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NEW YORK

THE MONEY PLANE

Every day, **the** Russian mob gets a shipment of up to a billion dollars in fresh \$100 bills. **The money**, flown out of JFK, comes straight from **the** U.S. Federal Reserve. An exclusive investigation.

By **Robert I. Friedman** 43



Arriving from New York: Flight 30's cargo of U.S. cash being unloaded at Moscow's Sheremetyevo airport on January 4.



THE MONEY PLANE

Five nights a week, at least \$100 million in crisp new \$100 bills is flown from JFK nonstop to Moscow, where it is used to finance the Russian mob's vast and growing international crime syndicate. State and federal officials believe it is part of a multi-billion-dollar money-laundering operation. The Republic National Bank and the United States Federal Reserve prefer not to think so. By Robert I. Friedman

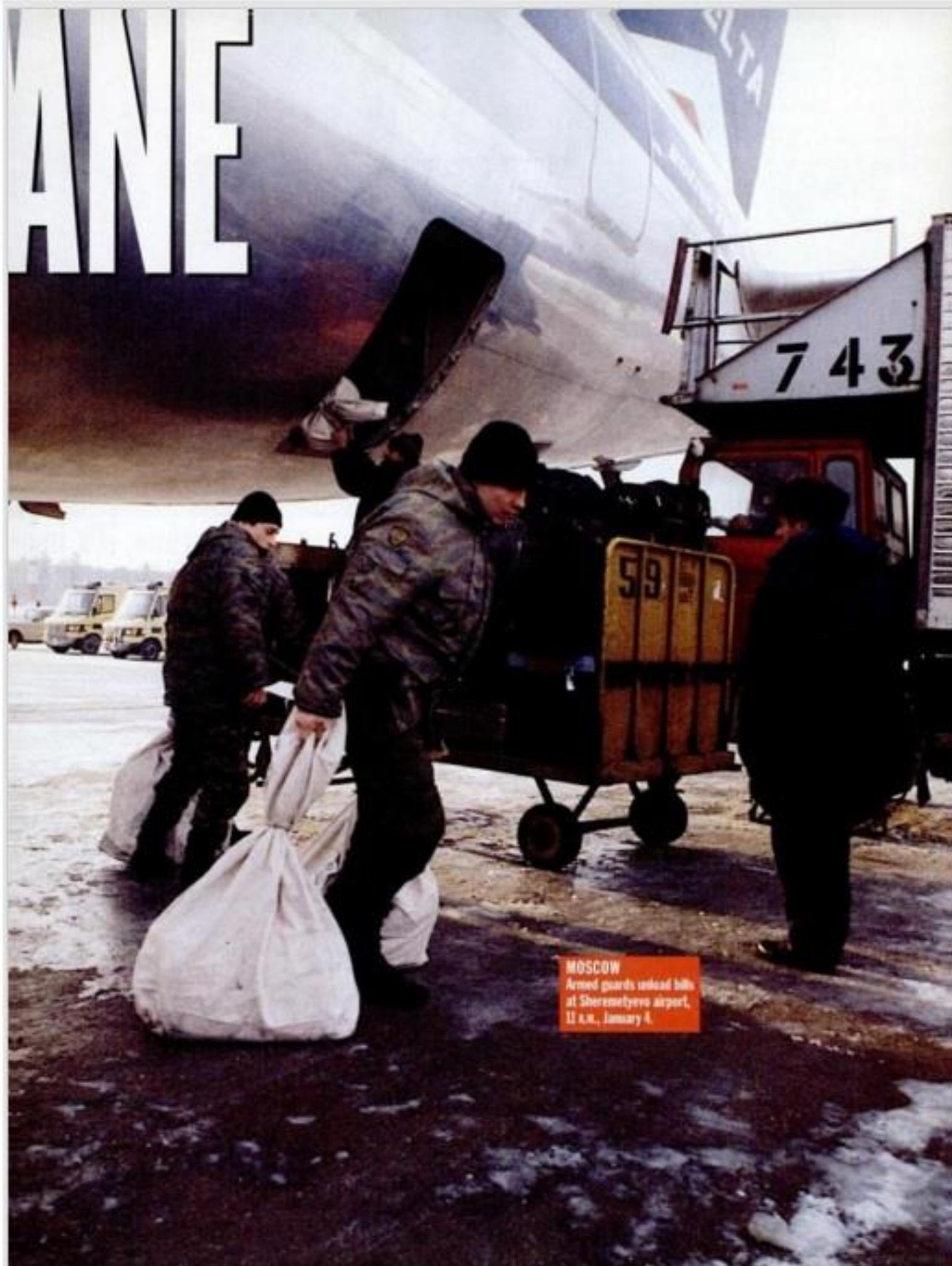


NEW YORK
Armed guards load bags of \$100 bills onto Delta Flight 30 at JFK, 5 p.m., January 3.

IT'S A DARKENING AFTERNOON. THE USUAL ASSORTMENT of passengers mills about Gate 14 at John F. Kennedy International Airport, waiting to board Delta Flight 30 nonstop to Moscow: American businessmen prospecting the new Russian capitalism, Russian entrepreneurs returning from investor hunting, expatriates going home to visit family, tourists. One passenger, though, is there only for the nine-hour flight, and knows something none of the other passengers knows: that the plane will be carrying 1 million fresh hundred-dollar bills in its belly.

The red, white, and blue Boeing 767 is on the tarmac when, at about 5 p.m., a cream-colored armored truck drives up. While Delta workers casually go about tossing luggage into the hold, two armed guards begin placing large white canvas bags on a conveyor belt. In the bags are stacks of uncirculated new \$100 bills, all still in their Federal Reserve wrappers, dozens to a bag. And there are dozens of bags.

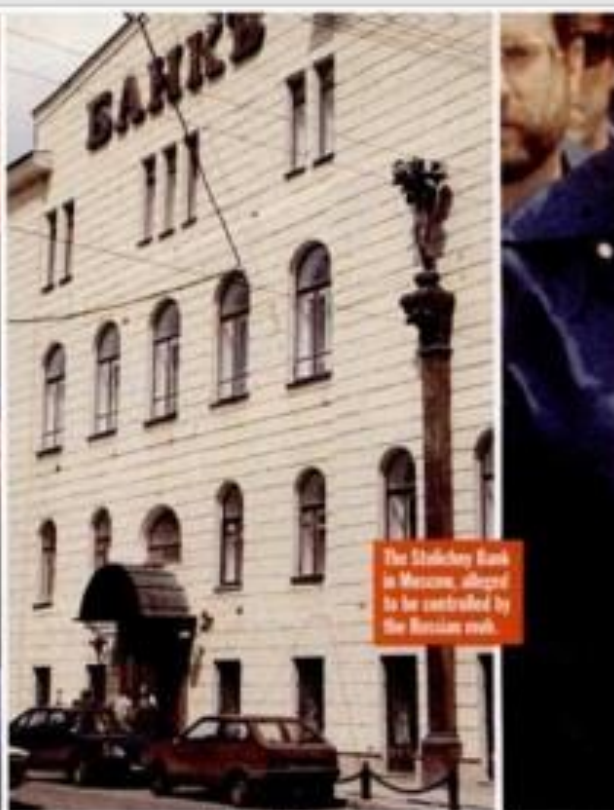
PHOTOGRAPH BY ALLAN TANNENBAUM
JANUARY 2000



MOSCOW
Armed guards unload bills at Sheremetyevo airport, 12 a.m., January 4.



August 1995 funeral of Ivan Kirevich, president of Ross Business Bank, who was poisoned.



The Slushy Bank in Moscow, alleged to be controlled by the Russian mob.



Reported Russian godfather Vyacheslav Ivanov, arrested by the FBI in Brighton Beach last June.

"That money is used to support organized crime; it's used to support black-market operations," says one federal official. "In my personal opinion, this is an abomination. Yet it appears that

at least part of the federal government sees nothing wrong with it."

A few minutes later, another armored truck rolls up and unloads another series of even larger bags. In total, this flight will carry about 2,300 pounds of \$100 bills, or \$100 million.

The plane departs JFK at 5:45 p.m. Throughout the flight, an unarmed courier for the Republic National Bank of New York unwinds in the passenger cabin while the money "sits all by its lonesome" in the cargo hold, according to one law-enforcement source. Upon arrival at Sheremetyevo airport at 10:55 a.m. Moscow time, the money is transported by more armored trucks to Russian banks, which have purchased the \$100 bills on behalf of clients, who typically pay for the cash with wire transfers from London bank accounts.

Rather remarkably, no one has ever tried to hijack Delta Flight 30, even though it has left JFK at the same time five days a week—rarely carrying less than \$100 million and sometimes more than \$1 billion—for more than two years. Since January 1994, federal authorities estimate more than \$40 billion—all in uncirculated \$100 bills, hundreds of tons of cash—was shipped to Russia. That far exceeds the total value of all the Russian rubles in circulation. All that money has remained safe only partly because of security; another reason is that anybody who might be inclined to pull off such a heist is also well aware of who is buying all those \$100 bills.

"If you rip off Russian banks, you rip off the Russian mob," says one Mafia source here in the United States. "And no

one's got big enough balls or a small enough brain to do that."

The Russian mob, according to numerous well-placed law-enforcement sources interviewed by *New York*, has been using an unimpeded supply of freshly minted Federal Reserve notes to finance a vast and growing international crime syndicate. American C-notes are the unofficial currency of Russia, of course, and can get things done there that rubles cannot; but the hundreds are also being used to fuel the Russian mob's flourishing dollar-based global drug trade, as well as to buy the requisite villas in Monaco and Cannes. The Russian Mafia has also used laundered funds to set up operations abroad, including its American offshoot in Brooklyn's Brighton Beach ("The Organizatsiya," *New York*, November 7, 1994) and has begun investing in legitimate businesses across Europe and in the United States.

The Russian mob's monstrous growth has been aided considerably by its ability to quickly and easily launder its dirty criminal proceeds into clean—and now supposedly counterfeit-proof—U.S. hundreds. Russian banks have been eager to assist, which is not terribly surprising given that a good number are owned outright by Russian mobsters. "Almost all Russian banks are corrupt," Major General Alex Gromov of the Russian tax police told a September 1994 international conference on Russian organized crime co-sponsored by Financial Crimes Enforcement Network, which

tracks money laundering for the U.S. Treasury. FINCEN director Stanley Morris is more blunt today: "Russia's banking system is a cesspool."

In fact, the Russian banking system, little over six years old, has already become one of the world's leading money-laundering centers, replacing Panama as the favored dirty-currency exchange of the Colombian cartel and the Italian Mafia. A 1994 CIA report identified ten of the largest Russian banks as mobbed-up fronts. And in his speech to the United Nations last October, President Clinton declared money laundering a threat to national security. "Criminal enterprises are moving vast sums of ill-gotten gains through the international financial system with absolute impunity," he said, signing a presidential directive ordering the attorney general and the Treasury to identify individuals and organizations involved in global financial crime and seize their assets here and abroad.

So then why are Republic National Bank and the U.S. Federal Reserve continuing to supply millions of crisp, clean \$100 bills to banks that so many money-laundering experts agree are tainted? "Republic's guilty of willful blindness, though not in technical violation of any existing law," says a former New York State Banking Department official. "That money is used to support organized crime; it's used to support black-market operations," agrees an official at the federal Comptroller of the Currency office, which regulates Republic. "In my per-

sonal opinion, this is an absolute abomination. It should not exist. Yet it appears that at least part of the federal government sees nothing wrong with it."

A provision in the 1992 Annunzio Wylie Anti-Money Laundering Act requires banks to make sure that they're not knowingly doing business with criminals or their agents. For the record, the Republic National Bank, which makes millions off the currency sales, insists it is certainly not knowingly selling \$100 bills to mobsters.

"That's my responsibility, to make sure we don't sell to the banks that have organized-crime ties," says Richard Annicharico, one of Republic's compliance officials. "That's the hardest thing to find. In fact, if you know of any, let me know."

And the U.S. Treasury, which makes \$99.96 off of any \$100 bill that leaves the country and never comes back, is similarly, blissfully ignorant. "What do we know of Republic's customers?" says New York Fed spokesman Peter Bakstansky. "We don't. It's their responsibility to know who they are sending it to."

"I've run out of places to check," says Republic's Annicharico, a retired FBI agent. "Someone tells me [the banks are corrupt] and gives me substantial reason why—you know, anything, really—we don't sell to them. I mean, anybody who tells us not to, we'll stop them tomorrow."

Annicharico acknowledges that a federal money-laundering task force had contacted him about Republic's currency trade with

Russia. "The task force told me that they think Russian organized crime is involved in money laundering. But so what?" he says. "Who? What? Who? No one's been prosecuted. What's the crime? Tell me—I'll stop. I always tell them, 'Tell me which banks, and we'll stop.' I can't find them. I'm not being facetious."

WHEN THE SOVIET UNION FELL apart in 1991, so did the entire government-controlled banking system. Replacing the government banks were private institutions chartered and supposedly regulated by the new Russian Central Bank. But as Major General Gromov told the international conference, the application to charter a new bank typically consisted of making a \$100,000 bribe to a banking official. "A grossly underregulated banking sector sprang up virtually overnight," says Harvard economist Jeffrey Sachs. "Now you have 2,000 banks, many of which are deeply undercapitalized, and therefore everything is possible."

The mob saw the possibilities. Also known as the Vorovskoi Mir, or 'Thieves' World, a loose federation of Soviet mobsters immediately grasped that the end of Communism heralded a glorious new world criminal order. By 1992, crime was the only growth industry in Russia, with illicit cartels controlling as much as 40 per-

cent of the nation's wealth; the country had become, in the words of one former CIA director, a "kleptocracy." And having conquered Russia, the Vorovskoi Mir was eager to expand.

On July 2, 1993, two chartered jets touched down in Yerevan, the capital of the former Soviet republic of Armenia, and disgorged a panoply of wiseguys from the United States, Germany, Turkey, Italy, and South America. They had been called there by Rafik Svo, "the gangster equivalent of an international diplomat," according to Russian organized-crime expert Stephen Handelman. Svo was determined to bring order and mutual prosperity to the Thieves' World by ending bloody turf wars and forging alliances with the Sicilian Mafia, the Brighton Beach gang, and Colombian drug lords, all of which sent emissaries. At the meeting it was decided that the Russian banking system, new and vulnerable, would be used to launder funds, make favorable loans to "friends," and supplant Zurich as a haven for dirty money. The big joke at the Armenian conclave was, "Why rob a bank when you can own one?"

(At another 1993 summit, between Russian and Sicilian mobsters in Prague, the Russians agreed to launder Mafia drug profits in exchange for a franchise on choice narcotics-smuggling routes through central Asia. Then, last January in Puerto Rico, a third super summit was called to settle increasingly internecine battles and

to carve up the Russian drug trade. Shortly before the meeting, a Russian banker in New York was overheard on an FBI wiretap saying he was going to Puerto Rico "to discuss who we will kill."

Russia, not exactly unschooled in the ways of corruption, quickly took to the new system; politicians, cops, and government bureaucrats joined the fold. The country was already awash in dirty money, and not just as a result of traditional organized-crime activities. Soviet generals ransacked military arsenals and sold them to shadowy arms dealers or even shadowier terrorists. (Just last month, Admiral German Ugrumov warned that the Russian Mafia was looting weapons from the Russian Pacific Fleet's arms depot in Vladivostok, after security agents arrested a navy officer and confiscated nine pounds of plastic explosive and a large quantity of ammunition.) U.S. officials privately complain that billions in aid have gone into Russian banks, never to be seen again. In the first two years after the fall of Communism, between \$60 billion and \$70 billion worth of rubles, gold, and other material assets were spirited out of the former U.S.S.R. by the criminal elite, a mélange of gangsters and black marketers, unemployed KGB spies, and Communist Party hacks.

At the center of the looting is the Russian banking system. Since there are no regulatory controls over proprietorship, even felons are permitted to own banks. What's more, there are no money-laundering laws, regulatory agencies, or depositor insurance. The Russian Central Bank is notoriously lax in exercising control over the nation's nascent financial system—a point Russian central-banking officials readily concede. Last September 13, in a meeting in Moscow with State Department envoy Jonathan Winer, Viktor Melnikov, the Central Bank's director for foreign-exchange control, "expressed great concern about the state of the Russian banking system, citing estimates that anywhere from 50 to 80 percent of Russian banks were under the control of organized crime," according to a State Department cable obtained by New York. Melnikov also warned that "much of this [imported U.S.] money was being used for illegal purposes, including narcotics trafficking and currency smuggling."

Initially, the mob used Russian banks just to park their money. Then they began to "buy banks, to find out who has big deposits so they knew who to kidnap," says Jack Blum, a Washington lawyer who directed Senate investigations into money laundering in the late eighties. Then mob-

Russian banks took in huge deposits of narco-dollars from South America, converting them to rubles, then back into dollars through European and U.S. banks. In essence, the Russian banking system had become a giant Laundromat.

"It's very difficult to tell from the outside what a transaction [with a Russian bank] really means," says the State Department's Winer. "There are not a lot of public documents. You can't go to an SEC to look at a balance sheet for a Russian firm the way you can in the United States. You can't go to a bank regulator and [find out] what kinds of loans have been made, what the underlying source of capital is, or any other number of key issues, let alone who their customers are."

"These are issues which the Russian Central Bank is concerned about," Winer says. "These are issues which the Russian Association of Bankers is concerned about, because they are not unrelated to the murder of the bankers."

More than a dozen Russian bankers have been killed since 1994—one for simply refusing a loan. Many more have been threatened. The deputy superintendent of the New York State Banking Department, Robert H. McCormick, says he has heard stories of Russian bank examiners being chased out in a hail of gunfire.

"It's very frightening," says Dan Gelber, minority chief counsel of the Senate Subcommittee on Investigations, which has held hearings on Russian crime. "What [do] you do with a bank that from top down is not honest? I mean, it almost creates a situation where there is no remedy."

More savvy Russian hoods have hired sophisticated money managers and international lawyers to move their dirty money. Increasingly, they have purchased European companies with histories of legitimate banking activity and then used them as conduits to pass illicit funds into the international banking system. More ominously, they have acquired hidden control of banks in Austria, Germany, France, Switzerland, and England, according to U.S. law-enforcement sources. Americans doing business in Russia have had to contend with "a banking system that's so bizarre and rudimentary it's hard to believe," says Blum. "It's sort of like the Wild East."

Meanwhile, swaggering Russian dons wearing thirties-style Capone garb have ratcheted up prices on the luxury-housing market from Rio to London's Soho district, paying for million-dollar properties with minty new \$100 bills.

It was only a matter of time before those hundreds started coming home to America, and the Vorovskoi Mir with them.

AMERICA HAS BEEN A BEACON FOR the Russian mob since the Brezhnev era, when Jewish gangsters in the thousands were lifted out of the Gulag and given visas to emigrate to the U.S. under refugee status. One of the biggest was Marat Balagula, a brainy black marketer originally from Odessa who made an art of evading state and federal excise tax on gasoline by passing it through a daisy chain of dummy corporations. "Marat said he read about capitalism, and he knew he could do well over here," says Robert Eisenberg, Balagula's self-confessed consigliere and a New York lawyer who later testified in federal court against Getty Oil executives for setting up gasoline-bootlegging schemes with Russian gangsters. (In 1991, the Long Island-based Getty became the first oil corporation in recent history to be convicted for gasoline bootlegging.) "He said he came here because he hated European languages. He said German grated on him."

By the mid-eighties, hundreds of millions of dollars of illicit Russian bootleg money was flowing into the U.S. banking system, where it was cleansed and used to acquire legitimate businesses. One of the Russian mob's principal conduits to legitimacy was Marvin E. Kramer, a Brooklyn lawyer who helped the bootleggers evade paying billions of dollars in gasoline taxes from the mid-eighties through the early nineties. Whole walls of his office on Avenue U, near Coney Island, were lined with black binders containing the paperwork for dummy corporations; Russians walked in and bought the dummy companies literally off the shelf, and used them to set up daisy chains to avoid paying taxes on the gas they sold. Around the same time, Kramer was doing corporate work for a number of legitimate businesses, including the up-and-coming beverage maker Snapple; the Russian bootleggers would hang out with Snapple executives in Kramer's office, where they were under surveillance by a state-and-federal gasoline-bootlegging task force. "Every time I went in there, there was people in there from Snapple—you know, big shots, the owners or managers," says a senior law-enforcement source who worked on the case. "And they were always in there with these Russians." It is unknown whether the Russians ended up investing in the then-private company (Quaker Oats later bought Snapple in 1994 for \$1.7 billion, after which the brand promptly tanked), but it's unlikely that Snapple executives would have known any investment money was dirty, the source says.



The Laundry Cycle

Hypothetical example of how Russian organized crime turns illicit proceeds into crisp, new \$100 bills.

The Russian bootleggers' bank of choice was Republic, whose suspect client accounts were subpoenaed by federal officials in the late eighties. Balagula and dozens of other Russians—the ones who hadn't been killed in turf battles—were subsequently convicted of gasoline bootlegging. Kramer himself escaped prosecution, testifying for six hours before a Long Island grand jury about the bootleggers under a grant of immunity. "The grand jurors wanted to hang him," says the source. "He came out in a stretch limo, parked it right in front of the window."

The bootlegging prosecutions proved only a temporary setback. Long envious of their Jewish cousins in crime, the Vorovskoi Mir dispatched Vyacheslav Ivankov to Brighton Beach in 1992. Ivankov was a vory, or godfather, and one of the most feared gangsters in Russia; once in New York, Ivankov quickly muscled in on the Russian Jewish mob's empire, taking over its extortion racket and its lucrative narcotics trade. He formed "combat brigades" run by an ex-KGB officer to collect tribute from legitimate businesses worldwide, arbitrate disputes between Russian businessmen, and murder rival mobsters. He forged alliances with other Russian gangs across North America and set up a front company in New York called Slavic, Inc., to launder drug money, while his son Eduard, based in Vienna, "conducts a wide array of financial and banking trans-

actions throughout Central and Western Europe (including England) in an effort to launder proceeds of Ivankov's illegal activities," according to an FBI affidavit obtained by New York.

Ironically, it was a Russian bank that proved to be Ivankov's downfall. In the autumn of 1994, Bank Chara in Moscow collapsed, and depositors lost more than \$30 million. Some \$3.5 million of the money had been invested in Summit International, a New York investment house set up by two of Chara's Russian board members. Soon after the bank's collapse, Chara's president, Vladimir Rachuk, was killed by unknown assailants in Moscow. Last spring, his successor, Roustam Sadykov, flew to New York to ask Summit's directors to return the bank's missing funds. When the directors refused, Sadykov allegedly asked Ivankov to collect the debt. The following month, Ivankov and two henchmen visited Summit's Wall Street offices. Summit's owners and former Chara officials, Alexander Volkov and Vladimir Voloshin, fled in terror, eventually informing the FBI that they were being extorted by Ivankov. The men were later kidnapped at gunpoint from the bar of the Hilton hotel in Manhattan and forced to sign a contract promising to pay one of Ivankov's associates \$3.5 million. As an inducement, the father of one of the men was shot to

death in Moscow.

Early on the morning of this past June 8, the FBI yanked a startled Ivankov from his mistress's bed in Brighton Beach and charged him with extortion. As he was being led into the FBI building, a defiant Ivankov kicked and spit at reporters. "Let them put me on the chopping block—let them crucify me on a cross," the vory later told a Moscow newspaper. "I'm tough. I will survive."

In a sense, Ivankov does survive. The money-laundering colossus he helped establish now circulates tens of millions of dollars annually in the New York area, according to law-enforcement sources, who are more than a little concerned. "Any time that dirty money can find its way into the U.S. financial system, it poses a risk to us," says Jerry Rowe, the IRS's chief officer of narcotics and money laundering. "It can, in fact, give criminals an opportunity to operate in a legitimate arena, whether it be in the political arena or buying up businesses. I mean, we could end up with those companies in some way supporting political candidates that they think will help them in one way or another."

Among those indicted with Ivankov was one of his high-ranking associates, Yakov Volovnik. Volovnik's father-in-law, Roman Kaplan, owns the Russian Samovar restaurant, a popular Russian-mob haunt in midtown that was also named in the FBI affi-

Last January, Russian mobsters met in Puerto Rico to seel their increasingly bloody turf battles. Shortly before the meeting, a Russian banker in New York was overheard on an FBI we tap saying he was going down there "to discuss who we will kill."

Photograph by Joe Mollia/Graphixack.

Map by John Tomaric.

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An investigator from the State Banking Department couldn't believe federal officials had done nothing about the money sales. "To us, it was like a sore on Cindy Crawford's face," he says. "I said, 'Geez isn't someone curious about how that sore got there?'"

davit as a prime base for Ivankov's shake-downs. And Kaplan—along with the owner of the National Restaurant in Brooklyn, another mob hangout—is a member of the Russian Advisory Council, a mostly honorary committee set up last October by Brooklyn district attorney Charles J. Hynes. "The owners of the restaurants are decent persons, but the Russian Mafia hangs out there," says Alexandre Grant, an editor of Brooklyn's *NRS Russian Daily*. "They are good places to eat, but Hynes should not be associated with them. It sends out a bad message to the Russian-American community."

Hynes has also reached out to the Russian community for campaign contributions. One of the members of both his finance and campaign-steering committees was Barry Slotnick, a flamboyant lawyer who also represents a veritable catalogue of the local Russian mob, including Ivankov and Balagula.

Hynes, who has been criticized in the past by federal officials for failing to take Russian organized crime in his jurisdiction seriously, declined comment.

IN BANKING, REPUTATION IS EVERYTHING. SO when agents of the Criminal Investigation Bureau of the New York State Banking Department learned two years ago that Republic National Bank was selling tens of billions of dollars' worth of federal currency to as many as 50 corrupt Russian banks, they became alarmed. "This posed a question to us: If there are legitimate reasons—and there very well may be—for this money to be going over to Russia, why is it be-

ing sent to entities which have been determined, rightfully or wrongly, and I believe rightfully, to be controlled by organized crime?" says a source close to the Banking Department's investigation. "It just didn't make sense to me. The analogy I always use is that it would be like sending money to [John Gotti's] Bergen Hunt and Fish Club. Why are we doing that?"

State banking officials were so concerned by the Criminal Investigation Bureau's findings, the source says, that they urged federal agencies to probe Republic's banknote trade with Russia. But "right down the line" from the FBI to the CIA, "basically, the response that we were getting was, 'Yeah, it looks like we've got a potential problem here, but you know what? It's not our problem.'"

"To us, it was like a sore on Cindy Crawford's face! I mean, it was there. And I said, 'Geez, isn't someone curious about how that sore got there?'"

If American law enforcement was slow on the uptake, the Russians certainly knew what was going on. At the September 1994 conference, a Russian general was asked why Russian banks were buying billions of dollars in U.S. currency. According to a participant at the meeting, he chuckled, and said, "Oh, that's money laundering." Then he went, "Hey, we're being ripped off in our country; the money is coming over here, being cleaned, and being brought back."

State Department officials say the money laundering works something like this: Russian assets, such as oil, are stolen by underworld figures or corrupt plant man-

agers and sold on the spot market in Rotterdam. The proceeds are wired through front companies on the Continent and deposited in London banks. Gangsters place an order for, say, \$40 million in U.S. currency through a bank in Moscow. The bank wires Republic, placing a purchase order for the cash. Republic buys the currency from the New York Federal Reserve. Simultaneously, Republic receives a wire transfer for the same amount from the London bank. Republic pockets a commission and flies the cash from New York to Moscow. It is then used by mobsters to buy narcotics or villas, or run political campaigns. Republic's contacts are with the corresponding banks in London and Moscow and not necessarily the customers of those banks. As far as Republic is concerned, if there is a problem with the customer, it's up to the bank in London and Moscow to warn it. "All that's incumbent upon the American bank is to see if the other bank is a duly constituted bank, recognized by the central bank of that country," says the New York State Banking Department source. "To me, looking at it as someone who has been in law enforcement all my life, do I think maybe we might have some willful blindness here, or blinking, or looking the other way? I think so. Can I prove it? No."

In any case, the question is moot. The New York State Banking Department has no jurisdiction over Republic because it is a federally chartered bank regulated by the Treasury's Comptroller of the Currency.

Officially, the Treasury and the Fed back the sale of U.S. dollars to Russian banks,

saying that market forces and geopolitics—and not the priorities of law enforcement—should drive the trade. A high-level meeting of Fed and Treasury officials was convened in Washington last year, specifically to discuss the huge dollar sales by Republic to Russia. Fed officials defended the trade, saying that other than through direct loans, it was the best way to bulk up the sagging ruble and help Russia enter the global free market, according to one participant. (Further, the Fed maintains that the U.S. Treasury earns \$15 billion a year from dollar sales abroad, the difference between the 4 cents it costs to print the hundred-dollar note and the remainder of the face value on the bill that is pocketed until the note is redeemed, which in many cases will be never. "It's an interest-free loan to the U.S.," says Edgar Feige, a University of Wisconsin economics professor and a consultant to the Fed.)

When one official at the meeting suggested that Republic might be doing business with banks controlled by organized

the volume of new money being transferred out of Republic Bank into Russia is beyond that which is needed to support the normal use of U.S. dollars in the former Soviet Union, and that a further study needs to be made as to the actual use of those funds. But then the individuals who are in charge of researching all that state that this is, in fact, used to support the black market and organized crime. But that does not appear [in] the final report that is submitted to the policy-makers.

So far the only action taken regarding mobbed-up Russian banks has come at the state level. "We frankly have had a number of expressions of interest from Russian banking institutions," says Robert H. McCormick, who heads the foreign-commercial-banks division at the New York State Banking Department. However, McCormick says, "there is a whole potpourri of problems connected with the Russian banks, [including] money-laundering activity and underworld connections. So we generally discourage Russian banks from

state banking department in June but is pending with the Fed. Inkombank's April 24 application is pending at both agencies. "Why is it that there are so few Russian banks that operate in New York?" asks the banking-department source. "The primary reason is that none of them are trusted."

DESPITE ALL THE INVESTIGATIONS and all the high-level meetings and international conferences that seem to involve Republic National Bank of New York, compliance officer Richard Annicharico insists the bank has never been officially accused of selling money to a mobbed-up Russian bank. "No, I never heard that," he says. "But the innuendo is there because we sell to [Russia]. But so what?"

Asked about a recent classified CIA report that named ten major Russian banks—among them many Republic clients—that are run by organized crime, Annicharico replied, "We looked at that, and we stopped doing business with some of those banks as a result of that." In fact, Annicharico says, Republic would completely shut down the dollar trade if federal officials ever showed it hard evidence that its client banks in Russia are corrupt. "Believe me, I wish they would," he says. "But you have a large faction of the U.S. government that thinks it's great! You have some of the law-enforcement people who are negative on it. So you have a dual thing."

Many law-enforcement officials say they are not surprised Republic seems to be involved in such a controversial banking practice. "Republic has had a checkered past," says the New York State Banking Department source. "They've been a subject of suspicion over the years. . . . People

crime, another vigorously defended Republic, saying it does a tremendous amount of due diligence to make sure the Russian banks are legitimately operated.

"And that in itself is a big laugh," says the participant. "There is no possible way for anybody to conduct due diligence on a Russian bank. There were people there from the Fed who have no common sense at all."

The dissent reaches all the way into the Comptroller of the Currency's office. When one senior official there was asked about Republic's dollar trade, he replied, "What I understand is that they are aiding in organized-crime activities out of the former Soviet Union through their so-called correspondent bank relationships."

Indeed, New York has learned that an interagency federal task force on economic crime made a preliminary finding that Republic's dollar trade with Russia is consistent with money laundering, according to the Comptroller of the Currency source and another investigator with knowledge of Republic's activities. Drafts of working papers prepared by task-force analysts stated this finding, but the charges were "tempered substantially" in the final drafts that go to senior policy-makers, says the official.

New York: "Have you gotten any word of working reports that have accused Republic of money laundering and working with Russian organized crime?"

Comptroller of the Currency official: "Not phrased that way. No."

New York: "How do they phrase it?"

Comptroller of the Currency official: "Well, what they do is, they indicate that

applying for branch or agency licenses." Because of strict state and federal licensing standards, only four Russian banks have applied for representative-office status in New York, which would allow them to do P.R. work but not operate as banks; other Russian banks backed off, after learning they would have to submit to a rigorous investigation by the state and the Fed's Board of Governors. "We have to be concerned about the competence of the people running the bank, their experience, their background," says McCormick. "And sometimes when we check that very briefly, the news is not good."

In 1992, Stolichny Bank, one of Russia's five largest private financial institutions and a major recipient of cash from Republic, met with state banking officials to inquire about a charter. After being discouraged, it never followed up with an application. Stolichny is identified in a classified CIA report as a front for organized crime; the respected Austrian newsweekly *Wirtschafts Woche* has cited police records that alleged Stolichny's owner, Alexander Smolensky, was an international drug dealer in the top echelon of the Russian Mafia. Two other allegedly mob-linked banks that buy cash



Barry Slotnick leaving meeting with Brooklyn D.A. Charles Hynes (above); Slotnick with client Vyacheslav Ivanov (below).





The Fifth Avenue headquarters of the Republic National Bank of New York, Republic Bank owner Edmond Safra (opposite).

have sort of grinned when they heard Republic's name linked to mobbed-up banks in Russia."

Proclaimed by *Institutional Investor* to be "perhaps the most successful banking entrepreneur of the postwar era," Republic's owner, the 63-year old Edmond Safra, has built up a \$50 billion global empire while amassing a personal fortune exceeding \$2 billion. A Lebanese-born Orthodox

Jew descended from generations of Syrian traders, Safra was also a financial prodigy. By the age of 21 he had founded Banco Safra in Brazil, which became a magnet for Jewish-flight capital from the volatile Middle East and later South America. In 1966, he founded Republic National Bank in New York with a scant \$11 million in capital and a single branch in a Manhattan brownstone. Republic quickly became known on the street as a bank that would send an armored car to pick up large sums from its more secretive customers—no questions asked. The bank grew rapidly and is now the twentieth largest in the U.S., with assets of \$42 billion and more than 70 branches in New York, California, and Florida. An arm of Safra's Geneva-based Trade Development Bank (TDB), Republic had a net income for the nine months ending September 30, 1995, of \$193.8 million.

Safra specializes in niches that most other banks eschew, such as trading gold and banknotes. Though its commission on banknote sales is not publicly divulged, "it's always profitable," Safra once told *Institutional Investor*. According to Charles Peabody, a bank analyst at UBS Securities, "it's been increasingly significant" to Republic's revenue stream. "It's a volume business, and it ties into the relationships they have with the central banks of the world... and I think Republic does

tion League. Though Safra was stung by the accusations and character assassination, they helped inoculate his bank against subsequent money-laundering allegations that later emanated from legitimate law-enforcement inquiries, as well as scare away reporters.

Around the same time American Express was disseminating these malicious falsehoods, the DEA, Customs, and the Swiss police were investigating Safra's banks in Switzerland and New York for laundering Colombian and Turkish drug money. "I can say on the record that the sense I got from the agent with respect to Republic was that they were concerned about its activities," says William von Raab, the U.S. commissioner of Customs from 1981 to 1989. (Despite by the banking industry for his bluntness, von Raab had accused bankers at a 1982 conference in Miami of knowingly washing cartel drug money. "I am ashamed of all of you. You and your banks are engaging in sleaze," he shouted. A few years later, the crusading von Raab helped draft America's first money-laundering law.)

A bizarre event had led investigators to Republic. On Thanksgiving Day, 1987, two Armenian brothers arranged to fly to Zurich on KLM out of L.A., after checking their baggage through to Zurich on Pan Am. "The Pan Am people were panicky about a bomb," Greg Passic, then a DEA supervisor and now with FINCEN, told *New York*. "The bomb squad put the suitcases in one of those blast containers, and exploded them, and \$2.2 million went flying out the top of the thing."

The suitcases were addressed to the Magharian brothers, big-time currency traders. They had been depositing drug money into Shakarchi Trading Company of Zurich, which allegedly wired it as well as the funds of many other drug dealers into

"The Pan Am people were panicky about a bomb," says a U.S. Treasury official. "The bomb squad put the suitcases in one of those blast containers, and exploded them, and \$2.2 million went flying out the top of the thing."

have good relationships with the central banks of the world, probably built up through their gold-trading operation."

In the mid-eighties, Safra became the victim of a smear campaign orchestrated by American Express, which had bought Republic's Swiss parent, TDB, for \$520 million in 1983. (Safra regained control of TDB five years later.) American Express hired a convicted felon to spread false stories in the international press depicting Safra as an unscrupulous operator involved in everything from Iran-contra to money laundering. Safra successfully sued two newspapers in France for libel and eventually won a public apology from American Express and \$8 million, which went to four charities, including the International Red Cross and the Anti-Defama-

account number 606347712 at Republic. According to *Newsday*, the account was "the junction of two major narcotics-money-laundering investigations spanning four continents." Customs agents were convinced that Republic was complicit. "The agents were really, really down on Republic," a top-level Customs source says. "I think they just felt it was a rotten bank."

A classified DEA investigative report written by a field agent in Bern, Switzerland, and approved by the DEA's Passic, dated January 16, 1988, described the link between Shakarchi, Safra, and Republic: "Shakarchi Trading Company of Zurich, Switzerland, operates as a currency exchange company and is utilized by some of the world's largest trafficking organizations to launder the proceeds of their drug-traf-

ficking activities. Its director, Mohammed Shakarchi, has been closely associated with the heads of these criminal organizations and assists those criminal organizations."

"Shakarchi Trading maintains accounts at the Republic National Bank of New York, a bank which has surfaced in several previous money laundering investigations."

"While he was alive, Mahomoud Shakarchi (Mohammed's father) maintained a close relationship with Edmond Safra, owner of the Safra Bank and founder of the Trade Development Bank as well as the owner of approximately 38 percent of the stock in Republic National Bank of New York. All of those banks surfaced in Mahomoud Shakarchi's alleged drug laundering activities."

In March 1989, the Magharians were indicted in Los Angeles for money laundering; two years later, Shakarchi's records were subpoenaed by Swiss and American police, who also confiscated Shakarchi's account at Republic, through which more than \$800 million had passed over a five-year period. Neither Republic nor Safra nor Shakarchi was indicted, though Shakarchi later told Israeli journalist Rachel Ehrenfeld that he was convinced that the DEA was going after him to get him to flip against Safra.

The case against Shakarchi was quietly dropped in 1990, after the U.S. Attorney for the Eastern District concluded that there wasn't enough evidence to prove the money in the Republic account was drug proceeds. Robert Cozzolina, deputy special agent in charge of the U.S. Customs Service in Manhattan, told *New York*. Ehrenfeld, who investigated the case, alleged in her book *Evil Money* (HarperBusiness, 1992) that a corrupt U.S. government official purposely put errors in the subpoena so Shakarchi's attorneys could easily quash it and stop the investigation. To this day,

you know, it kinda raised our eyebrows.

"One of the things they did that we were unaware of—they are one of the largest vendors of banknotes in the world. They actually buy and sell dollars. And you know, we were totally ignorant about the whole process, and when we heard that a courier was flying out with \$25 mil in an airplane, you know, we kind of freaked out. When we sat down and saw that a lot of the business that they did was in conjunction with the Fed, and it was part of the legal sales and purchase of U.S. dollars, they explained, at least to my satisfaction, that they're trying their damndest to keep the dope money out of their bank."

Others are less charitable. Buddy Parker, an assistant U.S. Attorney in Atlanta who has prosecuted major laundering cases, says: "Well, let's say Republic always had some very interesting customers who find the government looking at them, more so than maybe other banks."

"I know that a number of customers of Republic Bank have been targets, some of which have been prosecuted, some of which haven't... Well, they seem to have more than their lion's share of these kinds of accounts. And these kinds of accounts, if you look at the way their activity has been conducted, would say, 'You know, gee, this stuff stinks. This smells. I've got to be suspicious about who this account holder is. I need to find out a little bit more.'"

As for Republic's dollar trade with mobbed-up banks, von Raab says with characteristic bluntness, "That's the smell that was always coming off Republic."

"Speaking as someone who has been a law-enforcement person my entire life," says the state-banking-department source, "it may be overly simplistic, but I'll put it like this: If you identify bad guys, and you're sending money to bad guys, I mean, to me that's not good!"

Passic says he believes Shakarchi Trading was willingly doing business with drug traffickers. Customs agents who investigated Safra said they didn't want to talk about him because of his power. "If you go after somebody like Safra, you had better dot every i and cross every t," says one of the Customs agents who worked the Shakarchi case.

Passic, who says he "investigated the hell out of Republic," paid the bank a backhanded compliment, saying it used more due diligence than he had initially thought. "When we went up and talked to them and saw the programs they had in place, actually, we were surprised. Because if you look at the activity that the bank had through various corners of the world with these traffickers' accounts,

COMBATING MONEY LAUNDERING may be a top priority of the Clinton administration, but it's virtually impossible to stop. There are about 700,000 wire transfers a day, totaling \$2 trillion. Some \$300 million of that—less than one sixtieth of one percent—is laundered funds hidden by the huge volume of legitimate transfers, says a September 1995 report by the Office of Technology Assessment. The report concludes that there is no existing technology capable of identifying all but the most obvious trade anomalies. "There is no way you can program the system to say, 'I want you out of these 700,000 transfers to look for [dirty] banks,'" says Rayburn

Hesse, a State Department senior policy adviser who chairs a federal task force on money laundering. "The result is that we have an international banking system that knows no horizons. It operates around the clock. Our laws, however, know horizons called national boundaries."

The Treasury Department has started a program called Operation Outreach to recruit banks to help stop money laundering. "All of the major banks in New York were receiving drug monies and still are today. Our prior strategy was to try to get evidence on them and see if we could jam them up," says Passic, the former DEA official who runs the program. "Sometimes we found out there were just very minor people in the bank that were involved, that the upper management really was not involved, as we initially thought. So what we've been trying to do lately is work with them, and see if we can encourage them to develop patterns and profiles on accounts that they have, and basically close the accounts down [of money launderers] and chase them out."

Republic is on the board of Operation Outreach, and its cooperation has been laudable, says Passic. But well-informed sources say Republic pressed law enforcement for documentation about mob links to Russian banks only after being contacted by *New York* late last year.

No one in government with even rudimentary knowledge about Russian organized crime doubts that it has penetrated the international banking system. Many say that selling dollars to mobbed-up Russian banks is morally indefensible, regardless of whether the trade is sanctioned by the Federal Reserve. And if the dollars are bought with wired funds derived from asset-stripping, narcotics, stolen U.S. aid, or the black-market sale of arms or

