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Media Reports Link Paraguayan President to Contraband Cigarettes, Drug Cartels

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No sooner did the Office of the United States Trade Representative (USTR) take the surprising step three months ago of removing Paraguay from its list of international copyright and trademark violators than accusations began to surface questioning the South American country’s supposed "good behavior" in that regard.

Paraguay has a well-established reputation as a haven for contraband and counterfeiting (NotiSur, Oct. 17, 2003), and, according to reports presented before the country’s legislature, nothing has changed. For many observers, therefore, the suggestion that Paraguay earned its way off the USTR blacklist through real improvement of its commercial practices is problematic (NotiSur, Aug. 7, 2015). Skeptics include opposition leader Rafael Filizzola of the Partido Democratico Progresista (PDP), who saw the USTR decision as a way to "reward" the government of President Horacio Cartes, and Santiago Ortiz, secretary of the Sindicato de Periodistas de Paraguay (SPP) journalists union, who publicly accused Washington of "compensating [Cartes] for continuing to place Paraguay at the service of US military-security policy in the region."

The USTR’s June 18 decision was all the more surprising given that, shortly afterwards, Panama, through its Cámara de Comercio, Industrias y Agricultura, reported that 75% of the cigarettes sold in the Central American country arrive as contraband and are produced by the Paraguayan company Tabacalera del Este (TABESA). Media outlets in Brazil and Mexico have made their own public accusations regarding contraband cigarettes from Paraguay, echoing claims that have also come from Colombia, Aruba, Curacao, and Venezuela.

In addition to the accusations of commercial fraud are reports linking TABESA to drug cartels in Mexico and Colombia. More troubling still is that the tobacco company is owned by President Cartes, who has been accused on multiple occasions of using his Banco Amambay to launder money (NotiSur, May 10, 2013). Cartes has even been investigated for his alleged money-laundering activities by the US Drug Enforcement Administration (DEA), according to cables that were filtered to the press by the organization WikiLeaks and published in 2013 by the Paraguayan newspaper ABC Color.

Suspicious overproduction

On July 2, the Brazilian daily Gazeta do Povo, from the southern state of Paraná, reported on a recent police operation near the town of Nova Laranjeiras that ended with the discovery, in an abandoned vehicle, of an estimated US$600,000 worth of TABESA-produced cigarettes from Paraguay. Like the Mexican and Colombian press, Gazeta do Povo was surprised to learn that the cigarettes entered the country illegally and yet were clearly marked as being produced by TABESA. "Cartes’ company insists that it produces [cigarettes] legally and that it is not responsible if its products end up as contraband," the Brazilian daily wrote. "But if internal demand accounts for just 1.8% of total production, there has to be knowledge, given the overproduction, that [the cigarettes] go to the black market."
Two years ago, when the WikiLeaks cables were released, ABC Color raised the issue directly with Cartes. "For me, contraband is a customs problem. We have a clean conscience," the president responded. "It's just like what's happening to Nestlé," he added, in reference to another case being talked about at the time in the Paraguayan press. "It's not their fault that Nido milk ends up [being sold illegally] here in Paraguay," he said of the Swiss-based multinational food and beverage company.

Reports from Colombia, Brazil, and Mexico have all turned new attention to the apparent links between Cartes' growing wealth, contraband cigarettes, and the laundering of drug money. Gazeta do Povo christened the Paraguayan president "the tobacco boss," noting that "cigarettes have in large part taken the place of drug trafficking." In an earlier report, published March 24, 2014, Gazeta do Povo journalists Mauri König and Diego Antonelli identified Cartes as "the greatest exponent of contraband cigarettes," explaining that he was "a modest cigarette distributor before opening up Tabacalera del Este (TABESA), but contraband proved to be a good business."

Cartes went from having three factories in 1993 to 32 currently, the journalists explained. "Cigarettes became a national business before Cartes was president," according to König and Antonelli. "The industry reports to the Finance Ministry that it produces 45 billion units per year, and it pays taxes for that. But a private investigation by the Estudio Económico Saguier noted that, in 2012, the country produced 67 billion [cigarettes], 39% of which went to Brazil as contraband and another 51% to other countries [also as contraband]. Only 8.2% was exported legally. Internal consumption accounted for just 1.8% of total production."

**Unsavory associates**

Just as the Gazeta do Povo journalists were wrapping up their investigation, the daily El Tiempo of Bogotá reported that cigarette smuggling, much of it involving TABESA brands, "is used in the country to launder the fortunes of Colombian drug traffickers and Los Urabeños criminal gang (paramilitaries)."

The influential Colombian newspaper based the claim on information obtained by a the Recherche Samenwerkingsteam (RST), a Dutch criminal-investigation agency "that has exchanged information with Colombian forces regarding contraband cigarettes that enter the country through Aruba and Curaçao." El Tiempo said the RST has documentation proving the existence of "adulterated or fake receipts of exported Ibiza and San Marino brand cigarettes produced by TABESA, whose owner is Horacio Cartes."

In June 2013, when the WikiLeaks cables were published, the Bogotá daily described Cartes as "the head of a criminal organization involved in the laundering of money and sale of narcotics." ABC Color republished the article in Asunción. Two months later, on Aug. 15, Cartes began his term as president of Paraguay ([NotiSur, Sept. 6, 2013]).

**Easily identifiable**

In Mexico, accusations regarding Paraguayan contraband, and Cartes in particular, first began to surface in mid-2014 and intensified when the president traveled to the country to participate in the 24th Ibero-American Summit, which took place Dec. 8-9, 2014, in the port city of Veracruz.

In a series of investigative pieces timed to coincide with the summit, the newspaper Milenio insisted that "Cartes is making a killing off selling contraband cigarettes in Mexico, where six of the top-
selling brands are manufactured by the TABESA company, and is benefiting greatly, either directly or indirectly, by Mexico’s growing illegal market." The paper said that TABESA’s presence in Mexico is so great that it "represents between 2.5% and 7% of the illegal cigarette market and competes shoulder-to-shoulder with products from China, which are the most common."

In its Dec. 8 edition, Milenio pointed out another problem associated with contraband—one that had not been observed in other countries with a high incidence of illegal cigarettes sales. Citing Álvaro Pérez, a top health official with the Comisión Federal para la Protección contra Riesgos Sanitarios (COFEPRIS), the paper noted that "one of the biggest concerns among authorities is the low cost—10 pesos a pack (roughly US$0.60)—which makes them more accessible to highly vulnerable sectors, such as children and adolescents."

"Unlike other cigarettes that enter the country illegally (from China and Indonesia), the ones produced in Paraguay are easily identifiable and 100% traceable," Milenio went on to say. "The key to figuring out the origin is in plain sight, on the front of Paraguayan cigarette packs confiscated by COFEPRIS, which have the inscription ‘Produced by Tabacalera del Este SA,’ which is the company of Cartes, Paraguay’s 56th president and owner of the Libertad soccer team."

Other problems associated with contraband, according to the Mexican daily, are the loss of earnings for tobacco companies that operate legally in the country, reduced job opportunities in those companies, fiscal losses estimated at US$348 million annually, and the financing of criminal groups. Milenio noted that, in July of last year, COFEPRIS issued alerts regarding "six of Cartes’ brands" (Ibiza, Laredo, San Marino, San Marino Rojo, San Marino Verde and Palermo). The article also stated, in no uncertain terms, that the sale of contraband cigarettes "has become a significant source of income for large organized crime empires such as Los Zetas and the Sinaloa Cartel." There is no indication that the accusations linking Cartes to drug trafficking have been investigated by Mexican authorities.

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