

time controller/attorney Kenneth Bialkin is on the General Council of Assicurazioni Generali. Citigroup is one of the major American lenders to Parmalat. Another is Bank of America, whose roots on the San Francisco side go back to the Bank of Italy of Synarchist and Mussolini supporter A.P. Gianinni. When it comes to corporate crime, it's a small world after all.

The Story Behind Parmalat's Bankruptcy

by Claudio Celani

The bankruptcy of the giant food company Parmalat, warned Italian Finance Minister Giulio Tremonti on Dec. 22, runs the risk of leading to “general corporate insolvency” in Italy, if there is a run on corporate bonds. Throughout Europe, financial operators are nervous about the enormous sums of fraudulent financial paper that went up in smoke—and about where the trail of criminal investigation will lead. A senior European financial source, for example, told *EIR* that Parmalat's collapse throws a spotlight on the huge volume of dirty deals that are being run by top international banks through offshore centers such as the Cayman Islands. These deals are often used to finance political, illegal, or high-risk speculative efforts, he said, and the Parmalat scandal could expose this entire dirty sub-structure of the global financial system, with unforeseeable financial as well as political consequences.

Parmalat is the largest Italian food company and the fourth largest in Europe, controlling 50% of the Italian market in milk and milk-derivative products. Suddenly, it was discovered that its claimed liquidity of 4 billion euro did not exist, and that EU 8 billion in bonds of investors' money had evaporated as well. Parmalat is the largest bankruptcy in European history, representing 1.5% of Italian GNP—proportionally larger than the combined ratio of the Enron and WorldCom bankruptcies to the U.S. GNP.

Behind Parmalat's facade as a productive agro-industrial company with 34,000 employees, hides a giant financial speculative scheme to lure investors' money and syphon it off through a network of 260 international offshore speculative entities, where the money disappeared. It has been reported that at the receiver-end of that scheme, the Cayman Islands-based offshore entity called Bonlat had invested \$6.9 billion in interest swaps, the highest-risk derivatives operations. So far, through this scheme, at least EU 8 billion have disappeared, but the figure is provisory.

It is now being discovered that over the years, Parmalat had become a tool of the banks, which had invented, built up, and managed the speculative scheme. Which banks? The list

currently investigated by prosecutors in Parma and Milan reads like the *Burke's Peerage* of the international financial system: Bank of America, Citicorp, J.P. Morgan, Deutsche Bank, Banco Santander, ABN; it goes on with all the largest Italian banks: Capitalia (Rome), S. Paolo-IMI (Turin), Intesa-BCI (Milan), Unicredito (Genoa-Milan), Monte dei Paschi (Siena), to name just a few.

How It Developed

The story began in 1997, when Parmalat decided to become a “global player” and started a campaign of international acquisitions, especially in North and South America, financed through debt. Soon, Parmalat became the third largest cookie-maker in the United States. But such acquisitions, instead of bringing in profits, started, no later than 2001, to bring in red figures. Losing money on its productive activities, the company shifted more and more to the high-flying world of derivatives and other speculative enterprises.

Parmalat's founder and now former CEO Calisto Tanzi engaged the firm in several exotic enterprises, such as a tourism agency called Parmatour, and the purchase of the local soccer club Parma. Huge sums were poured into these two enterprises, which have been a loss from the very beginning. It has been reported that Parmatour, now closed, has a loss of at least EU 2 billion, an incredibly high figure for a tourist agency.

The losses of the Parma soccer club are not yet fully known. Here, Parma insiders are pointing at what they call the “Medellín Cartel” connection—i.e., the purchase of overpriced Colombian soccer players, and other extravagances. While accumulating losses, and with debts to the banks, Parmalat started to build a network of offshore mail-box companies, which were used to conceal losses, through a mirror-game which made them appear as assets or liquidity, while the company started to issue bonds in order to collect money. The security for such bonds was provided by the alleged liquidity represented by the offshore schemes.

The largest bond placers have been Bank of America, Citicorp, and J.P. Morgan. These banks, like their European and Italian partners, rated Parmalat bonds as sound financial paper, when they knew, or should have known, that they were worth nothing. While Bank of America has participated as a partner in some of Parmalat's acquisitions, Citicorp is alleged to have built up the fraudulent accounting system.

What strikes one is not only the dimension of the scheme, but the arrogance of its authors. For instance, one of the offshore mail-box firms used to channel the liquidity coming from the bond sales was called Buconero, which means “black hole”! Appropriately, the first class-action suit in the United States on the Parmalat case, filed by the South Alaskan Miners' Pension Fund, is against Parmalat, its auditors, Bank of America, and Citicorp—and focusses on Buconero. “The Parmalat fraud has been mainly implemented in New York, with the active role of the Zini legal firm and of Citibank,” said San



An important issue raised by the Parmalat scandal, is who is to supervise the Italian banking system—when the central bank is run by the banks themselves. Italian Finance Minister Giulio Tremonti (right, shown here with U.S. Federal Reserve Chairman Alan Greenspan) has been battling for a government role in certain banking decisions, but has so far been blocked by the Bank of Italy.

Diego lawyer Darren Robbins, a partner in the firm Milberg Weiss Bershad Hynes & Lerach, which is leading the class-action suit. “We believe that Citigroup, by creating instruments like the sadly famous ‘Buconero,’ has played a fundamental role in helping Parmalat to fake their balance sheets and hide their real financial situation.”

The New York-based Zini lawfirm named by Robbins, has played a role which seems to have come out of the movie *The Godfather*. Through Zini, firms owned by Parmalat have been sold to certain American citizens with Italian surnames, only to be purchased again by Parmalat later. The whole operation was fake: The money for the sale in the first place came from other entities owned by Parmalat, and it served only to create “liquidity” in the books. Thanks to that liquidity, Parmalat could keep issuing bonds. Mafia? Former CEO Tanzi declared to prosecutors in Parma that the fraudulent bonds system “was fully the banks’ idea.” Parmalat’s former financial manager, Fausto Tonna, counterfeited Parmalat’s balance sheets in order to provide security for the bonds, but “it was the banks which proposed it to Tonna,” Tanzi declared.

Tanzi’s version has been so far confirmed by Luciano Spilingardi, head of Cassa di Risparmio di Parma and member of the Parmalat board. Bond issues were ordered by the banks, Spilingardi said to prosecutors, according to leaks published in the daily *La Repubblica*. “I remember,” Spilingardi says, “that one of the last issues, of 150 million euros, was presented to the board meeting as an explicit request by a foreign bank, which was ready to subscribe the entire bond. If I remember correctly, it was Deutsche Bank.” Spilingardi says that he expressed “perplexity” about the pro-

posal, because a previous bond issue of EU 600 million had failed, in the Spring of 2003, causing a 10% fall of Parmalat stocks in one day. But the request was accepted, and the last Parmalat bond, issued in Summer 2003, made its way to the Cayman Islands black hole. At the moment of Parmalat’s default, in December 2003, the financial manager of Parmalat was no longer Tonna, who had left after the failed bond issue in the Spring. He has been replaced by Alberto Ferraris, who comes from . . . Citibank. In June 2003, before the last bond issue “ordered” by Deutsche Bank, Parmalat’s board gained a new member: Luca Sala, a top manager coming from . . . Bank of America.

The Parmalat crisis finally broke out on Dec. 8, when the company Parmalat defaulted on a EU 150 million bond. The management claims that this was because a customer, a speculative fund named Epicurum, did not pay its bills. Allegedly, Parmalat has won a derivatives contract with Epicurum, betting against the dollar. But it was soon discovered that Epicurum is owned by

firms whose address is the same as some of Parmalat’s own offshore entities. In other words, Epicurum is owned by Parmalat.

On Dec. 9, as rumors spread that Parmalat’s claimed liquidity was not there, Standard & Poor’s finally downgraded Parmalat bonds to junk status, and in the next few days, Parmalat stocks fell 40%. On Dec. 12, the Parmalat management somehow found the money to pay the bond, but on Dec. 19 came the end: Bank of America announced that an account with allegedly \$3.9 billion in liquidity, claimed by Parmalat at BoA, did not exist. In one shot, the bankruptcy was revealed, and Parmalat stocks fell an additional 66%. Later, Tonna would confess that he had faked BoA documents, using a scanner, scissors, and glue, to “invent” such a \$3.9 billion account, a version which is still the official one.

‘Systemic Risk’

On Dec. 22, the Italian government rushed through emergency legislation aimed at allowing quick bankruptcy procedures for Parmalat, in order to protect its industrial activity, payrolls, vendors, etc., from creditors’ claims. The government appointed Enrico Bondi to present a reorganization plan by Jan. 20. So far, so good. But Bondi, who had already replaced Tanzi a few days before, has two loyalties: he was appointed by the government, but he is also a man trusted by the banks, including for his reorganization of the Ferruzzi-Montedison group, which was eventually sold to the Agnelli group. Fears are that Bondi will obey the banks, which want to chop up Parmalat and sell it in pieces—the plan feared by the trade unions and, at least publicly, by the government itself.

That same day, Paolo Raimondi, head of the Italian LaRouche movement, issued a statement in which he said that the Parmalat bankruptcy, like the Cirio, Enron, and LTCM cases, “are not isolated cases in an otherwise functioning system. Instead, they are the most evident manifestation of the bankruptcy of the entire financial system.” After pointing to the role of derivatives speculation in the Parmalat case, Raimondi stressed that Citigroup and Bank of America, Parmalat’s main financial partners, are “the number two and three among banks involved in derivatives operations.”

Because it is not just a firm at stake but the whole system, “the solution must be a global one,” Raimondi said, pointing to Lyndon LaRouche’s proposal for a world financial reorganization called a New Bretton Woods. “The Italian Parliament has already discussed, in the past, a series of motions on the New Bretton Woods, which were introduced on different occasions by Senators Pedrizzi and Peterlini, and by Representative Brugger, and received support from a hundred members of Parliament, from all parties.” Raimondi also called the recent statement by “a high moral authority, such as Milan Cardinal Dionigi Tettamanzi, who, presented with the New Bretton Woods proposal, said that the Italian government not only can, but must, promote it.” Over Christmas, this statement was circulated in Italy, and distributed in Parma by LaRouche Youth Movement organizers.

The Italian government is aware of the systemic dimensions of the crisis, at least as concerns the Italian bond market, as Minister Tremonti’s Dec. 22 statement about “general corporate insolvency” shows. “Do you have any idea,” said Tremonti to his colleagues, “of what would happen if the market demanded liquidation of money invested in corporate bonds? Therefore, we must quickly review current legislation protecting investors.”

Tremonti referred to 100,000 Italian owners of Parmalat bonds, mostly families which have been advised by their banks to buy paper which is now worth nothing. This is the third large insolvency hitting Italian investors in one year: The first, the Argentinian insolvency, wiped out EU 12 billion euro in bonds owned by 450,000 Italians; then, the bankruptcy of Cirio, another food company, meant a default on EU 1.2 billion in bonds owned by 40,000 families. Panic is already spreading, and a run on the Italian bond market is on the horizon. Bank stocks have plunged, with Capitalia, the main Italian creditor of Parmalat, having lost 40% since Dec. 4.

The red thread of this catastrophe is represented by the role of the banks. Italian banks, not unlike their international colleagues, have lured unaware customers into high-risk investments—workers, pensioners, and professionals who, in most cases, did not know where their money was invested, or who were fraudulently told that it was “safely” invested.

In the Argentinian bonds case, consumer organizations have filed a legal action against the banks, because they failed to inform customers, as prescribed by law, that the investment

was a high-risk one. In the Cirio case, it came out that on the eve of the company’s insolvency, creditor banks rushed to dump their Cirio bonds, by selling them to their customers! And Italian newspapers are now publishing letters by owners of Parmalat bonds, telling how they were still being sold such bonds by their banks on Dec. 11, two days after the first Parmalat default, and after Standard & Poor’s had downgraded them to “junk” status!

The role of the banks, and of their putative supervisor, the Bank of Italy, has been the issue of an all-out war between Tremonti and BoI Governor Antonio Fazio, since the Cirio default. Things have now escalated, as the failure of BoI supervision in the Parmalat case is dramatically evident. Beyond the power struggles which are also involved, the real issue is, who controls the Bank of Italy. The fact is that the central bank, which is supposed to exercise control over the banking system, is itself controlled by the banks, which are its shareholders!

The Italian central banking system is not dissimilar to the U.S. Federal Reserve or other central banking systems. Under the Bretton Woods system of regulations, however, it was partially under government control. This changed first in 1979, when deregulation freed the central bank from the obligation to buy government debt, and finally after 1992, when the largest shareholders of the Bank of Italy were privatized. These are Banca Commerciale (now Intesa-BCI), Credito Italiano (now Unicredito), IMI (now S.Paolo-IMI), and Banca Nazionale del Lavoro. The reader will recognize the names of some among Parmalat’s main creditors and bond-placers. These are the controllers of the Bank of Italy, which the BoI is supposed to control.

In the past months, Tremonti has led an unsuccessful battle to change this, by attempting to introduce local government representatives onto the boards of the Banking Foundations, which control Italian banks. Through that move, Tremonti hoped also to gain a handle on banking decisions to finance, for instance, infrastructure investments. He lost that battle, due to the staunch opposition of the Bank of Italy.

But now the issue is again on the table, and decisions are expected to be taken after a parliamentary committee, set up after the Parmalat case broke, has investigated the current state of relations between the banking system and the corporate world. On Jan. 8, a government initiative is expected on a new control authority, which is supposed to assume the supervisory powers which the Bank of Italy had, but never implemented.

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