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Dollar seekers get creative in Venezuela

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CARACAS, Venezuela _ Some Venezuelans gamble in neighboring Aruba. Others sell part of the purchasing power of their credit cards to brokers who turn it into dollars. Still others cross into Colombia to sell subsidized goods bought in Venezuela.

All, in their unique ways, are getting around the tight currency controls that President Hugo Chavez imposed in 2005 as a way to keep prices for staple goods in check in Venezuela.

"We're talking about several million dollars a day," said Robert Bottome, publisher of the VenEconomia business newsletter, referring to the illegal trade in U.S. dollars in this nation of 27 million people.

The idea behind all the scams is to find a way to profit from the gap between the official exchange rate, about 2,150 bolivares to the dollar these days, and the close to 3,500 bolivares it takes to buy one dollar on the thriving black market.

One of the more innovative scams involves credit cards. Venezuelan credit cards give their holders up to a \$3000 "allotment" to purchase goods _ in dollars _ over the Web and up to a \$5000 allotment for travel. Many people can't afford to use this "allotment," so money changers buy them for a nominal fee, then make the transactions so they can trade the dollars on the black market.

To carry out the scam for the Internet purchases, the money changers set up front companies abroad. They then use the credit card in Venezuela to make purchases from the fronts. The money goes into the companies' accounts abroad, which the money changers can then bring back to Venezuela and sell on the black market, while paying the credit card debt at the lower official rate.

An example: A "purchase" of a \$100 radio over the Internet would cost 215,000 bolivares. But the \$100, returned to Caracas, would fetch closer to 350,000 bolivares on the black market. The radio doesn't change hands and may not exist.

"It's a question of volume," said one black market trader who remained anonymous to avoid prosecution. "The price and the product doesn't even matter ... It's the dollars that count."

People in the world's fifth largest oil producer scrambling for dollars may seem odd, but it is a familiar pattern here. Successive Venezuelan governments have spent wildly during high-price eras,

fueling inflation, while doing little to alleviate a dependency on foreign imports that supports a constant need for dollars.

Measures to reign in this problem have varied but have never met with much success and often led to widespread street violence.

Despite promises to break this pattern, Chavez seems to be repeating many of the mistakes of his predecessors and now faces 20 percent inflation, the highest in the Western Hemisphere. His current policy is a mix of currency controls, tax cuts, issuing new bonds and cracking down on what government advertisements say are "hoarders and speculators."

It hasn't worked. Dollars continue to leave faster than they come in _ Venezuela registered a negative Foreign Direct Investment rate last year _ and the government debt is soaring.

The government regulatory agency, known by its acronym CADIVI, did not respond to repeated attempts to seek comment on its policies or the results of the announced crackdown.

That leaves the vast majority of Venezuelans scrambling for dollars, often with the plethora of money changers who ply their trade right in front of the National Assembly buildings.

"Many of my clients are politicians," said Frank, a money-changer who did not want to give his full name. "They change \$20,000 or \$30,000 per day."

Those who don't have access to so much cash have other options.

Some buy subsidized goods _ everything from rice to oil _ in Venezuela and sell them in neighboring Colombia for increasingly strong Colombian pesos.

Credit-card holders also go to places like Curacao and Aruba, just a short trip from Venezuela. There, they use their cards to buy poker chips, play a few hands, then turn in their chips for dollars. The dollars are then put into savings accounts or traded back at the black market rate, while the credit card is paid off at the official rate.

The clear long-term loser is Venezuela's economy, says VenEconomia's Bottome, especially as inflation climbs and foreign investment sinks. "When you plug in the numbers, the nation screwed itself," he said.

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