

Report from Rio by Silvia Palacios

Narco-finances in Brazil

In addition to the refining and smuggling of illegal narcotics, Brazil is now used for laundering drug money.

The Brazilian government is currently investigating a multimillion-dollar foreign exchange scandal, which, if proven to be a laundering operation for illegal narcotics profits as is suspected, could implicate the entire liberal Brazilian banking system as an important financial center of the international mafia.

On Nov. 9, Justice Minister Saulo Ramos and Federal Police Director Romeo Tuma, who for a long while has been on the trail of mechanisms created exclusively for laundering dirty money, reported the discovery of a sophisticated exchange fraud—the largest in Brazil's history—involving at least \$360 million worth of false U.S. imports to Brazil, carried out by non-existent "paper" companies.

Some 16 Brazilian banks, including several prominent ones, mediated the fraudulent operations. They are: Bamerindus, Rural Estado do Amazonas, Geral do Comercio, Banorte, Bozano Simonsen, Multiplic, Mercantil do Brasil, Unibanco, Noroeste, BNCC, Credito Real de Minas Gerais, Banrisul, Economico and Lloyds. The four American banks implicated are Bank of New England, the First Women's Bank, the First New York Bank for Business, and Manufacturers Hanover. Also involved are six exchange houses: Interunion, Vetor, Fator, DC, Incaf and BMG.

The daily *Gazeta Mercantil* reported Nov. 10 that the Justice Ministry considers the fraud, which dates back to 1987, to have been carried out "to launder money stemming from the drug trade." The daily *O Estado de*

São Paulo reported on the assertion by Minister Saulo Ramos that the period of greatest expansion of the fraud coincided with the beginning of the war against the drug cartels decreed by the Colombian government on Aug. 18 of this year.

Deputy Attorney General Samuel Ruzaglo, assigned to investigate the case, declared Nov. 11 that the fraud could reach the fabulous sum of \$3 billion—representing half the value of the nation's entire foreign exchange reserves. "Those \$360 million are barely the tip of the iceberg. . . . In just one import invoice we counted \$70 million," said Ruzaglo, who added that at least 594 irregular exchange contracts had been discovered thus far. The fraud is of such magnitude that the Central Bank has announced it will be investigating all import operations for the past two years, in order to detect any other such frauds that may possibly have been committed.

Since the fraud implicates several well-known American banks, Brazilian authorities are pressuring the U.S. government to collaborate with their investigation. The Justice Minister said he hoped the U.S. "will lift banking secrecy, since there are strong suspicions that drug traffickers are involved in the fraud." Needless to say, the implicated U.S. banks are exceedingly nervous, and the Brazilian press is already reporting that a delegation of directors from Manufacturers Hanover Trust will be arriving in Brazil shortly.

After Colombian President Virgilio Barco announced his war on drugs, various commentaries began to appear

in Brazil warning that recent changes implemented in the Brazilian financial system could facilitate the laundering of dirty money, and that such "advantages" made the system vulnerable to conversion into a financial center of the drug trade. In particular, the new kinds of short-term investments and bearer bonds, created under the auspices of a monetarist government policy designed to refinance the public debt, were mentioned.

For example, on Sept. 21, a commentary in *O Estado de São Paulo* noted: "In Brazil, money is laundered on the real estate market, in agriculture, through companies. The financial market offers an excellent alternative for investing money in a sure thing, without declaring the origin of the money and with the most complete anonymity. These are the investment funds of the short-term bearer bonds."

Federal Police director Romeo Tuma, in a Sept. 24 interview with *Jornal do Brasil*, declared, "For us, the laundering of drug-trafficking monies that passed through Brazil was only done in the Caribbean Islands, according to the insistent charges of the U.S. government. Today we know that that money is laundered in Switzerland, and in various other countries where the banking system facilitates such activities. There is nothing to prevent the same game from being played in Brazil."

Until now, the international drug mafia has been using Brazil as the ideal place to install its cocaine refining laboratories, given that Brazil produces industrial-level quantities of ether and acetone, chemicals essential to the cocaine-refining process. It is also known to serve as a drug transport corridor for routing drugs to Europe and the United States. Now, it would appear, Brazil has been "graduated" to the laundering of drug money as well.