50% from its nominal value." The "businessman" then brings the paper to the Brazilian debtor who negotiates to buy it from him at a lower discount. That lets him launder his money in the stock market or other assets.

Standing out in the eight foreign debt conversion auctions which have taken place in Brazil are companies based in the various "tax paradises": Netherlands Antilles, Bahrain, Bahamas, Gibraltar, Cayman Islands, Virgin Islands, Liechtenstein, Luxembourg, Panama, Switzerland, and Uruguay. Such companies perform a quarter of the conversions; only U.S. firms do more. This is not counting the more than \$2 billion of "informal conversions," which are not registered with the central bank.

The entire Uruguayan narco-dollar-laundering operation would not function without the toleration and complicity of the Sanguinetti administration, including Finance Minister Horacio Zerbino. The Montevideo daily *La Hora* wrote in a recent editorial, "So long as there are Zerbinos in the world, there will be financial markets for 'laundering' capital." The entire economic strategy on which Sanguinetti's political stability depends is based on the implicit commission his government earns by incorporating narco-dollars into the worldwide integrated capital market.