

Spain: Life savings at risk over stamp fraud

Marcus Morgan
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The savings of hundreds of thousands of people are in jeopardy due to one of the largest fraud cases in Spanish history.

In May, the head offices in Madrid of two rival investment firms, Forum Filatelico and Afinsa, were sealed off by 300 police officers who seized documents, bundles of banknotes worth €10 million and various works of art. The directors of the companies have been accused of fraud, embezzlement, criminal insolvency, money laundering and tax evasion involving 350,000 investors. They have since been released on bail awaiting trial.

Although Forum Filatelico reported post-tax profits of nearly €90 million in 2004, investigations have revealed that both companies are effectively bankrupt, with more than €3.5 billion unaccounted for.

Spain's public prosecutor has accused the companies of lying to their clients about the value of their investments in rare postage stamps. In what amounted to a scam involving a pyramid scheme, stamps were bought at low prices and then sold at vastly inflated prices to customers lured by promises of high rates of return on their savings. The scheme could only maintain itself as long as new clients made fresh deposits to pay off interest to existing clients and so maintain the illusion of a sharp rise in the value of the stamps.

High rates of interest led to a nationwide growth in the popularity of the scheme, which spread by word of mouth, mostly among lower-income families. Savers were attracted by promises of guaranteed 10 percent returns annually, considerably higher than the 3 percent margin offered by most banks and government bonds. The scheme spread quickly from families to local communities. The small village of Dosbarrios to the south of Madrid is a typical example—half of its 2,400 inhabitants had a stake in the companies.

In the wake of the arrests, the firms' offices were laid

siege to by hundreds of angry savers demanding their money back. Two months after the raids, and at a time when Spain has seen one corruption scandal after another, there remains a great deal of uncertainty as to where the missing billions have gone and whether they will be recovered.

In conflicting statements, Prime Minister José Luis Rodríguez of the ruling Socialist Party (PSOE) government made vague assurances of compensation, whilst government spokesman Fernando Moraleda stated categorically that there is no policy to reimburse victims of fraud. Despite Forum Filatelico and Afinsa operating in all essentials as banks, they do not come under existing regulation laws because stamps are defined as "tangible goods."

The outrage of Spanish investors was further inflamed when it was revealed that the international financial press and the insurance industry had raised alarm bells over the scheme.

Analysts at the reinsurance syndicate branch of Lloyd's, the world's leading specialist insurance brokers, became suspicious of the stated value of the stamps and promptly withdrew renewal of contracts worth €1.2 billion. An executive at the insurance company Hiscox said, "I'm surprised no one else was following this story, considering the accusations were very serious. I don't understand why more people haven't brought up the subject when it is something that has been known for over a year and there is a lot of money at stake."

Despite the mounting danger signals, the Spanish financial authorities failed to alert investors to the risks. The Bank of Spain's money-laundering unit had investigated Forum Filatelico three times (in 2001, 2003 and 2005), but failed to give the necessary warnings. The Association of Bank and Insurance Consumers (Adicea) urged the bank to tighten controls in 2002, but again the warnings went unheeded.

A dispute has erupted between the ruling PSOE and the right-wing Popular Party (PP), with both attempting to lay the blame at the other's door for lax financial regulation laws.

Rodrigo Rato, managing director of the International Monetary Fund and former PP finance minister, claims he raised the issue with the incoming PSOE minister, Pedro Solbes, after the last election, but was ignored. Solbes vehemently denies the allegation.

The scandal has broader international implications for savers lured by promises of "guaranteed" interest on their savings. Financial experts have observed that Forum Filatelico and Afinsa had a dominant position in the world philately market, effectively setting global prices in the sector. In the wake of the scandal, stock markets dropped sharply whilst other philately firms tried to distance themselves as much as possible, despite offering similar schemes that promise high-rate returns.

Both companies are part of large and complicated networks of subsidiaries stretching all over the world. Afinsa owned 67 percent of the auction house Escala in the United States, the third largest after Christie's and Sotheby's. Escala, in turn, has international subsidiaries in Europe and Asia.

Escala is also under investigation for allegations involving collectable coins, which in all essentials resemble the Spanish stamp scandal.

One of those accused of fraud in the "Coingate" affair is the Republican Party contributor Tom Noe. He was arrested for illegally channelling funds to George W. Bush's re-election campaign in excess of the individual limit allowable and improprieties in the handling of the rare coin investment collection for the BWC (Ohio Bureau of Workers' Compensation) fund. Some \$13 million that would have gone to injured workers is unaccounted for in the state's rare-coin investment fund, over which Noe presided.

Noe had invested more than \$10.7 million in Escala, buying 500,000 shares in the company at a 36 percent discount. After the purchase, Afinsa launched a takeover of Escala, causing the shares to skyrocket from less than \$2 to \$32. The local *Toledo Blade* reported that Noe sold most of his holdings once the takeover was completed in 2003 and made a killing.

Like Afinsa, Forum Filatelico also has connections to various international subsidiaries under scrutiny for

their commercial activities. Forum Africa, an affiliate of Filatelico, was alleged by the environmental lobby group Greenpeace to have paid off a Ukrainian arms dealer to broker a deal in 2001 with the now-ousted prime minister of Liberia, Charles Taylor. The company secured Liberian tropical timber, the money from which allegedly funded arms for an insurgency campaign in neighbouring Sierra Leone.



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