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Military-Spending Scam May Have Cost Chilean State Millions

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A major fraud case involving Chilean Army officials is adding new fuel to the country’s already raging confidence-in-leadership crisis, which has pummeled President Michelle Bachelet and her conservative opponents alike and deepened the public’s distrust of state institutions.

Military investigators have been looking into the affair since early 2014. But it was not until last month, with the publication of a scathing exposé by The Clinic, a Santiago-based satirical/investigative weekly, that the milicogate case started gaining widespread attention.

The focus of the inquiry is a series of fraudulent transactions that Army personnel and outside contractors made between 2010 and 2014. Investigators believe the parties involved used false invoices—for services never rendered—to embezzle large sums of money from the Fondos Reservados del Cobre, special military funds drawn every year from the Corporación Nacional del Cobre (CODELCO), Chile’s state-owned copper company. The money is supposed to cover new equipment and maintenance costs.

Chile’s peculiar mine-to-military funding arrangement, known as the Ley Reservada del Cobre, was introduced in 1958 during the second administration of President Carlos Ibáñez del Campo, an Army general who led the country twice—from 1927-1931 and 1952-1958. Later, the dictatorship of Gen. Augusto Pinochet (1973-1990) used a series of decrees to update the law, ultimately requiring CODELCO to give 10% of its annual earnings to the armed forces.

The Army, Air Force, and Navy all receive equal portions and can spend the money—or stash it away—as they see fit, following certain internal guidelines but with no government oversight. For reasons of national security, the military’s spending decisions are exempt from the Ley de Transparencia (transparency law) and off limits to the Controlaría General de la República de Chile, the country’s general accounting office.

The money trail
Critics say the built-in lack of transparency makes the Fondos Reservados del Cobre an obvious target for precisely the kind of corruption being uncovered in the milicogate investigation, which began in April 20014, shortly after Bachelet returned to office. The left-leaning Bachelet previously served as president between 2006 and 2010. She was succeeded by President Sebastián Piñera (2010-2014), a conservative whose term coincided precisely with the fraudulent Army dealings in question.

The inquiry initially focused on a series of transactions carried out between January and March 2014, when the company Frasim, an auto-parts supplier, issued a series of fake invoices totaling some US $150,000. The invoices were processed and the payments delivered by a pair of Army officials, Cpl. Juan Carlos Cruz and Col. Clovis Montero, who were jailed in mid-2014. The Clinic reported that
Carlos Cruz, who was earning some US$800 a month at the time of his arrest, spent more than US$200,000 in recent years at an upscale casino complex south of Santiago.

The investigation then turned to previous Frasim transactions, as well as to dealings with a supplier named Raúl Fuentes Quintanilla. As the scope of the inquiry—and apparent scale of corruption—expanded, the Army decided to inform the Ministerio de Defensa, headed at the time by current Interior Minister Jorge Burgos. In a follow-up report, submitted to Burgos last December, Army Commander-in-Chief Humberto Oviedo admitted that the investigation had branched out to include hundreds of suspicious invoices and that the situation was worse than imagined.

In total, millions of dollars may have been stolen from the Fondos Reservados del Cobre between 2010 and 2014, The Clinic reported. The weekly also suggested that Carlos Cruz and Montero—so far the only people officially implicated in the affair—could hardly have acted alone considering the level of bureaucracy involved in processing military payments, which must go through two different offices (the Comando de Apoyo a la Fuerza and the Departamento de Planificación Financiera) before finally being issued by the Tesorería (treasury).

### DINA deaths

The milicogate revelations come at a particularly inopportune time for Chile’s armed forces, which have also had to contend of late with a wave of bad press—and several adverse judicial decisions—related to past human rights abuses.

On Aug. 11, Chile’s Corte Suprema de Justicia sentenced 14 Chilean and Uruguayan military men to prison for their roles in the 1995 kidnapping and assassination in Uruguay of Eugenio Berrios, a chemistry expert and former agent of Pinochet’s notorious Dirección de Inteligencia Nacional (DINA), a secret police force responsible for many of the forced disappearances and extra-legal killings committed in the aftermath of Chile’s 1973 military coup (NotiSur, Aug. 28, 2015).

The high court issued the ruling just four days after the infamous head of DINA, Gen. Manuel Contreras, passed away at age 86. Contreras had been serving combined sentences of more than 500 years for multiple human rights abuses committed under his leadership of the secret police agency. Another top-level DINA commander, Col. Marcelo Moren Brito, 80, died a month later, on Sept. 11, the 42nd anniversary of the putsch that brought Pinochet to power and ousted democratically elected Socialist President Salvador Allende (1970-1973). Moren Brito, like Contreras, was serving multiple sentences (more than 350 years in total).

The military’s Pinochet-era misdeeds also made headlines in July, when a Chilean judge ordered multiple arrests in connection with Caso Quemados (case of the burned people), which dates back to 1986 but is being revisited thanks to revealing testimony from a former Army conscript who was present when soldiers seized two young protest participants—Carmen Gloria Quintana, 18, a university student, and Rodrigo Rojas, 19, a photographer—doused them in gasoline, and lit them on fire (NotiSur, March 14, 1997). Quintana was severely injured but somehow survived. She currently serves as a scientific attaché with the Chilean Embassy in Ottawa, Canada. Rojas, a US resident who had come to Chile a few months earlier to document events in his birth country, died (NotiSur, July 7, 1987).

On Aug. 21, in a joint appearance with several high-profile human rights advocates and Valentina Saavedra, the president of the influential Federación de Estudiantes de la Universidad de Chile (FECH) student union, Quintana called for Chile to "democratize" the armed forces by exerting
greater civilian control. "It’s high time that the armed forces, Carabineros (uniformed police), Investigations Police and Gendarme recover their honor in the eyes of Chilean society; that they show they represent all Chileans, not just those who collaborated with the dictatorship; that they commit to respecting democratic values and human rights," she said. "Until now, the opposite has been true. They continue honoring murderers, protecting people who killed and tortured. Civil society won’t stand for it any more."

The rumor mill

The military is by no means the only state institution facing serious image problems these days. Polls suggest that Chileans are also disillusioned with Congress, the traditional political parties—on both the right and left—and the president, who roared back into power with a landslide victory in the 2013 presidential elections (NotiSur, Dec. 20, 2013) but now has an approval rating of just 20%, according to survey results released Sept. 14 by the polling firm Cadem.

Corruption scandals are partly to blame for the current scenario. One of several concurrent cases involves Bachelet’s son, Sebastián Dávalos, who was forced to resign from his low-level government post earlier this year amid revelations he may have used his privileged connections (and insider information) to help his wife execute a lucrative, but by all appearances illicit, land deal (NotiSur, April 24, 2015).

Bachelet has also been touched by an influence-peddling and campaign-finance scandal involving Sociedad Química y Minera de Chile S.A. (SQM), a mining company whose top shareholder, Julio Ponce Lerou, is a former son-in-law of Pinochet. The ongoing case forced her to part ways in May—as part of a major Cabinet overhaul—with one of her closest collaborators, then interior minister Rodrigo Peñailillo (NotiSur, May 29, 2015).

Caso SQM has compromised a number of right-wing political figures, too, as has the Pentagate scandal, which involves allegations of tax evasion and illegal campaign finance in connection with the multibillion-dollar conglomerate Grupo Penta (NotiSur, Feb. 13, 2015). The case has taken a particularly heavy toll on the far-right Unión Demócrata Independiente (UDI), which, together with the center-right Renovación Nacional (RN), forms the opposition Alianza coalition. An August survey by the polling firm GFK Adimark measured support for the Alianza at a paltry 15%. Bachelet’s center-left Nueva Mayoría coalition fared only slightly better, with an approval rating of 16%.

The Alianza’s dismal approval numbers haven’t stopped it from attacking President Bachelet, most notably painting the country’s current economic downtown as the product of bad policy choices rather than outside factors, such as the declining price of copper, Chile’s leading source of export revenue. The political right has also latched onto—and helped disseminate—rumors regarding Bachelet’s possible resignation. "With an approval rating of 20% (and falling), rumors that [President Bachelet] will resign before her term ends in 2016 grow day by day," UDI Deputy José Antonio Kast wrote in a Sept. 14 Twitter post.

Kast’s comments, and others like it, have raised hackles among some left-wing figures, who say the rumormongering constitutes an obvious and orchestrated effort to destabilize the government. "This is clear and direct sedition," Sen. Alejandro Navarro of the Movimiento Amplio Social told reporters last week. "We can’t just stand here with our arms crossed. The rumors are an obscene but real political strategy that exists in Chile right now against Bachelet."