

Brazil pal of Shultz faces jail for fraud

by Mark Sonnenblick

If he has not followed his flight capital far "offshore" from Brazil, Mario Garnero, the best friend in Brazil of Secretary of State George Shultz and former Treasury Secretary William Simon, will soon be in jail for up to 12 years. Federal prosecutors asked a Sao Paulo judge on April 2 to jail Garnero and three other officials of the Brasilinvest investment house on charges of "fraud, embezzlement, 1 trillion cruzeiros [\$224 million] in flight capital, and organizing a mafia."

The first major act of Brazil's first democratic government in 21 years was to decree Banco Brasilinvest dissolved on March 16 and then embargo the assets of a dozen Brasilinvest directors, including the presidents of Volkswagen and Varig Airlines, and Mauro Salles, a member of the new cabinet. They were also forbidden to leave the country, but the prosecutors believe Garnero escaped.

Over the past two years, Garnero and associates looted almost everything of value out of the prestigious \$1 billion investment operation. They expected their angry creditors would force the government to pick up the tab, as the previous military dictatorship had done in other cases of asset-stripping.

The new government, however, picked Brasilinvest for exemplary punishment to show that the state would no longer bail out corrupt private enterprise. It could not have made a better choice.

Brasilinvest was founded in Salzburg, Austria, at a meeting convened in 1975 by international speculator William Simon, to serve as the vehicle for the old European fortunes and the multinational corporations to buy up and loot the choicest industrial, agricultural, and mineral properties in Brazil. The idea was that a consortium promising to bring \$20 billion in private investment into Brazil over the following decade would have the political muscle to get away with more than a multinational corporation could do on its own.

Two years later, Garnero paraded seven cabinet members and even the President before the Brasilinvest board, in a dramatic show of strength. At its high point at the end of 1982, Brasilinvest reported earning a hefty \$360 million annually on investments of \$1 billion in 51 different ventures. It held a near-monopoly of 45% of the Brazilian telecommunications industry as a "Brazilian" front for such as ITT and Nippon Electric Corporation. In the same year, William

Simon acted as godfather for Brasilinvest to buy a quarter of First Woman's Bank in New York to have an in-house vehicle for money laundering and for helping the oligarchy pull its capital out of Brazil.

It was not the first offshore banking venture for Brasilinvest. When Garnero opened Brasilinvest Overseas Bank in the Bahamas in 1979, he described it as "one more window for opening Brazil up to abroad."

Door opener for the looters

Garnero got his start by marrying into the Monteiro Aranha family, the old Brazil export oligarchy which was selected by Schroeders Bank in the Hitler period to be the Brazilian end of barter deals in non-convertible marks. Hitler received Brazilian cotton and other goods, but the German steel mills and Krupp cannons never arrived in Brazil. Under the Marshall Plan, a complex deal was worked out under which the Monteiro Aranhas got VW's obsolete machinery in reparations. The slick Garnero was chosen Brazilian operator for Monteiro and its Schroeders and Morgan Guaranty partners.

In a glossy magazine, *V.I.P.*, which Mario Garnero published in 1983 as an exercise in self-promotion, he reported, "I always try to open doors here" for international friends. Garnero's talent as a doorman was used by George Shultz in September 1982 when he got Garnero to stop Brazilian President João Figueiredo from announcing the formation of an Ibero-American debtors' cartel so that governments could jointly renegotiate their unpayable debts.

Shultz refused to talk with Brazil's Planning Minister Delfim Netto. Instead, he called Garnero to Washington to promise that the U.S. would open up its market to a flood of cheap Brazilian exports, if Brazil played the debt game by Wall Street's rules. Garnero went to Figueiredo and organized a loud exporters' chorus in Brazil to make sure the country did not break relations with the banks. It was Garnero who gave the speech extolling "free enterprise" to welcome Ronald Reagan to Sao Paulo a few months later.

As the debt squeeze put Brazil into the worst depression in its history, Brasilinvest profited by taking over targeted companies in desperate need of injections of capital and by stripping down industries abandoned by multinational corporations. Garnero used his Forum of the Americas to demand an end to laws protecting Brazilian banks from being bought out by foreign speculators who would use them as vehicles for asset-stripping their creditors inside Brazil. This is of obvious interest to the oligarchic co-owners of Brasilinvest such as Swiss Bank Corporation, Société Générale, Midland Bank, Nestlé, Mercedes Benz, VW, and Insurance Co. of North America.

A few privileged foreign bankers such as Alan Stoga, now a senior member of Kissinger Associates, Inc., were able to enter the domestic banking market thanks to this barrage.

Garnero's association with Henry Kissinger goes back to

1964, when he invited the then rather obscure Harvard professor for his first lectures in Brazil. The "special relationship" Kissinger formally established in February 1976, between the United States and Brazil coincided with the founding of Brasilinvest and gave the impression that the U.S. government itself sponsored the operation.

The promised \$20 billion in direct foreign investment never materialized, but eager bankers bloated Brazil with loans. This process was helped by "free enterprise" ideologue William Simon, who used his position as Treasury Secretary under Gerald Ford to rig U.S. tax code enforcement so that U.S. banks were able to get tax *credits*, rather than pay U.S. capital gains taxes on profits made on their Brazilian operations.

Volcker's 1979 interest hike drove Brazil into bankruptcy in 1982. Then, for the grand slam, Henry Kissinger invited Garnero to his secret Vail, Colorado, "World Futures" meeting in August 1982, where plans were concocted for transforming the mass of unpayable debt paper into equity ownership of the immense resources of the debtor countries. It was Garnero who carried the "debt-for-equity" concept back to Brazil and who led the campaign for handing over valuable state enterprises and natural resources to creditors ever since.

Stripping assets

Garnero was bestowed the "Man of the Year Award" on May 17, 1984 by the Rockefeller-dominated Brazil-American Chamber of Commerce. Such honors, and his continuing partnership with Shultz and Simon in the United States, Jacques Chirac and President François Mitterrand in France, and the whole nest of the dirty German, British, Swiss, and French oligarchy, kept up Brasilinvest's ability to borrow money and raise funds with illegal unsecured bonds at the same time the company was stripping its own assets.

Six days later, Brasilinvest created the first of 10 fictitious entities in Zurich, Liechtenstein, and Panama. The indictment added, "One of the causes of the Brasilinvest bankruptcy is the fact that it remitted one trillion cruzeiros abroad, which is more than the 1985 budgets for health, agriculture and justice ministries."

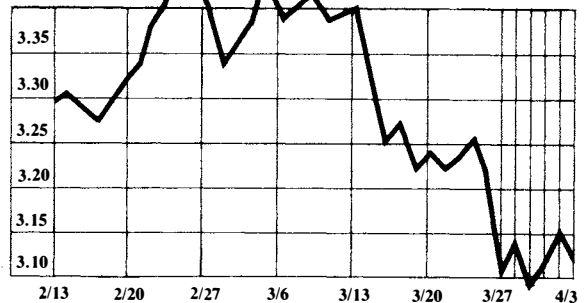
When the job was almost done, Brasilinvest and the equally bankrupt Banco Sulbrasileiro "took in each other's dirty laundry," issuing debt papers to each other to cover up a bit longer. The idea was that their private-sector creditors would be potent enough to force the government to pay for the broken dishes.

But, President-elect Tancredo Neves refused the bailout. Neves did not become President, and rumors are that he was shot in the stomach. But his nephew, Francisco Dornelles, the new finance minister, immediately mopped up Brasilinvest. If Dornelles has his way, Garnero will soon be under "preventive detention." But, will his international sponsors get away scot free? And, once the market has been cleansed of Brasilinvest, will the "debt-for-equity" buy-up of Brazil continue?

Currency Rates

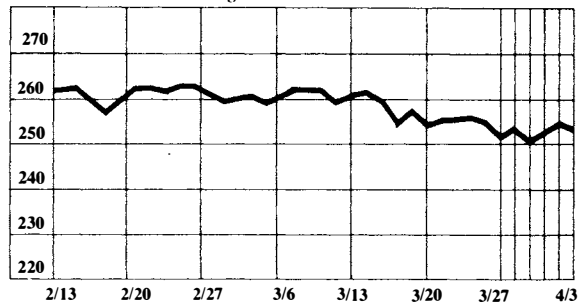
The dollar in deutschemarks

New York late afternoon fixing



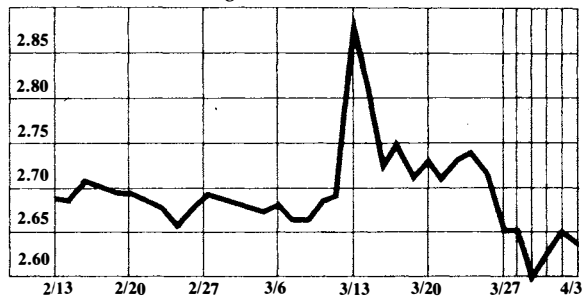
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

