By JUSTIN WEBSTER

SMOKING A large cigar at eleven in the morning in his offices in Barcelona, Javier de la Rosa appears relaxed for a man who is vilified in Kuwait and whose effigy is burnt by Spanish workers. Other than a slight trembling of the hand as he waves away accusations levelled against him by the Kuwait Investment Office, one of the world's most powerful financial institutions, he appears calm and collected.

The Kuwaitis say that he and six other former executives are responsible for losing more than dollars 4bn (pounds 2.6bn) of KIO money through massive mismanagement of Grupo Torras, the KIO's Spanish holding company, controlling several of Spain's leading companies. According to his enemies, he holds the key to one of the biggest business disasters ever seen in Spain.

As the largest outside investor in the Spanish economy, the KIO has become a powerful and important institution in the country. The collapse of Grupo Torras, threatening tens of thousands of jobs in its subsidiaries, has become a huge headache for the government.

For the KIO, however, the Grupo Torras disaster is nothing short of a body blow. It is not so much the losses - which the Kuwaiti government has shown itself ready to write off - that are important, as the political implications in Kuwait and the damage the scandal will do to the emirate's credit while it is having to borrow to finance a budget deficit.

Nasser al-Rodhan, Kuwait’s Finance Minister, declared last week that what had happened with its Spanish investments was a ‘disgrace in the history of Kuwait’, which had damaged its financial reputation abroad.

In Kuwait itself, there is outrage. The Attorney-General has frozen the bank accounts of three leading Kuwaitis implicated in the scandal - Sheikh Fahad al-Sabah, who was chairman of the KIO and Grupo Torras until last April, Khaled al-Sabah, his deputy, and Fouad Jaffar, the former general manager - and those of their relatives, pending the results of an investigation due later this month. As Fahad al-Sabah is a member of the royal family and a cousin of the emir, the scandal threatens to penetrate to the heart of Kuwaiti politics.

As the accusations fly, it is still far from clear what went wrong. What is clear is that the new management that took over at the KIO last year is determined to pursue its predecessors to the bitter end. ‘Kuwait lost dollars 5bn in Spain,’ said Mahmoud al-Nouri, who replaced de la Rosa as vice-president of Torras. ‘Public opinion is very nervous. All the people from Kuwait and from outside who stole money are going to be punished; we are not going to hide anything, the laws are going to be respected.’

On Friday, the KIO issued writs in the Spanish high court against Sheikh Fahad, Fouad Jaffar, de la Rosa and four other Spaniards who worked for the KIO. It accuses them of falsifying mercantile and public documents, fraud, manipulating prices and tax evasion, producing losses of well over 100bn pesetas (dollars 870m). It also seeks a freeze on their assets to cover the alleged financial responsibilities.

Just before Christmas, a Kuwaiti parliamentary commission called for legal action against all KIO employees in Britain. The Spanish investments are controlled from the agency’s London headquarters in Cheapside.

The stakes are being raised in what promises to become a damaging and highly public washing of the KIO’s dirty linen. Once the most secretive of investment institutions, the KIO is in danger of being gutted under the public gaze.

But it is de la Rosa, because of his past, his conspicuous wealth, and because he was the most senior KIO executive based in Spain, who is the primary target of public anger in Kuwait and Spain. Angry at the constant attacks, he is promising five lawsuits for every one the KIO is planning to send him.

He is much less well-groomed than in the press photographs he loathes having taken. His stocky build and informal,
low-key manner make him seem more like a modest provincial broker than Gordon Gekko, the character in Wall Street, to whom he was compared by the Spanish press. His offices, however, resemble an aristocrat's mansion, with oil paintings and mahogany furniture. No screens, telexes or faxes are in evidence, but when he asks for a document over the intercom it is brought to him swiftly. Only when he begins to talk about the inability of the KIO's new managers to understand some of Torras's financial operations does he begin to look like a tycoon, glaring angrily with his large blue eyes across his desk: 'It's because they are dumb,' he booms.

For a man of 45, his relatively short history as a businessman has made him plenty of enemies. 'Spain is a difficult country: either you are good or you are bad. It is never grey,' he says.

Although he likes to portray himself as an outsider, he has always managed to have powerful friends. His father was a local government official from a well-to-do family who had to flee the country in the Seventies facing charges of swindling Barcelona city council and is now thought to be in Brazil.

Like much of the upper class of Barcelona, de la Rosa is a devout Catholic. He was educated first at a Jesuit school, followed by law at Barcelona University, and the business school IESE, run by Opus Dei, the secretive and powerful Catholic sect. He is not a member, he says, but some of his friends are.

De la Rosa's offices are housed anonymously in an elegant old building in the centre of the city. There is no nameplate on the door, which is opened by a thickset, sceptical bodyguard. The offices are all that remains of the first scandal in which he was involved. They belonged formerly to Banco Garriga Nogues, where de la Rosa was vice-president until 1985, shortly after which it was closed with dollars 1bn losses.

He moved on to broking shares for the Kuwait Investment Authority, an arm of Kuwait's Ministry of Finance which is ultimately responsible for the emirate's financial resources. His close association with the Kuwaitis began in 1984, when he introduced the KIO to a highly profitable deal, buying a small Catalan paper mill called Inpacs.

From then on, the KIO's policy in Spain changed from its familiar stance of cautious and secretive investor to aggressive empire-builder. Based on the premise that the growing Spanish economy was about to boom, the KIO's senior managers in London plunged into it head first, advised by de la Rosa. The managers liked the way their new associate would come up with ideas quickly. Once established, Torras - which was formed out of a troubled Catalan company, Torras Hostench - was always run from de la Rosa's base in Barcelona, rather than from Madrid.

During the following seven years the KIO, through Torras, grew to be Spain's largest industrial investor apart from the government and the banks, controlling interests in several of the most important companies. These included Ercros, Spain's biggest chemicals group; Torras-Papel, its largest paper manufacturer; Ebro, its largest foods group; Prima, one of the biggest property developers; Amaya, the insurance company; and Industrias Bures, the textile group.

De la Rosa grew wealthy - a fact which has fuelled the criticism against him. He failed dismally to keep the low profile which he claims he would prefer. His world, he has said, is 'the family, seeing the children every evening, and always at the weekend, the home, hobbies'. But his own protestations of living a 'very normal' life sit uncomfortably alongside his huge power yacht, Blue Legend II, which can be seen moored in the fashionable fishing village of Cadaques near the French border, or the private jet he leases for the unavoidable trips to Madrid.

His wholly-owned company, Quail Espana, through which he managed the affairs of Torras, undoubtedly received high fees for its services. But he angrily rejects the accusation that he has made money out of the Kuwaitis. 'With them. It has always been with them, in the proportion of 3 or 4 per cent of anything they have taken,' he says. According to de la Rosa, the KIO made dollars 1.5bn profits from its investments in Spain, which would give him a cut of between dollars 50m and dollars 60m in fulfilling Quail's primary function of buying and selling shares for Torras. The KIO puts the figure at dollars 125m, but recognises Quail paid out around 60 per cent of that in legal and other fees.

The KIO, however, claims not to have prospered from this arrangement. Concerning how much the former managers made out of Torras, the accusations against de la Rosa and the others have become progressively more explicit. According to last Friday's writ issued by the KIO, the former executives named in it allegedly made 'irregular' profits, mainly from the buying and selling of shares through companies in Gibraltar and the Netherlands.

The question of whether the managers were involved in fraud, however, pales into insignificance compared to the problems created by the manner in which the KIO operated its Torras investments.

To avoid being identified as an investor, the KIO would buy shares in Spanish companies indirectly through offshore accounts. Once the price of the shares had risen, it would sell them on to Torras and book the profit. Torras would become the eventual owner of the shares at a relatively high price, which it borrowed money to pay.

The strategy was designed to keep Torras functioning at a low profit level, therefore paying low taxes, while the KIO benefited from the share deals. The danger was that it pushed Torras deep into debt and made the group extremely vulnerable to a downturn in the market.
In retrospect, it was only a matter of time before the tide turned against Torras. From about 1989, investors were beginning to lose faith in the group. It was not immediately clear just how bad things had become.

By the time Ali Rashid al-Bader took over as chairman of the KIO on 9 April last year, replacing Sheikh Fahad, the KIO's Spanish investments appeared to the outside world to have lost their lustre, but to be a long way from crisis. Grupo Torras had just reported results for 1991 which showed a small profit of 2.75bn pesetas.

Al-Bader saw a different picture: the need to inject cash every month, at a rate of dollars 200m a year, and no income, even from the debts which Torras had with the KIO, which were mounting daily. According to the new managers, the money sent from the KIO was being used solely to pay the interest on bank loans and for the running of the companies.

A crucial peculiarity in Spanish business which influenced the development of the crisis is that big shareholders usually take an overtly active role in the management of the company, even without a majority stake. Hence Ercros, in which Torras had no more than 38 per cent, was viewed as a KIO-controlled company - a role for the KIO which the new managers were reluctant to assume.

Al-Bader called in Mahmoud al-Nouri, a friend with a reputation for abrasiveness, who worked for a small bank in Bahrain and later for the Kuwait Investment Project Company, in which the KIA holds a majority stake. The two men are neighbours in a Kuwaiti housing development near Geneva in Switzerland. After al-Nouri took over as vice-president of Torras at the end of May last year, they swiftly came to the conclusion that the KIO could no longer afford to prop up all its heavily indebted affiliated companies, and stopped payments to Ercros, prompting the company to suspend payments on its 157bn pesetas of debt.

From that moment on, the whole of Grupo Torras was under suspicion. The Spanish government demanded explanations and the investigation began. On 15 July, Kuwait's Crown Prince and Prime Minister, Saad Abdullah al-Sabah, announced the appointment of KPMG Peat Marwick, the auditor to some of the KIA's funds, to investigate the KIO's Spanish investments.

At the request of the new managers, Coopers & Lybrand also drew up new draft accounts for Torras, using a new criterion for the valuation of assets - recording them at market value rather than book value as earlier in the year. This gave a very different picture, showing losses for 1991 of around dollars 300m at first, rising to dollars 513m by the time Grupo Torras suspended debt repayments.

Despite having promised the Spanish government a dollars 2.4bn recapitalisation of the group and dollars 1bn to keep it going less than two months previously, on 4 December last year, al-Nouri, on the basis of the final report by Peat Marwick, said the only way to protect the interests of shareholders, creditors and employees was to call in the receivers.

The lawyers attributed the losses as being from share-dealing amounting to dollars 2bn, a further dollars 700m in 'foreign operations' and the rest, at this point said to be a further dollars 600m, in short-term financing.

Torras affiliates started to follow the same path. Prima, and its subsidiary Urbanor, had been holding off the banks since the summer, but now suspended payments on its debt. The half-finished towers of its Puerta de Europa project became the emblem of the disaster.

'The Chronicle of a Death Foretold,' commented Antonio Gutierrez, secretary-general of Commisiones Obrerras, one of Spain's two biggest unions, which claimed 35,000 jobs were directly at risk and a further 60,000 indirectly.

But the determination of the new managers to publicise every failure in the KIO is not entirely easy to explain. Shares in all the companies in which Torras had a stake, which were the assets of the holding company, fell sharply with each new revelation from the new managers about the parlous state of the company's affairs and their mounting attack on the former managers. It drove Torras further into trouble. This is why many observers believe it is Kuwait's own politics which lie behind the feud that is tearing the KIO apart.

The former managers of the KIO in London had all been with the company for more than 20 years by the time they resigned. During that time the KIO built up a reputation as a sophisticated investor, because of the size of the funds it managed - estimated at around dollars 100bn two years before the Gulf war, though one former manager put it at less than half that - and because of its strict code of secrecy.

This management had the support of Ali al-Khalifa al-Sabah, the former oil minister, and finance minister during Kuwait's occupation, whose ministry in the Eighties was paying 10 per cent of oil revenues into its biggest fund, the Fund for Future Generations. He became the main proponent of the KIO operating with autonomy, so that it could dedicate itself to making money without being hampered by the bureaucracy which most Kuwaiti investment institutions suffer.
During the Eighties the KIA, officially the monitor of the KIO, lacked the credibility to assert its control. But by the end of the decade, the opportunistic culture at the KIO had begun to arouse anger in Kuwait. The KIO's purchase of 22 per cent of BP in Britain in the early months of 1988, when the price was depressed after the 1987 crash, was one example of how the KIO was breaking its unwritten code of discretion, which ended in disaster when the British government forced it to divest.

Another was when, the following year, de la Rosa, with the backing of the KIO, joined two Spanish businessmen, Alberto Alcocer and Alberto Cortina, to mount a highly ambitious bid for control of Banco Central, then Spain's second largest bank. One of the reasons for its failure was that the marital infidelities of the two Albertos were splashed spectacularly in the Spanish press, since their financial resources were owned by their heirless wives. The ensuing scandal infuriated the conservative Kuwaitis.

The final blow to the KIO's old regime came in the aftermath of the Iraqi invasion of Kuwait. Sheikh Ali Khalifa was cut out of the government installed after the liberation in 1991, and replaced by Nasser Abdullah al-Rodhan, long a critic of the KIO. The new Finance Minister, desperate for money to reconstruct Kuwait, examined the KIO's funds and found they had shrunk to less than dollars 40bn. The main loss had been in Spain.

Indeed, Spain was actually costing the KIO money. After taking itself private in 1989, Torras had attempted unsuccessfully to sell some of its assets. As its condition deteriorated, worried banks began to call in their loans. The whole situation took another downward lurch after the invasion in August 1990. To support its ailing Spanish companies, the KIO was obliged to pump money into Spain - no more than dollars 1.7bn, de la Rosa insists.

Alarmed by what he found, al-Rodhan rapidly set about ousting the old KIO management and bringing the agency to heel. Sheikh Fahad left by April. De la Rosa departed in May. Fouad Jaffar had given up much of his power at the KIO in 1990. The new management under al-Bader emphasised the change of regime by doing everything in its power to discredit its predecessors.

Perhaps inevitably, the new managers describe any attempts to ascribe political motives to them as a smokescreen. 'Politics have nothing to do with it,' says al-Bader.

Since most of the Torras companies now face liquidation unless new investors can be found, the central point over which the new and old management of the KIO disagree is what profits the KIO realised from its investments in Spain. Al-Nouri, who at first said the KIO made no profits, has since recognised a figure of around dollars 122m, with dollars 236m in unrealised gains, which is still a long way from the dollars 1.5bn de la Rosa is claiming.

'I have all the files that show the money has gone to the KIO,' says de la Rosa, adding that the instructions on which accounts it was to be paid into came from the KIO's managers. Up until 1990 was when 'the big bulk of profits' was made. They used offshore banks outside Spain to be more flexible, nothing more, so simple. For me it is dollars 1.2bn, dollars 1.3bn in the sense of direct profit, and the rest are payments which for me are profits for the KIO.' These other payments, according to him, are the ones made during Kuwait's occupation, as part of the war effort.

Although the desire of al-Bader and his colleagues for justice has always been clear, their concern for the Spanish companies has not been as evident. Al-Nouri switched from offering a recapitalisation in September to suspending Torras's payments in December, although for KIO as the principal creditor, a less dramatic solution, requested by the Spanish government, would have been to capitalise the debt.

Whoever is to blame for the collapse of Grupo Torras, trying to restructure it is likely to be a painful process for Spain, and a humiliating one for Kuwait. The disaster has already cost the KIO huge amounts of money and even more in prestige. Its reputation as a fearsomely efficient international investor is dead and may never be reborn.

But the KIO has more to lose than that. If the matter comes to court, the once secretive organisation will be obliged to reveal details about itself and its operations that have never been made public before.

The only winners in what is certain to be a lengthy legal battle will be those in the financial world, and especially in Kuwait, who have always wanted to know how business was really conducted behind the heavy security of the KIO's Cheapside offices.

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