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Classified By: Robert Downes, Political Counselor,
for Reason 1.4(b).

Summary

1. (C) The Venezuelan-owned Smartmatic Corporation is a riddle both in ownership and operation, complicated by the fact that its machines have overseen several landslide (and contested) victories by President Hugo Chavez and his supporters. The electronic voting company went from a small technology startup to a market player in just a few years, catapulted by its participation in the August 2004 recall referendum. Smartmatic has claimed to be of U.S. origin, but its true owners -- probably elite Venezuelans of several political strains -- remain hidden behind a web of holding companies in the Netherlands and Barbados. The Smartmatic machines used in Venezuela are widely suspected of, though never proven conclusively to be, susceptible to fraud. The company is thought to be backing out of Venezuelan electoral events, focusing now on other parts of world, including the United States via its subsidiary, Sequoia. End Summary.

Who Owns Smartmatic?

2. (C) Smartmatic was founded in the late 90s by three Venezuelans, Antonio Mugica, Alberto Anzola, and Roger Pinate. According to Mugica's conversations with poloffs in recent years, the three had developed a network capable of handling thousands of simultaneous inputs. An early application was ATMs in Mexico, but the U.S. presidential election in 2000 led the group to consider electronic voting platforms. The company formed the SBC consortium with Venezuelan telecom provider CANTV (at the time 28-percent owned by Verizon) and a software company called Bizta. Mugica said Smartmatic held 51-percent of the consortium, CANTV had 47 percent, and Bizta, 2 percent (ref a). The latter, also owned by the Smartmatic owners, was denounced in June 2004 by the press for having received a US\$200,000 equity investment from a Bolivarian Republic of Venezuela (BRV) joint venture fund called FONCREI; a Chavez campaign adviser was placed on the board as well. Bizta reimbursed what it called the "loan" when it was made public and shed the Chavista board member.



3. (C) Mugica has told Poloffs on several occasions that Anzola, Pinate, and he are the owners of Smartmatic, though they have a list of about 30 investors who remain anonymous. Jose Antonio Herrera, Anzola's father-in-law (and first cousin to Venezuelan Ambassador to the United States Bernardo Alvarez), told poloff in 2004 the silent partners were mainly upper class Venezuelans, some of whom were staunch Chavez opponents. There were rumors, however, that Smartmatic's early profits came from Venezuelan defense contracts supplied by then-Defense Minister Jose Vicente Rangel, whom Chavez later promoted to Vice President. Perhaps coincidentally, the Vice President's daughter, Gisela Rangel Avalos, was the head of the local corporate registry when Smartmatic was registered, which contributed to allegations of the Vice President's involvement. These unconfirmed rumors also suggested that one-time Chavez political mentor Luis Miquilena was also a shareholder in the company.

Organized To Compete or Confuse?

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4. (C) Mugica first approached the Embassy in 2004 when the company was bidding at the National Electoral Council (CNE) to provide a completely new electronic voting system. Mugica pitched Smartmatic as a U.S. company registered in Delaware with offices in Boca Raton, Florida. In fact, poloffs had several discussions with Mugica in the course of facilitating his L-1 inter-company transfer visa to work in the United States. Mugica said the company's corporate offices were in Boca Raton, but most of the research staff of some 70 employees remained in Caracas. Smartmatic essentially purchased its electoral expertise by hiring veteran election observer AMCIT Jorge Tirado and his team of consultants. Tirado served as the interface between Smartmatic and the CNE for several elections.

5. (C) In May 2006, Mugica told Poloff Smartmatic's corporate structure had changed (which had come out in press reports during 2005). Mugica said that Smartmatic was now two different companies under a Dutch holding company. U.S. setup was essentially the same, with Delaware registry and the Boca Raton accounting office overseeing U.S. operations. Smartmatic acquired the U.S voting machine company Sequoia Voting Systems on March 8, 2005, Mugica reported. All U.S. election machinery is assembled in New York, he said. Mugica noted that while their U.S. operations were important, more than half their sales were outside of Venezuela and the United States. The other Smartmatic company was based in Bridgetown, Barbados, where Mugica said the international



sales operation was located. Most of the manufacturing for their electoral and other electronic machinery was done in China, Mugica said, with some component work also done in Taiwan. Smartmatic also manufactures some items in Italy through the company Olivetti (which built the original Smartmatic machines for Venezuela). The research and development shop was still located in Caracas, Mugica noted.

A Shadow of Fraud

6. (C) Of course, the Venezuelan opposition is convinced that the Smartmatic machines robbed them of victory in the August 2004 referendum. Since then, there have been at least eight statistical analyses performed on the referendum results. Most of the studies cross-check the results with those of exit polls, the signature drives and previous election results. One study obtained the data log from the CANTV network and supposedly proved that the Smartmatic machines were bi-directional and in fact showed irregularities in how they reported their results to the CNE central server during the referendum. (Note: The most suspicious data point in the Smartmatic system was that the machines contacted the server before printing their results, providing the opportunity, at least, to change the results and defeat the rudimentary checks set up by international observation missions. Since August 2004, the CNE has not repeated this practice.) These somewhat conspiratorial reports perhaps serve to breathe life into a defeated opposition, but have never proved conclusively the fraud (refs b and c).

7. (C) The Smartmatic machines suffered a major blow, however, when in a test prior to the December 2005 National Assembly elections an opposition technician was able to defeat the machine's allegedly random storage protocols and, therefore, the secrecy of the vote. The technician took advantage of the fact that the computerized machines used a Windows operating system. A simple program downloaded from the Internet accessed underlying Windows files created "in order" as the machine processed Smartmatic's "randomizing" software. Although Smartmatic officials argued convincingly that such controlled results could not be feasibly replicated

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during a real election (ref d), the opposition parties boycotted. Abstention rates soared to at least 75 percent and confidence in the CNE among opposition voters plummeted. The disastrous results left Chavez with 100-percent control of the National Assembly, an albatross around the neck of a leader trying to appear democratic.



At Least Corruption

8. (C) If Smartmatic can escape the fraud allegation, there is still a corruption question. Well before Smartmatic, Venezuelan law had dictated that voting ought to be automated to limit fraud -- the U.S. company ES&S and Spanish firm Indra had already sold systems to the electoral body. When the new pro-Chavez CNE was named in September 2003, however, it immediately set out to replace all existing systems. Declaring the bid process to be an emergency (though there was as yet no referendum scheduled), the CNE bypassed normal procedures and initiated a closed bid process. Smartmatic won the contract, which totaled at least US\$128 million, including the delivery of 20,000 touch-screen voting machines (re-engineered lottery machines) yet to be built. There were immediate questions about how a virtually unknown company with no electoral experience could have landed such a large contract. Mugica asserted to poloff that everything was above board, though he conceded the company may have opened itself up to criticism by hiring a former interior vice minister named Morris Loyo to lobby the government. There were additional allegations of impropriety in October 2005 when the press reported that Smartmatic had paid the bill of CNE President Jorge Rodriguez at an exclusive Boca Raton resort. The company claimed Rodriguez had reimbursed them for the stay, during which Rodriguez reportedly examined an unspecified electoral system Smartmatic was developing. There were subsequent, unconfirmed rumors that Rodriguez was lobbying for Smartmatic in other countries.

Moving On From Venezuela?

9. (C) In December 2005, Mugica told emboffs the company was considering terminating its business with the CNE. Allegations of fraud were hurting the company's image, he said. (Note: Prior to that meeting, Mugica had agreed to loan a voting machine to the Embassy for examination. When emboffs arrived at the office, however, Mugica said he had changed his mind and instead suggested that we contact Smartmatic's Boca Raton office to secure a test machine.) Mugica noted that the CNE had purchased the software necessary to operate the machines without his company -- part of the CNE's stated goal of achieving "technological independence" -- though he noted the CNE regularly holds out until the last minute before hiring them to administer an election. He listed several countries in Latin America where they had either started supplying machines or were pushing for sales. In December, Mugica told Polcouns the company is trying to break into Europe and Asia (he mentioned having sales agents in Thailand, Malaysia and the Philippines), they had yet to secure any sales. Of course, via Sequoia, Smartmatic is already working in a dozen U.S. states.



Comment

10. (C) Smartmatic is a riddle. The company came out of nowhere to snatch a multli-million dollar contract in an electoral process that ultimately reaffirmed Chavez' mandate and all-but destroyed his political opposition. The perspective we have here, after several discussions with

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Smartmatic, is that the company is de facto Venezuelan and operated by Venezuelans. The identity of Smartmatic's true owners remains a mystery. Our best guess is that there are probably several well-known Venezuelan businessmen backing the company who prefer anonymity either because of their political affiliation or, perhaps, because they manage the interests of senior Venezuelan government officials.

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