

# Through The Looking Glass

The Fernández de Kirchner government's narco corruption and the diminished rule of law

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## **ABSTRACT**

A brief look at the mounting corruption scandals in the government of Cristina Fernández de Kirchner and the diminishing rule of law in Argentina.

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## Preface

This paper is the fourth in a series of IASC studies and updates on the deteriorating situation in Argentina, part of a broader survey of corruption and transnational organized crime in Latin America. It includes extensive studies on Bolivia, Ecuador and the criminalized nature of the Bolivarian Alliance.

The first Argentina study, “Back to the Future: Argentina Unravels,” discussed both the roots and populist ties of the government of Cristina Fernández de Kirchner to Iran and the Bolivarian bloc of nations led by Venezuela. The second, “La Cámpora in Argentina: The Rise of a New Vanguard Generation and the Road to Ruin,” discussed the rise of the *Camporista* movement within the Fernández de Kirchner government and its vision of remaking Argentina’s society and economy in a populist authoritarian model. The third one, “One Step Forward, Two Steps Back: Argentina Tangos Toward Collapse,” was a companion piece to the first two and provided an update on the headlong rush of the Fernández de Kirchner government toward economic collapse, posing a significant risk to the region and to the strategic interests of the United States.

This paper is an update on drug trafficking and corruption in the Fernández de Kirchner government, focusing on the investigation of precursor chemicals that has led to the indictment of some of the president’s closest associates. It also looks at the president’s increasingly hostility toward the United States.

In the 18 months since we began this series the situation has deteriorated significantly, due to the economic and social policies evolving over that period. What has added to the deepening sense of crisis is the general lack of leadership by the president and the growing drug-related scandals.

The failed economic policies, coupled with the disregard for law enforcement likely mean that the situation will get worse before it gets better.

## Introduction

In most countries desiring to be perceived as operating under the rule of law, laws against financing terrorist activities are aimed at preventing enemies of the state from carrying out attacks. The nation's drug czar is expected to fight drug trafficking. And the president is expected to support criminal investigations by the judiciary rather than obstruct justice and punish investigators.

Not in Argentina. President Cristina Fernández de Kirchner, desperate for international legitimacy as her nation slips into default and financial isolation amid growing drug scandals, has turned her nation into Latin America's newest soap opera and flipped the concept of the rule of law on its head.

Given her long history of ignoring the rule of law; muzzling the independent media; engaging in destructive and utopian economic policies, the president's actions no longer shock most Argentines. The economy, with plummeting foreign reserves and inflation spiraling close to 40 percent, is now the worst performing in Latin America after Venezuela.

As Argentina becomes an increasingly important hub for global cocaine distribution, the spreading and inter-linked drug trafficking and money laundering cases which directly implicate members of her inner circle of financiers and business cronies— now pose a significant security challenge in the region and to the United States. The scandals have edged ever closer to her personally and have engulfed her vice president.

Rather than deal with the underlying issues affecting the country, Fernández de Kirchner recently announced the establishment of a new "National Secretariat for the Strategic Coordination of National Thought." She said the office, to be led by Ricardo Forster, one of her most loyal intellectual allies, would "design, coordinate and create a factory of national thought, in line with what the secretary decides." The announcement was met with widespread ridicule and comparisons to Joseph Goebbels and the Nazi Ministry of Propaganda, yet it is now operational.

Next the embattled president announced that the first terror finance case initiated by her government would be against a subsidiary of the U.S.-based printing company RR Donnelley for daring to declare bankruptcy. She called the bankruptcy filings an act "aimed at terrorizing people," orchestrated by the United States to cripple her foundering economy.

Now the former long time head of the nation's anti-drug office and three of his top lieutenants, all close to the president and her family for many years, have been indicted for allowing a flood of precursor chemicals -- primarily ephedrine for the manufacture of methamphetamines -- into the country to be sold to Mexican drug cartels.

## **Drugs and Other Corruption Cases at the Top**

The veteran investigating judge in the ephedrine case, often friendly toward the government, accused former drug czar José Ramón Granero of "total negligence" for allowing ephedrine to flow unchecked into the nation. When the presidency refused to turn over telephone records believed to show drug traffickers calling the drug czar's office and the presidential palace at least 34 times, the judge threatened to issue a search warrant for the executive offices.

It is worth noting that pharmaceutical companies that imported much of the ephedrine for the manufacture of methamphetamine by the Sinaloa cartel were major donors to Fernández de Kirchner's 2007 campaign. This group was responsible for roughly 4.5 million pesos (then worth some US\$1.5 million), of donations to the 2007 campaign. This was out of a total of less than 15 million pesos in reported contributions. This means that the local pharmaceutical industry, allied with the Sinaloa Cartel, played an essential role in bankrolling Fernández de Kirchner's victory by funneling almost one third of declared donations.

In a radio interview after revealing the existence of the telephone calls, Judge Maria Servini de Cubría described how the government had gone to great lengths to make her investigation more difficult by filing parts of the case in disparate jurisdictions. "So here we are looking at the different cases, because when you divide one case into 20 cases, or five cases, you are impeding the investigation . . . Things that should take two months ends up taking two years."

Asked about official complicity in the case, the judge responded that "drug trafficking needs the support of someone inside, someone who is important, otherwise the police would find the drug traffickers. They also have to have support from the security forces, you see? Otherwise it would be easy to detect and stop." The judge noted that from 2004-2008 Argentina imported 48 tons of ephedrine, of which only 8 tons were used for legal purposes, which should have been easily discovered.

In response Fernández de Kirchner has sent her top aides to publicly attack Servini, who is well known for her work in tracing children abducted by the military during the dictatorships of the 1970s and 1980s. Cabinet members charged her with being overly aggressive in the ephedrine case, accusing her of using "intimidating and threatening language" in warning she could issue a search warrant for the presidential palace if the records weren't delivered.

The records have not been delivered, although the government issued a report saying that some of the telephone lines had been disconnected (after the investigation had been ongoing for some time), some were never registered to the presidential palace, and those which were used were not direct lines but switchboards, making it impossible to trace who was receiving or making the calls.

The president also allowed the attorney general, another close loyalist, to fire respected Judge José María Campagnoli who was investigating another major scandal: the movement of millions of dollars to offshore shelters, primarily in the Seychelles. These funds appear to be a part of the president's shadowy personal fortune, one which has been growing steadily and inexplicably since she entered politics.

The president's declared personal wealth grew from \$1.6 million to \$21 million in her decade as first lady or president, with no viable explanation other than the president claiming she was a "good lawyer" before entering public life. The president's husband Néstor was president from 2003-2007 and was succeeded by Cristina. Néstor died in 2010, and Cristina was elected to a second term in 2011.



**Figure 1: Argentine President Fernández de Kirchner defending her government in a recent address.**

The firing of Campagnoli, who had traced the movement of millions of dollars in funds from one of the president's closest financial partners through an elaborate labyrinth of accounts and front companies in the state of Nevada, the Seychelles, and Switzerland, was eventually reversed amidst a significant public outcry. The judge said he had traced at least \$65 million, much of it large Euro- and U.S. currency bills carried in bags onto a private aircraft and flown out of the country to foreign accounts. The allegations came at the very time the Fernández de Kirchner government was cracking down on those who had dollars.

While Campagnoli is back in his job, the investigation into his activities continues.

Corruption scandals also engulf Vice President Amado Boudou, under indictment in a corrupt business scheme involving a printing business, who has serially lied about his past. In one listing of his inability to tell the truth, a newspaper documented how he repeatedly said he had never been married (he had, and his ex-wife had the papers to prove it); registered one of his luxury vehicles to a non-existent address on his tax returns; listed rental income from a property that didn't exist; and, multiple other fabrications.



**Figure 2: Vice President Boudou and President Fernández de Kirchner in May 2014. Photo by AFP**

While the political and judicial battles rage, the economy, Latin America's third largest, is spinning toward a free fall and the president's approval rating hovers near 20 percent. Moody's Investors Service recently warned that "Argentina's sustained economic decline is a threat to Latin America's growth and to the social progress achieved in the region during the past decade."

On October 1, the country's more pragmatic central bank president resigned after butting heads with Economics Minister Axel Kicillof, Fernández de Kirchner's favorite economist who has engineered most of Argentina's catastrophic economic policies in recent years. The president then accused Juan Carlos Fábrega, the bank head, of leaking inside information to the country's banks so they could weaken the shaky Argentine peso.

The response of Fernández de Kirchner to the multiple crises facing her administration and her nation has been erratic in behavior and anti-American in rhetoric. She has publicly courted Russia's Vladimir Putin and defended his expansionist moves in Crimea and Ukraine, tweeting expansively about their telephone conversations, while bashing the United States as an imperialist power bent on conquest.



**Figure 3: Presidents Putin of Russia and Fernández de Kirchner meet in Buenos Aires in July 2014. Photo: Telam**

As noted, to deal with dissent she created Secretariat of National Thought, but that was not an isolated move. In response to rising inflation she has created a web of state informers, in the radical youth movement overseen by her son Máximo, to report supermarket prices that are considered excessive so the owner can be fined. In the recent past the president has fined economists who put out economic data – usually far more negative and realistic – that differed from official statistics.

In an effort to lower foreign debt payments that are tied to the inflation, Fernández de Kirchner had the official economic data on inflation doctored in recent years. In 2013 this earned Argentina the first first-ever formal censure by the International Monetary Fund for falsifying economic statistics and costing investors about \$7 billion over the past 5 years. Argentina promised to reform its reporting methods and seemed to comply for a time. However, recent economic data is again diverging significantly from IMF and other estimates, particularly relating to the inflation rate.

## **The Growing Fight with the United States**

The president's anti-U.S. tirades have escalated dramatically since Judge Thomas Griesa of the Federal District Court of Manhattan ruled that Argentina had to pay the full amount owed to a group of hedge funds that hold some \$1.5 billion in Argentina bonds from the nation's 2001 default. Most bondholders had accepted new bonds at a discounted rate but the hedge funds are demanding full payment. Both sides had agreed that the dispute would

be resolved under U.S. law. When Argentina missed a \$539 million interest payment on the outstanding bonds on July 30, 2014, due to the court ruling, it technically entered into a default again.

The U.S. Supreme Court declined to hear the Argentine government's appeal of Griesa's ruling and Griesa has since held the government of Argentina in contempt of court for trying to find ways around his ruling and jurisdiction.

Griesa's rulings have sent Fernández de Kirchner into public rages. In a rambling national broadcast on Sept. 30 she called the judge "senile," and warned the United States could be behind a plot to overthrow her government or assassinate her. She also took the unusual step of writing to U.S. Secretary of State John Kerry asking him to intervene in halting what she called Griesa's "excessive judicial harassment" of Argentina. Given her own proclivity for intervening in judicial affairs, this perhaps did not strike her as something that could not happen.

To further show her displeasure Fernández de Kirchner then threatened to expel the chief U.S. diplomat in Buenos Aires for stating in the local media that Argentina was in default because it missed its debt payment in July. Her foreign minister then attacked the German government after the German finance minister expressed concern about Argentina's unsound macro economic measures, calling a routine comment a "hostile act" and threatening retaliation. In recent months she has attacked American Airlines for taking measures to protect its ticket sales against surging inflation, and attacked multiple other U.S. and European targets.

## **The Ephedrine Trail Passes Close to the President**

The rapidly growing cocaine trade and accompanying violence, particularly the epicenter near the porous Bolivian border centered in the city of Rosario, has garnered some international attention. The cocaine is smuggled into Argentina from Bolivia and Peru, trucked across the country, and then shipped by sea to foreign markets, primarily in Europe. This has led to an explosion of murders in the normally peaceful region, including drive-by assassinations and the execution of judges. Such levels and types of violence were unknown in modern-day Argentina until the past three years.

But it is the scandals and corruption surrounding the nation's virtually unregulated ephedrine industry that continues to roil the Fernández de Kirchner government and her close associates. Ephedrine is a key precursor chemical in the booming methamphetamine trade, and the chemical has been imported in massive quantities in Argentina in recent years. Much of the ephedrine is then shipped to Mexico and elsewhere to make methamphetamine, leading directly to profits for the Sinaloa cartel and several Colombian organizations such as the *Oficina de Envigado*.

There have also been numerous large-scale meth laboratories found in Argentina, which is now one of the highest per capita consumers in the world of cocaine and synthetic drugs. Leaders of the Sinaloa cartel, Italian organized crime groups such as the 'Ndrangheta, and Russian organized crime all now have robust operations in Argentina.

The ephedrine imports were not small amounts that slipped under the radar. Rather, the amounts imported were measured in tons and are orders of magnitude larger than the legitimate needs of the nation's legal pharmaceutical industry. For example, in 2008 Argentina's need for legal ephedrine was about one metric ton, yet the nation imported 22.5 metric tons. Following 2011's bloody shootout in a meth lab controlled by the Sinaloa cartel on the outskirts of Buenos Aires, the imports dipped to 14 tons, but by 2012 had again risen to 17 tons – 17 times the amount Argentina legitimately needs.

Earlier this year the U.S. Department of State noted again that, "Argentina is one of South America's largest producers of precursor chemicals...The Argentine government has not designated precursor control as a priority in its counternarcotics efforts. Ephedrine tends to enter the country from abroad, often originating in India. Precursors for the processing of coca leaf and cocaine are often diverted locally from Argentina's sizeable chemicals industry."

In recent months a judicial investigation into the ephedrine trade has led to the indictment of José Ramón Granero, a political ally of the president for more than a decade. Granero, from the president's home region, along with five subordinates – several of whom are also close to the president – were indicted on charges of abetting ephedrine traffickers during his tenure as the nation's drug czar from 2005-2011, where he was directly responsible to the president.

The indictment alleges that under Granero, SEDONAR, as the drug czar's office is known, had facilitated the shipment of ephedrine and that the National Precursor Chemical Registry was riddled with errors and oversights.

Granero went on to head ENARSA, a powerful state energy company which has also been the subject of corruption investigations. He resigned in July following his indictment.

The allegations surrounding the importation of ephedrine originated with the 2007 seizure of a shipment of 1,900 kilos of the chemical coming into Argentina. The subsequent law enforcement investigation into Guillermo Ascona, who imported the ephedrine, revealed that SEDRONAR had gone to great lengths to facilitate the shipment. Specifically, the processes through which Ascona received permission from the National Precursor Chemical Registry, which is under SEDRONAR's jurisdiction, was rife with irregularities. Investigators found that SEDRONAR was similarly lax in numerous other cases, which allowed thousands of kilos of ephedrine and other precursors to make their way into the country.

The Granero indictment also details the role of his private secretary, Miguel Zacarías, in facilitating the ephedrine trade. Zacarías' role is of particular importance. Like Granero, Zacarías and his three brothers had a long relationship with the Kirchner family and had worked for Kirchner governments in a variety of positions.



Figure 4: President Cristina Fernández de Kirchner and Miguel Zacarías in 2013. Photo from Clarín

Two of Miguel's brothers, Rubén and Luis, were senior officials in the protocol office of the presidency, reporting directly to the president's private secretary. For years the brothers ran the protocol office, deciding who could ride on the presidential jet and who would get paid official *per diems* on government business.

Official investigations and media reports indicate that Miguel Zacarías was the official in Granero's office who oversaw the importation of ephedrine. He made frequent calls to the *Casa Rosada* (the Pink House, as the presidential mansion is called), and to security agencies involved in approving shipments, in order to ensure their safe arrival. Judge Servini specifically cited these calls in her quest for the missing phone records from the presidential offices. According to one anonymous source quoted in *Clarín*, on issues related to ephedrine "Miguel wasn't Granero's secretary, he was the boss".



**Figure 5: Luis Zacarías, in grey suit, standing behind President Cristina Fernández de Kirchner and her daughter Alicia on July 1, 2014. Photo from Clarín.**

Furthermore, Miguel's brother Máximo Zacarías was accused of importing 1,000 kilos of ephedrine which were sent to Mario Segovia, the so-called King of Ephedrine. Segovia was later sentenced to 14 years in prison for, among other crimes, running a meth lab on behalf of Mexico's Sinaloa Cartel. Máximo Zacarías reportedly personally obtained the permit to import the chemicals from the offices of SEDRONAR, where his brother worked.

As with most of the corruption scandals that have smoldered around the president, the government seems to be relying on a strategy of simply prolonging the judicial process until exhaustion sets in, perhaps hoping the cases won't be fully prosecuted until the president leaves office next year.

"There comes a time, after all the appeals, the unimaginable things they ask for, the things they do, with the delays, one is just worn down," Servini said. "There comes a time when you just want to stop."

Another legal challenge has badly tarnished the nation's attorney general's office. The office, is run by another close presidential loyalist who opened an investigation into a judge who was aggressively investigating a trail of illicit funding that seemed to lead directly to the president.

The investigation centered on Lázaro Baez, one of the Kirchner's best friends who rose from poverty to become one of the wealthiest men in Argentina due to extensive, multi-million contracts awarded to him by the government.

In April 2013, popular TV host Jorge Lanata aired a report, based on videotaped interviews with two Baez underlings who alleged that Baez had secretly shipped bags of euro notes out of the country

on behalf of the Kirchners. This news came as the government was tightening rules governing the movement of foreign currencies, making it illegal to store foreign currency abroad.

The exposé prompted a criminal investigation by Argentine prosecutors who alleged in court filing that Báez had begun moving funds out around 2006, and in 2011 alone had moved more than \$65 million worth of 500-euro banknotes out of the country.

The Lanata exposé played out over several weeks on his program *“Journalism for All”* and garnered astronomical ratings. In an effort to dampen his ratings, the government moved the national broadcast of a major Argentine soccer match to the same time slot – and Lanata’s program still won the rating even in a nation of soccer fanatics.

Lanata’s shows featured documents and videotaped statements by two alleged Báez underlings, who told of taking sacks of money on corporate jets to open accounts in tax havens around the world in the names of an almost impossible to trace web of interlocking companies.

Argentine prosecutor Campagnoli moved rapidly, turning up large quantities of incriminating transaction data, immigration and flight records, securities trades, and copies of cancelled checks.

In June 2013 Campagnoli submitted the most complete judicial investigation into the case, alleging the money transfers began in 2006 and moved through a maze of shell companies in multiple jurisdictions, including Panama, Nevada, Switzerland and the Seychelles Islands.

The latter jurisdiction caught the attention of investigators because on January 21-23, 2013 Fernández de Kirchner had made an official, though unpublicized, visit to the Seychelles capital of Victoria on her return from an Asian tour. Her spokesman described the visit as a spur of the moment decision based on the pilots’ need to rest -- but the Seychelles government had enough advance notice to assemble an honor guard to greet her and her small entourage at the airport.

After several muddled explanations of the stopover, which was far off the route she normally would have taken to get home, the government in March finally officially acknowledged the “state visit” in the official gazette. The government has declined to provide any further details of the trip.



**Figure 6: Lázaro Baez (middle), President Fernández de Kirchner (left) and her son Máximo in 2011.**

The Báez investigation stalled soon after Prosecutor Campagnoli when found himself under investigation by pro-government judges for allegedly exceeding his jurisdiction. In December 2013 Campagnoli was suspended from his post at the request of attorney general Alejandra Gils Carbó, and replaced by Cristina Camaño, formerly the second-ranking official in Fernández de Kirchner's Security Ministry.

The president and Gils Carbó lead a movement called "Legitimate Justice," formed by judges and lawyers in response to the numerous investigations into government corruption. The movement advocates "popular" justice, much stronger executive branch involvement in the judicial branch, and less judicial independence. This group led the legal attack on Campagnoli.

In an unusual turn of events, Campagnoli's trial, which dragged on for months, ultimately cost the government significant political capital and created an embarrassment. The jury of judges trying Campagnoli was adjourned when it deadlocked on the charges after one juror went on medical leave because of a nervous condition. While still under investigation, Campagnoli was restored to his judgeship. Faced with an outpouring of public support for the prosecutor, the government also acceded to his demands that his legal investigative team, which had been disbanded, be reconstituted.

Perhaps the most stinging rebuke to Fernández de Kirchner came from Julio Strassera, Argentina's most famous jurist, who prosecuted the leaders of Argentina's bloody military dictatorships:

"The dictatorship never dared to fire a prosecutor for doing his duty," Strassera said. "This case has no precedents. That whole Legitimate Justice gang is nothing more than a group to give impunity to government officials. Now they (the government) will try put up whatever

obstacles they can” to continue to try Campagnoli.

## Conclusions

The situation in Argentina is unlikely to get better in the near future as the social fabric of a once prosperous nation is sliced away by inept economic policies, creeping authoritarianism, corruption, and the growing stranglehold of transnational organized crime.

As the scandals accumulate around the president and her ruling clique, her popularity and ability to govern are severely impaired. Until now, the president has managed to keep a thin wall between herself and her trusted officials and partners who are the subjects of indictments and ever-widening investigations. While her hold on the judiciary is not complete, she has proved adept at using the powerful state apparatus to evade a wide variety of past and current cases that likely would have toppled less brazen officials.

As violence related to drug trafficking skyrockets and international agreements are routinely brushed aside, foreign investors are finding the climate much less hospitable than it was even a few years ago, and most are reluctant to invest until Argentina is in good standing on its debt payments and other international obligations.

Inflation is likely to be well above 30 percent this year. On the black market dollar exchange (called the “blue dollar” in Argentina), dollars fetch almost 15 pesos while the official rate is about 8.5, and foreign reserves continue to shrink.

Russia’s Putin, despite his newfound fondness for the Western Hemisphere, has little to offer in the way of significant economic aid, while Argentina has seen the production of beef and other key exports fall due to Fernández de Kirchner’s economic policies. China is offering exploitation of petroleum products and other natural resources, but the impact is unlikely to be immediate even if it were to materialize. While Fernández de Kirchner may survive her term in office, it is not clear the how well the economy, democracy and reputation of Argentina will.