EIR Investigation

The truth about Carlos Andrés Pérez

On May 19, two days before Venezuelan President Carlos Andrés Pérez (known as "CAP") was forced to step down and stand trial for corruption, the Venezuelan Labor Party and the Ibero-American Solidarity Movement (MSIA) jointly published a pamphlet entitled "The Truth About CAP." Beginning with this issue, EIR *will publish the text of the pamphlet in installments. It is divided into six chapters: 1) "CAP Destroyed the Productive Economy and Strengthened the Narco-economy"; 2) "CAP, Washington's Man, and the New World Order"; 3) "The Drug Trade in Venezuela under CAP's Mandate"; 4) "Corruption and CAP's Financial Inner Circle"; 5) "CAP and Terorrism"; and 6) "The Caribbean Legion: CAP's Sinister Roots."*

"The Truth About CAP" is not only important for Venezuela and Ibero-America, but also for the United States. President Bill Clinton has continued to apply the major elements of George Bush's policy toward the continent, for which Pérez—currently suspended from the presidency—considered himself the spokesman.

For years, Washington kept Pérez in office no matter what, against the will of the majority of Venezuelans. In October 1992, U.S. Ambassador to the Organization of American States (OAS) Luigi Einaudi declared that "what happens in Venezuela is absolutely vital for our collective regional future. . . . If there is any interruption [in Pérez's government], let me assure you that there will be a number of reactions."

Pérez was key for the U.S. State Department's operations on behalf of the Nicaraguan Sandinistas, El Salvador's communist guerrillas, and he presided over the conversion of Venezuela's financial sector into one of the world's largest drug money launderers.

Chapter 1: CAP destroyed the productive economy

Venezuela's Social Democratic President Carlos Andrés Pérez (CAP) promised that he would solve the problem of the foreign debt by renegotiating with the International Monetary Fund (IMF) the economic package which he was imposing against the will of the majority of Venezuelans. But the whole thing was a demagogic farce. The debt renegotiation did not provide, as CAP described it on March 20, 1990, any "great relief" from the burden of the debt. Instead, it increased that burden and plunged the majority of Venezuelans into unemployment and misery, destroying the economy, generating massive unemployment, and turning the reins of the economy over to usury, drug trafficking, and speculation.

The debt service—that is, the interest payments above the annual amortization—has meant that throughout CAP's administration, one-third of the budget of the central government has been allocated to honor this usury. One out of every three bolivars spent by the national government goes to the creditors. It thus comes as no surprise that all public services are lacking, beginning with water, public health, transportation, etc.

That is the cause of the chronic deficit in the public sector. While the illegitimate debt is paid on time, the government continues to divert the resources necessary for public services into the coffers of usurious creditors.

The 1990 debt negotiation committed the Venezuelan state to pay debt service to the bondholders for the next 30 years (as elaborated by Miguel Rodríguez, then planning minister). In the event of default, the bondholders may go to any court in the State of New York, in the United States, to sue the Republic of Venezuela as if it were any commercial entity.

CAP also sank the national currency under the pretext of "economic freedom," and promoted a campaign against exchange controls by presenting it as the equivalent of "corruption." What hypocrisy! The first crime CAP committed against the state during his second administration was precisely to loot the last dollars available at the preferential exchange rate, for speculation and for use in a secret "black bag" account. The truth is that an unregulated exchange rate, permitting systematic currency devaluations, served as an expeditious looting mechanism. Consequently, the value of our foreign debt in bolivars increased 600%.

Of course, that did not help Venezuelan exports, either, as CAP had also claimed. That was just another fraud perpetrated on the citizens by CAP, who promised that free exchange, trade openings, and the elimination of controls on foreign investment would help to promote Venezuela's non-petroleum exports. The opposite occurred: The domestic products Venezuelans could no longer afford to buy, were simply auctioned off abroad, thanks to the devaluation. But not even this increased exports.

The financial policy of high interest rates, promoted by then Central Bank (BCV) director Pedro Tinoco, was the other perverse mechanism used to accomplish the proposals of CAP and his political cronies. This caused disinvestment in industry and agriculture, to the degree that for the first time in 80 years, Venezuela's installed productive capacity (the entirety of fixed capital) shrank. That caused high unemployment in the areas most critical to any country, such as the production of tangible goods, manufactures as well as agricultural products.

The net result was a deformation of the Venezuelan social structure, concentrating income in a reduced percentage of families, while 80% of the people were reduced to poverty, half of them well below the poverty line.

Productive employment was dramatically reduced, to the degree that during the years of CAP's second administration (1989-93), some 40% of all workers were employed in the so-called "informal economy." Upon losing their jobs, the unemployed have sought to find some way to earn a living; most obviously, in the business of peddling—selling whatever they can to whoever may still have some buying power.

But most dramatic has been the increase in drug trafficking, the growth of gangs of children, and the social dissolution that the economic package has caused. The billions of bolivars circulating through the Venezuelan financial system—the only sector that has grown enormously—in the middle of a collapse of national production, can have no other origin than drug trafficking.

The public debt

According to Finance Minister Pedro Rosas, the public foreign debt since 1992 is $27.1 million, calculated at an exchange rate of 80 bolivars to the dollar, or 2.172 million bolivars. The internal public debt is about 286 billion bolivars. That is, after the famous renegotiation of the debt by Pedro Tinoco and Miguel Rodríguez with Chase Manhattan Bank (which Tinoco has officially represented in Venezuela!), CAP increased the foreign debt by $2 billion. This, after the Venezuelan government disposed of the most valuable state assets, such as the state telephone company CANTV and others, in order to pay interest on the debt.

But aside from the public foreign debt, there is the private foreign debt which, according to the World Bank, is some $7.3 billion. That is, the total foreign debt that Venezuela's economy owes is $34.4 billion.

Given that the Venezuelan economy is valued in its national currency, and that the Finance Ministry does the national accounting in bolivars, we can report that Venezuela's total public debt is 2.458 trillion bolivars. This represents 70% of the total national product of 1992. In relation to the foreign debt in 1989, it represents an increase of nearly 600%.

While the public internal debt is today estimated at 286 billion bolivars, during the first year of CAP's administration it was 98.021 billion; that is, it increased 192%. However, this does *not* include zero coupon bonds issued by the BCV, which the Finance Ministry does not count as part of the internal public debt, although in the final instance they rest entirely upon the Venezuelan state's capacity to pay. In total, the public debt during CAP's administration has increased 500%.

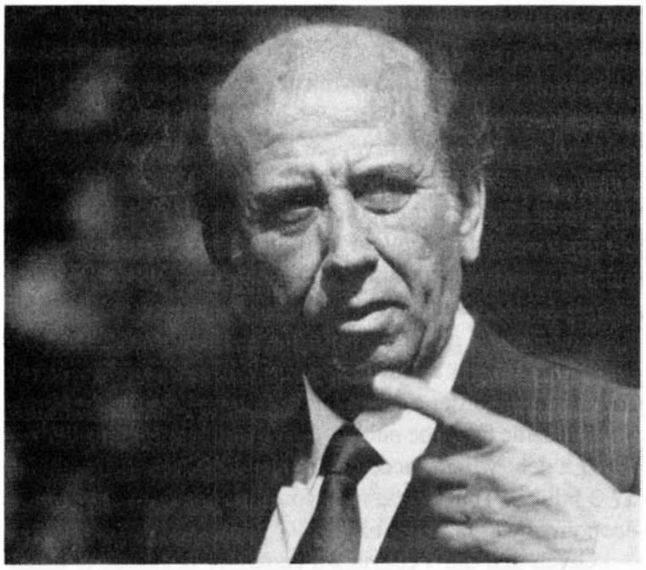
Unemployment and marginality

Yet, for the last 10 years, the world has considered Venezuela "a middle-class country," meaning that the majority of the populace supposedly enjoyed an income that enabled them to meet their needs easily. Although that characterization was always a deceptive generalization, in comparison with the current situation, there is nostalgia for better days.

The fact is that from 1989 onward, the CAP economic model destroyed the middle class, concentrated income in the hands of 8% of the population, and plunged 80% of Venezuelans into poverty, half with an income less than 40,000 bolivars per month per family, and the other half with an income of less than 10,000 bolivars per month.

According to a report by the Center for Growth and Development Studies published in 1990, the middle class comprises 12% of the population, 36.3% of Venezuelans subsist in relative poverty, and 44% are in critical poverty. The highest class of the population comprises only 1.1%, and the upper middle class only 6.6%.

This income structure matches that of employment. Only 50% of the working-age population have a relatively stable



Bankers' boy Carlos Andrés Pérez, who is facing trial on corruption charges.

job in the "formal" sector of the economy. Ten percent of the working-age population are unemployed, and 40% are employed in the "informal economy," whose situation is impossible to know statistically.

The "market economy" imposed by CAP and his financial coterie serves only 7.7% of the population. This is the new social class that has established itself through profits derived from speculative and parasitical activities on the stock market, as well as from other less transparent services.

Trade imbalance

In 1992, the IMF package collapsed completely, even in its famous "macro-economic indices." For the first time in many years, Venezuela had to take dollars from its reserves to pay for imports and debt service. The imports, mostly luxury consumer goods, were some $12.4 billion, according to the BCV. Moreover, the payments for debt service, combined with other services the country paid abroad, added up to $4.9 billion. In order to pay this, the country only had the income coming from oil and other exports, equalling some $14 billion.

At the same time, the BCV lists an unexplained $415 million outflow—capital flight which they couldn't hide under any other category.

In sum, all of this left a deficit of $3.7 billion, for which the government did not get even the $2.67 billion borrowed from the IMF and Rockefeller. And so they had no choice but to take it from reserves.

As we noted, the devaluations have not helped to increase non-oil exports from the private sector. Nor have they helped to reduce imports, because those who import are the few who have high income and access to dollars, regardless of the exchange rate. The only effect of devaluations is to increase domestic prices and thus to reduce national consumption, at the same time that they cheapen our products abroad, in order to make them more "competitive."

The reality is that the private sector has not significantly increased its exports, because there have not been investments in productive plant.

Basic industry contributes approximately two-thirds of all the country's non-petroleum exports. In 1991, exports of aluminum, iron, and chemicals generated 64% of non-petroleum exports. In 1992, that percentage dropped to 62%, primarily because of the drastic 26.4% decline in exports of aluminum that year. Sales of aluminum and iron in 1991 constituted 52% of the total, and in 1992 this dropped to 48%.

Exports from other sectors, the majority of which are private, have also fallen systematically, and have not increased their participation much beyond one-third of the total. This explains CAP's and the creditors' interest in "privatizing" the state's basic industries, despite the fact that they are supposedly unviable financially.

The narco-economy

The monster of the narco-economy has grown all-powerful, with the destruction of the nation's productive plant and the ruin of families by unemployment. Through the stock exchange and concentration of banking power, the drug trade began taking over the Venezuelan financial system, converting the country into the principal money-laundering center in Ibero-America, attested to by the most recent report of the United Nations Commission on Narcotic Drugs. But it is not just drug money laundering; Venezuelan territory has been turned into a drug transshipment route to the United States and Europe. It has also been turned into a source of drug-related jobs, and the drug traffickers and drug launderers have begun to champion themselves as a paradigm of behavior through the mass media.

With the headline "Venezuela Is the Major Money Laundering Center in Latin America," the daily *El Nacional* on Feb. 15, 1993 played up its coverage of the U.N. Commission on Narcotic Drugs report, which was presented that day in Vienna. According to the report, a U.S. anti-drug agency, the Drug Enforcement Administration (DEA), estimates that in 1992 some 200 tons of cocaine bound for the United States, Canada, and Europe passed through Venezuela, of which only seven tons were interdicted in the first months of the year. It is estimated that billions of dollars are laundered annually. In all of 1991, only nine tons of drugs were seized. In the commission's opinion, because of the anti-drug offensive in Colombia, Venezuela has turned into a key distribution center for narcotics produced in the Andean countries.

Berenice Gómez, a reporter for *El Nacional*, consulted various anti-drug experts in the Technical Judicial Police, National Guard, and Disip (Interior Ministry security police) concerning the U.N. commission report, and the unanimous opinion was that "Venezuela is a fiscal paradise" for drug money laundering. "The fiscal facilities that the country offers for large capital deposits are comparable to those existing in the Cayman Islands and Bahamas," stated *El Nacional* on Feb. 16. One example of this, according to the consultants, is the absence of obligatory notification or reporting of suspicious deposits by the banking system to anti-drug authorities. There is no amount beyond which one must justify the origins of the deposit; to this, one would have to add banking secrecy, which makes any type of financial investigation impossible.

The experts noted that since 1987, construction of luxurious tourist centers has increased in Venezuela, while the cost of living has increased in an exaggerated manner, reaching millionaire levels.

Investigators stated that there is really no political or financial will to confront the problem, and suggested that those businesses which conduct large financial transactions have their books investigated, to determine the derivation of the transactions, because "the mere review of income taxes would identify the existence of front men."

They also made reference to Finance Ministry statistics concerning the invasion of imported luxury automobiles in the middle of a depressed economy, and indicated that under Decree 727, the Pérez administration eliminated controls on foreign capital, which can now leave the country without paying taxes or giving explanations.

According to the daily *Ultimas Noticas* of April 2, Gen. Aner García Monagas (ret.), president of the National Commission Against the Illegal Use of Drugs (Conacuid), admitted at the Vienna meeting that the international drug trade has penetrated the country's basic institutions. García Monagas said that "Venezuela is being used as a drug-transit country," but he rejected the reports that presented Venezuela as a big dollar-laundering center.

According to the Caracas press of April 16, the international pressure reached such a point that, at the April 12 meeting of the economic cabinet, it was agreed to instruct Foreign Minister Fernando Ochoa Antich to convoke a meeting with the finance minister, the president of the BCV, and the Banking Association, in order to determine the true magnitude of dollar laundering in the country. On the same day, the press carried statements by Deputy Gabriel Niño, vice president of the Chamber of Deputies Anti-Drug Commission who, after meeting with CAP, confirmed that drug-laundering in the country equaled more than $4 billion a month, a figure that struck the government as exaggerated. Niño added that "there are individuals who have entered the country offering companies, and even religious institutions, millions of dollars worth of deals, and no one knows what is going on," except that it is not outlawed.

Commissioner Guillermo Jiménez, chief of the Organized Crime Division of the Technical Judicial Police, suggested that there is much more than $4 billion worth of drug money laundering going on, because "our financial system is used by the drug traffickers or by those persons who are involved in money laundering, which can well be said to be money from administrative corruption."

More usury and more opening

As if all this were not enough, on March 11, the BCV decided to make the regimen for determining interest rates "more flexible," meaning that from that date on, rates would be determined by the return on zero coupon bonds, which in those days were yielding 50.9%. According to the BCV decision, the active rate cannot exceed 20% above the return on zero coupon bonds, which put interest rates at 70%.

On March 23, at the 24th assembly of the Latin American Bishops Conference (CELAM), Cabimas Bishop Msgr. Roberto Luckert declared that "usury is a sin, and the government has legalized it by authorizing the bankers to charge 70% interest."

On March 17, the eight foreign members of Venezuela's Foreign Investment Advisory Committee, headed by Henry Kissinger, gave a press conference on the conclusions that had been reached through a meeting with CAP and his planning, finance, and development ministers. According to one of them, Le Floch-Prigent, the committee proposed that CAP impose in Venezuela the direct involvement of the banking sector in allocating credit, minimizing the risks and making interest rates flexible. James Robinson, former president of American Express and another committee member, expressed a similar opinion, saying that accelerated changes in the country's financial laws and a reform of the General Banking Law to attract capital were a top priority.

On March 18, *El Nacional* reported that Finance Minister Pedro Rosas had announced that his office and the national Congress agreed to reform the General Banking Law, instead of introducing the new bill which had been worked out with the president of the Chamber of Deputies, Luis Enrique Oberto. The reform would enable foreign banks to participate with 100% of their capital, without any type of limitations.

Rosas also announced that in the next Council of Ministers, a new law would be presented that would govern securities' activities under the same conditions as for foreign banks.

Financial narco-reform

The information from the U.N. Commission on Narcotic Drugs shouldn't surprise anyone, because it was predictable that this would occur under CAP's regime. In late 1990, after the CAP government announced plans to institute multiple or "universal" banking and open up the financial system to foreign investment, the secretary general of the Venezuelan Labor Party (PLV) and leader of the Movement for Ibero-American Solidarity (MSIA) Alejandro Peña Esclusa, warned that "the financial reform will turn Venezuela into a narco-economy."

Then-Superintendent of Foreign Investment Edison Perozo also warned that the first concrete step toward setting up a narco-economy was taken Jan. 29, 1990, when the text of Decree 727 concerning foreign investment appeared in the *Gazeta Official* (dated Jan. 26). That same day, then-Finance Minister Egleé Iturbe de Blanco briefed a select group of the Council of the Americas, headed by David Rockefeller and

Gustavo Cisneros, on the scope of Decree 727. With the modifications it entailed, he explained, *"foreign investment will be able to operate without special authorizations in almost every field of activity that is deemed convenient"* (emphasis added).

The new decree eliminated restrictions on profit remittances on reinvestment, and on reexport of capital. Whatever limitations were imposed with respect to the Cartagena Pact (Andean Pact) were put to one side, and it set the basis for the financing of technology and payment of "royalties" to the home office and subsidiaries without need of prior authorization. That is, since there were no limits on profit remittances, payments for technology among home, branch, and affiliate offices were now permitted.

Decree 727 also eliminated the exclusive rights of national companies to invest in public services, including electricity, telephone and telecommunications, drinking water and sanitation services in general, internal transportation of people and freight, publicity, and consulting services.

Also eliminated was the restriction on internal trade of goods, export services, and the transport of stocks and documents.

The coca dollar market

With the opening to foreign investment, the hoped-for billions of dollars for investment in productive plant for industry and agriculture never arrived. What arrived, as had been warned, was speculative capital in search of quick profits through the recently created "capital market" in the Caracas Stock Market.

The aspect of Decree 727 that has been most exploited by the drug money launderers during the past three years has been the elimination of the requirement for authorization for foreign purchase of stocks of national or mixed companies. And the means by which narco-capital has freely entered and left has been the stock market, under the impetus of Pedro Tinoco from the BCV.

Tinoco's financial and monetary policy was centered on the issuance of the famous "zero coupon bonds," which began to be sold on the stock market. These instruments allowed the banks—which with their high interest rates had increased their deposits, but were unable to place them as loans—to have something to invest those deposits in. With the zero coupon bonds, the BCV helped create the "stock index," which permitted transactions worth billions of bolivars every month, without ever having anything to do with production.

Afterwards, the stock market began to sell and buy company stocks, whose prices began to rise without any connection to the companies' economic performance. The buying and selling of stocks, papers, etc. served only to facilitate the circulation of enormous amounts of money. Vast amounts of foreign capital were coming in as easily as they were going out. From the stock market, some of these already-laundered profits are going on to be invested in luxurious, currently vacant office buildings, as can be seen in the Chacao and El Rosal zones, where the plan is to establish the Venezuelan Financial Center.

These developments were not unknown to CAP and his cabinet, and Peña Esclusa was not the only one to issue warnings. Shortly before resigning from his position as Superintendent of Foreign Investments (SIEX), Edison Perozo gave a press conference on Feb. 21, 1990, at which he distributed a pamphlet entitled "Venezuela, Opening to Investment," in which he warned in clear and well-grounded terms that Decree 727 would pave the way for the "imposition of a narco-economy."

Perozo's pamphlet explained that "the unrestricted opening to foreign investment could allow the imposition and infiltration of the most notorious dollar-laundering mechanisms, even more so in Venezuela's case where there is free circulation of capital, as an exception in the Andean Pact."

Perozo gave various prophetic examples of the techniques the drug trade could use: "Since Decree 727 admits the establishment of subsidiaries of foreign businesses, one of these companies belonging to the international drug trade could easily register, and once the capital of the subsidiary is brought into the country, could distribute and remit the total profits to the home office, given that the remission of dividends is authorized." Similarly, "another example could be the direct investment of the drug trade in some economic activity and the possibility of reinvesting the profits, that is, capitalizing the surplus. The purchase of stocks on stock markets, or the payment of royalties among non-related businesses, thus is equally authorized. The examples abound, as unlimited as the imagination and operations of the drug trafficking network that has cast its eyes on Venezuela."

The precise functioning of the drug economy was revealed by suspected drug trafficker Adolfo Ramírez Torres, a former governor of the federal district, when he testified to the Technical Judicial Police that "Cali Cartel" trafficker Julio Ramírez told him of the existence of a "large network of businessmen protected by Venezuelan politicians" who are buying "businesses experienced in exporting asphalt products, canned foods, furniture, skins and prefabricates, all used as a front for transporting large quantities of drugs." Ramírez Torres said that he had told Gen. Ramón Guillén Dávila (former commander of the anti-drug group of the National Guard) about a large cargo of cocaine. "Perhaps Guillén Dávila did not believe me," Ramírez Torres told *El Diario de Caracas*. "One day after my arrest [Aug. 14, 1991], the network thought of sending 20,000 kilos of cocaine. Imagine it. That's a billion bolivars. The drug was already there in Venezuela. But they arrested and disarmed me. . . . [They say] that they feel secure because I am imprisoned. With the money from that operation, they were planning to *actively participate in the privatization process*" (emphasis added).

In late 1991, the United States seized a comparable quantity of drugs, which had been sent from Venezuela on the Danish ship *Mercadian Continent*. The cocaine was packaged in blocks of concrete by the Tranca company. It was later learned that this company was tied to various import-export firms; the export firms were sending the drugs, and the import firms were sending payment for the drugs in the form of imported home appliances. In that one year they imported $700 million worth, one-thirteenth of that year's imports by a single consortium.

The same Danish ship had already transported a quantity of cocaine packaged in containers of industrial glue, in a shipment sent to the company Celere, Inc. Celere is owned by Lázaro Rogelio Ugarte Bresselau, who is part of CAP's personal security team and is also from the Banco Latino. According to the daily *El Globo,* Celere really belongs to the Diego Cisneros Organization (ODC), for which Ugarte worked. An ODC spokesman denied that report and refused to answer any further questions.

Three aces

Almost one year earlier, on Oct. 22, 1990, *El Diario de Caracas* reported that Banco Latino (of then-BCV president Pedro Tinoco), Chase Manhattan Bank's Miami branch, and officials from BCV were involved in a national fraud scheme using "export bonds" granted to phantom companies which were conducting typical dollar-laundering operations. On Oct. 24, the same newspaper said that "in each operation carried out by Pique Imports . . . they made some $380 million. . . . Behind these movements is a gigantic drug money-laundering operation. . . . According to sources linked to the investigation, Pique's legal representatives, Humberto Torres Pedrique and Pedro Torres Pedrique, were the front-men for a powerful financial group which was behind these international activities, in which the branches of Banco Latino in Curaçao and Miami were used as a financial platform, a bridge for transfers with branches of Chase Manhattan Bank. It has also been established that those committing the fraud had links with the Venezuelan Central Bank, from which payments were decided in Pique's favor."

The daily added, according to the source, "It was confirmed that Pique Imports obtained a letter of credit from Banco Latino to cover its export maneuvers. . . . Such operations only can be executed with the full knowledge of the banking institution."

Pique's method of operation was simple. According to the newspaper, Pique Imports collected part of the sum of 400 million bolivars corresponding to "export bonds" for a supposed export of razor blades to Spain that never took place, but "they were paid in dollars through transfers carried out by the Banco Latino branch in Miami to the Banco Latino in Venezuela, to the account of Pique Imports in Caracas. Once the deposit at the bank was made, it was registered as foreign exchange, went to the foreign exchange market and, finally, was transferred to the branch of Banco Latino at Curaçao. According to the investigations, it was then transferred—yet again—to the Miami branch of the same bank, through a bridge provided by Chase Manhattan in Miami."

The Pique Imports case was not the only instance discovered of money laundering through "export bonds." In statements made to *El Diario de Caracas* on Oct. 13, 1990, then-Finance Minister Roberto Pocaterra confirmed that the companies "Urraca Trading" and "Fundición Venezolana de Metales Pesados, S.A." (Fuvemepe), owned by Milton Pirela, were investigated for "export bond" fraud, and also because two individuals linked to those companies were suspected of involvement in drug trafficking. Both companies "exported" to the United States, but payments on the invoices were sent from Peru and Colombia.

'727' reaches the Andes

When Decree 727 was issued, Venezuela was also turned into a vast conveyance for the entrance and departure of drug dollars in the Andean Pact, specifically Bolivia, Colombia, and Peru, and to a lesser degree the rest of the region. Shortly afterward, President George Bush charged CAP with the mission of forging a free trade agreement in the entire region, through which exchange and investment privileges were generalized in the whole region, with certain hesitations on the part of Ecuador and Peru.

But even before arriving at a precise accord, Venezuelan banks began to link up both domestically and abroad. Apart from the network the Latin Financial Group put together for the entire western part of the country, it also joined with the Bank of Antioquia, headquartered in Medellín, Colombia, and then opened up its own subsidiary of the Banco Latino in that city.

The bank links were started by the Banco Construcción of the Di Masse family, which was tied for many years to intimate circles around CAP, although the daily *El Nuevo País* constantly insinuates that it was Orlando Castro, from Latinoamericana de Seguros, who invented this "narco-integration." Other banks also joined up, in order not to be excluded.

The next step is to link the Venezuelan and Colombian stock markets, and the process of setting up electronic links between the two to expedite capital transfers is already under way.

CAP's attitude toward this black picture can be summed up in a statement which speaks for itself, especially considering the speed with which he proposed laws and got them enacted, and issued decrees such as 727. As the denunciations of multimillion-dollar drug money laundering in Venezuela were filtering across our borders, CAP declared: "The problem of dollar laundering is that we don't have any legislation that makes it a crime. We are hoping that Congress approves a law which we submitted some months ago . . . and when we have the law, we will be able to deal with this serious problem" (*El Universal,* March 4, 1993).