Chapter 1

The Russian Mafia

Illegal Russian wealth has been transferred out of the country since Communism gave way to capitalism, and Communist officials gave way to gangsters and oligarchs. The laundering of these funds has destabilized parts of the world's market system.

PERIODS OF SHARP POLITICAL CHANGE and unpredictability stimulate criminal activity. Those who possess wealth may feel insecure about devices to move it abroad away from the gaze of the authorities. Those who want to increase their wealth and lack scruple will exploit the insecurity experienced by government, police and regulatory officials to set up laundering and fraudulent schemes to service the wealthy and fleece the poor. Schemes set up by Russian mafia and their allies in conventional business to exploit political instability in Russia are described in the following three chapters.

In Chapter 1, criminal operations by Russian mafia spilled over into the international marketplace, causing havoc in Canadian and U.S. stock markets. In Chapter 2, a Wall Street bank teamed up with Russian bankers and mafia to undermine Russian tax and regulatory officials. This unholy liaison provided the laundering machinery for the washing of large amounts of the proceeds of crime outside Russia. In Chapter 3, Russian arms and diamonds trading operations in Africa were disguised using webs of offshore companies. In each episode, Russian criminality, with international connivance, undermined Western organizations and commercial trust and security.

Political Change and the Growth of a Mafia State

Criminal gangs had limited opportunities under Communism where the Party managed corruption for its own ends. But with the Communist Party

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ousted, the mafia gangs or "Thieves in Law" (*Vori v Zakonye*) were allowed to flourish. These descendants of seventeenth-century highwaymen and Cossack robbers had their own elaborate honor codes and intricate networks of social and family connections. These links enabled mafia to run extortion operations, smuggle contraband goods and currency into and out of the former Soviet Union, and run limited drug operations.

Political change, and the ensuing chaos, at the end of the 1980s and early 1990s enabled mafia, and their allies in the financial and newly-created business areas to lift their ambitions. People with the capacity to apply financial techniques linked up with the mafia and they helped gangs participate in the mass privatization schemes of 1992–1994, pressuring those holding privatization vouchers to surrender them for below-market prices. Mafia also set up international companies smuggling arms and even human body parts.

In one particularly audacious move, representatives of mafia linked up with apparently respectable bankers to penetrate the Central Bank of Russia and engineered the alleged theft of a $4.8 billion loan made by the International Monetary Fund to Russia. Insiders in the Central Bank of Russia diverted these funds through a web of offshore companies, including some in the British island dependency of Jersey. The money was then re-routed back to a group of wealthy Russian families in Moscow.

Financial chaos bred unlicensed greed. That in turn bred violence. Between mid-1991 and 1995, the Association of Russian Bankers reported that there were 83 armed attempts on the lives of high-ranking bank officials; in 1994, 50 bankers were murdered in Moscow alone. The head of one large bank retained a private security force of over 2,500 heavily armed men who had their own training school and firing range!

Enter Semion Mogilevitch

The Russian gang leader who has become an icon for Russian organized crime is Semion Mogilevitch. This senior member of the Moscow-based Solntsevo crime brigada or gang has subsequently been called "The world's most dangerous gangster." According to Frederico Varese, in his book, *The Russian Mafia*, the Solntsevo brigada is the largest and most powerful of the Moscow brigady. Named after the Moscow suburb from which it originated, the Solntsevo is an umbrella organization of mafia crews, probably twelve, active in different countries. Mogilevitch was the representative in Hungary. The proceeds of activities of each country are merged in a central pot, which is managed by several banks. In Moscow, the Solntsevo was involved in protection in sectors including drugs, prostitution, retail, and oil and gas. Mark Galeotti, an academic and the director of the Organized Russian and Eurasian Crime Research Unit at Keele University in the United Kingdom, says, "Mogilevitch is linked with the Solntsevo, which is the most international and most entrepreneurial of all the Russian criminal networks. Solntsevo represented his best client in business terms."

Mogilevitch has been involved in the Eastern European vice industry, liquor smuggling, arms manufacturing and trading and financial scams. At one time, some of Mogilevitch's money went through Benex and the Bank of New York. Benex was the secret company used by rogue traders within the Bank of New York to transmit money out of Russia. (See Chapter 2 for connections between Benex and the Bank of New York.) When the Federal Bureau of Investigation raided Benex's London offices, they found paperwork for at least nine transactions undertaken by Mogilevitch's Canadian company, YBM-Magnex. The FBI subsequently put Mogilevitch on its most wanted list, accusing him of racketeering, securities fraud, wire fraud, mail fraud and money laundering.

The short and brutal story of Mogilevitch's YBM-Magnex company is told later in this chapter. There were also allegations that Mogilevitch gave Natasha Kagalovsky, a Bank of New York official, wire transfer instructions to move funds from the Bank of New York through Brazilian banks to offshore companies for the Cali drugs cartel. Kagalovsky has never been charged with any wrongdoing.

Semion Mogilevitch was born to a Jewish family in Kiev in the Ukraine in June 1946. His mother was a podiatrist and his father was the manager of a large state-owned printing company. He studied economics at Lvov University, gaining a qualification that would later earn him the nickname of the "Brainy Don." Detail is thin on his early years, but he is said to have acquired early experience of business manning a fruit stand on the streets of Moscow.

Russian authorities first encountered Mogilevitch while investigating counterfeiting in the 1970s. He was convicted of illegal currency speculation in the Ukraine and spent eighteen months in prison. A few years later, he was again arrested for dealing currency on the black market and received a four-year prison term. Black money was already his medium.

Mogilevitch made much of his early "seed capital" by conning Jews who were fleeing Russian anti-Semitism in the 1980s into selling him at bargain prices their Russian currency, antiques, and art. He led them to believe that he would re-sell the items on the open market, get a full price, and send on the proceeds to the original owners in Israel or the United States in hard currency. But Mogilevitch simply kept the proceeds and so became a wealthy man.

Gangland wars in Russia in 1990—rather than anti-Semitism—were Mogilevitch's prompt to take up his inalienable right, determined by his religion, to Israeli citizenship. According to an Israeli intelligence report published in the late 1990s, Mogilevitch regarded Israel as a place to which he could move without restriction. The report said that he succeeded in building a bridgehead in Israel and took advantage of the fact that his new citizenship allowed him to travel freely in and out of the country. He was also said to have developed significant and influential business and political ties there. He made contacts with Russian and Israeli criminals and maintained control of several businesses.

Mogilevitch became a player in Israel's poorly regulated financial system. The intelligence report mentioned above claims that his bank accounts in the country date back to 1991. An Israeli bank with branches in Moscow, Cyprus, and Tel Aviv was allegedly owned by Mogilevitch, who was reported to be laundering money for Columbian and Russian organized crime groups.

The roaming Mafioso married a Hungarian in 1991 and moved on to Hungary. Hungary was a congenial environment for Russian émigrés, with its thriving black market, relatively advanced entrepreneurial economy (for an Eastern European country at that time), and little financial or even criminal authority. Mogilevitch moved to Budapest, and in an interview with the Russian newspaper *Moskovsky Komsomolets* at the end of August 1999, explained an early project, which showed some semblance of business enterprise. He said, "There was a factory in Hungary then which manufactured some sweet soft drink which ended in the magic word, 'Cola.' I bought a truckload at 30 cents a liter and sent it to Russia. In

Moscow, it was sold at $1.65 a liter. A single truckload brought $12,000 profit. I sent many trucks to Moscow."

Other commodities were also available cheaply in Hungary that Mogilevitch could exploit for profit. One of those was women. He bought the Black and White chain of strip clubs in Prague, Budapest, Riga, and Kiev. German and Russian women worked in these areas, using illegal passports provided by Mogilevitch. It is widely reported that other Moscow crime groups joined with Mogilevitch and his Russian partner, Monya Elson, in the prostitution business. One of these was the brigada founded by Vyacheslav Ivankov, who was known as Yaponchik, or the "Little Japanese," because of his prominent Asian features.

Nightclubs and strip joints offered Mogilevitch more than a supply of women, however. Catering operations, in general, can be used to serve the money launderers' ends in a number of ways. First, dirty cash can be used to pay wholesalers for the commodities consumed at the clubs. Secondly, they provide useful covers to explain false invoices or large cash consignments as tax, and police authorities find it very hard to measure the amount of alcohol, food, or cash that comes in and goes out of these places.

The Black and White club in Budapest (since closed) is said to have become the hub of Mogilevitch's worldwide operations. Using cash flow from the strip chain, he acquired a casino in Moscow and more nightclubs in Eastern Europe. Mogilevitch had quickly become a major tycoon in Eastern Europe's sex industry.

Rising prestige and power made Mogilevitch a figure of notoriety, attracting attention from other organized crime groups such as the Japanese Yakuza and the Italian Camorra, one of the leading Mafia families. Mogilevitch provided the Camorra with synthetic narcotics along with expert money laundering services to wash profits. Camorra members came to the Czech Republic and Camorra's leader Salvatore DeFalco teamed up with Mogilevitch in trading weapons.

Narcotics profits fuelled Mogilevitch's ambition and he acquired a bankrupt airline in the former Soviet Union Republic of Georgia, allegedly to ship heroin out of the Golden Triangle—a vast area bordering Thailand, Burma, and Laos where poppies are cultivated for opium production—into Europe. An Israeli intelligence report says some of the drugs were to be smuggled into the United Kingdom by sea. Cocaine and heroin were also smuggled into Russia from the United States and Canada. The profits are believed to have been introduced into British banks before being transferred abroad.

His business grew rapidly in the early 1990s. The many-headed hydra of the Mogilevitch corporate empire was run by his company, Arigon, domiciled in the secretive Channel Islands, and whose seven investors each held approximately 14 percent of the stock. The next company down the line from Arigon was Arbat International, a petroleum import/export company of which Mogilevitch owned 50 percent. Arbat was domiciled in Aldeney, one of the smallest of the Channel Islands. His friend Vyacheslav Ivankov held a 25 percent stake in the company. Ivankov is known to have set up several international companies and bought others. The other partners in Arbat were Solntsevo partners Sergei Mikhailov and Viktor Averin.

The narcotics income that flowed round the corporate empire needed to find a home. So in 1993 Mogilevitch underwrote a massive art fraud, reaching an agreement with the leaders of the Solntsevo crime family to invest huge sums in a joint venture aimed at acquiring a jewelry business in Moscow and Budapest. One company would serve as a front for acquiring jewelry, antiques, and art stolen by members of the Solntsevo organized gang from churches and museums in Russia, including the Hermitage in St. Petersburg. They also set up a large jewelry factory for fabricating Fabergé eggs, some of which were sold at auction as the genuine article.

The black money was invested in commodities, including alcohol, which were smuggled around Eastern Europe. The only information about the operation comes from the authorities who seized a consignment of 643,000 gallons of vodka out of Hungary. Mogilevitch also invested in arms trading. In the mid-1990s, he made a string of acquisitions in this sector. This diversification reflected both his growing power-base in Hungary's political establishment and the recognition that the global arms market was growing rapidly and was largely unregulated.

A giant magnet manufacturer in Budapest, co-owned with Sergei Mikhailov, was the first acquisition. Then his company Arigon bought 95 percent of Army Co-op, which owned a mortar and anti-aircraft gun factory. A license permitting him to trade in weapons through Army Co-op and with other arms companies was granted to Mogilevitch in 1994 and a

Mogilevitch company participated in at least one legitimate arms exhibition in the United States, where mortars modified by Israel were exhibited.

Mogilevitch built up sufficient credibility to persuade Banque Francaise de l'Orient to extend him a loan of $3.8 million against Balchug, a company he controlled, which manufactured and sold office furniture. This money was used to buy Digep General Machine Works, an artillery, shell and mortar, and fire equipment producer.

The Mogilevitch criminal empire had largely thrived in the domestic Hungarian and Eastern European markets he knew so well. But his challenge in 1993 was to break out of Europe and go for the big time in North America. If he could break in to the United States, that black European empire would quickly be dwarfed by much larger American ventures.

The route into the United States took two tracks. The first involved the establishment of a company in Pennsylvania, where Mogilevitch could invest his black money. The second led to the creation of a public company in which Mogilevitch could invest his money on behalf of some straw shareholders. This collapsed in a heap, leaving a host of shareholders out of pocket and regulators in Canada, the United States, and the United Kingdom deeply embarrassed. It also shook the international accountancy firm Deloitte & Touche, whose credibility would be called into question as a result.

In the course of a series of interviews in late 1999, Yosif Aronovizh Roizis, a member of the Russian mafia who cooperated with American and other Western authorities, gave some revealing insights into Mogilevitch. Roizis told the authorities in November 1999 that Mogilevitch was described to him as one of the kingpins of the Russian mafia. Roizis helped Mogilevitch buy a large quantity of Italian furniture for use in his chain of bar rooms and nightclubs in Czechoslovakia. Roizis met many Russian criminals working for Mogilevitch and says that at Mogilevitch's 46th birthday party on July 30, 1992, "I was introduced to many Russian criminals visiting him. 70 percent of them are by now dead, the remaining 30 percent are the present leaders of Russian organized crime around the world."

Many meetings took place in Budapest, attended by several Russian criminals who were operating in various European countries, over the two weeks immediately before and after the birthday party, to organize laundering the proceeds of crimes, which had been carried out in Germany, Poland, Hungary, Russia, and other European countries. Roizis recalled, "They decided, among other things, to buy an arms manufacturing company in Hungary and they actually did so."

Mogilevitch laundered proceeds from crimes he had committed by purchasing large numbers of buildings, bars, and restaurants in many Eastern European countries, says Roizis. He refers specifically to property purchases in Bulgaria's thermal resort of Carlovyvari and in Prague. Property was also purchased in Austria, Germany, Hungary and Great Britain.

Roizis referred to a business relationship Mogilevitch had with a mysterious woman called Alla, who "had control of the money at the Central Bank in Moscow." He said that this allowed him to borrow millions of dollars to use for fictitious business transactions. Roizis said he met the woman at Mogilevitch's house in Budapest, where she was accompanied by her husband, a former general of the KGB (the intelligence and internal security agency of the former Soviet Union).

Roizis gave another interview to the authorities the following month where he described the money laundering scheme set up by Mogilevitch. He said, "Mogilevitch set up offshore money laundering schemes wherever he could." Roizis said he (Mogilevitch) would have money transmitted to the Channel Islands to purchase goods and legitimize the monies. Roizis recalled, "Everything goes through the Channel Islands, where one can benefit from particular financial facilities and conditions."

Roizis recalled attending a meeting with many members of the Russian Mafia where they decided how they would divide illicit monies. "Mogilevitch would receive travel bags full of money every day, forwarded by air, railways, or carried by trucks. Seven accountants were participating in that meeting and counted the money. I saw heaps of banknotes with my own eyes. There was a separate room inside the office and this money would then be funneled into various channels. All this was achieved through the Central Bank of Russia because Mogilevitch had a person he trusted, a woman, in this bank to whom he would give some of the money. She was one of the senior officers at the Central Bank of Russia." Roizis said, "The scheme would operate following precise procedures, and it is still the same even today, this system is still operating in this way and the person I'm talking about is still at the Central Bank." Roizis is, of course, referring to the time of the interview, in 1999.

Roizis also told the authorities about money laundering schemes operated by some Mafia groups through Benex, the company used to launder funds through the Bank of New York—see Chapter 2. He said, "The procedure followed by Benex is the one devised by Mogilevitch in the course of the 1992 meeting. He had some financial advisors he had brought with him from Moscow and they would suggest to him what to do. Mogilevitch started to operate with England. The people working for Benex came from England and now they are fleeing back there. I heard that a friend of Mogilevitch's second wife is a finance expert working for the Bank of New York and for Mogilevitch." It must be assumed that Roizis is referring here to Lucy Edwards, the Bank of New York employee who set up Benex with her husband Peter Berlin (see Chapter 2).

Roizis also described another laundering operation involving Russian organized criminals Cyril Kouznetsov and Boris Rizner. He said that Kouznetsov and Rizner were high-powered academics who lost their jobs after the fall of the Soviet Union. Kouznetsov was a professor and computer expert while Rizner was, according to Roizis, the third most important nuclear physicist in the Soviet Union. They began their business careers by obtaining loans legally to finance trade. Their initial business involved buying pantyhose in Bologna, Italy and selling it through stalls or kiosks dotted round Russian towns.

Kouznetsov and Rizner later teamed up with the mafia and they spent several million dollars of dirty money buying consignments of pantyhose. Roizis, in his interview with the authorities, showed how it worked. He said, "Two truckloads of pantyhose cost approximately $2 million. A truckload generally consists of about 1,450 boxes, each containing two packages of pantyhose. There are 60 to 120 pairs of pantyhose in each box. The average cost of each item is 5,000 liras, sometimes slightly more or a little less, it varies according to color . . . The money used was money that had to be laundered. I don't know how these funds would get to Italy, certainly through some banks (sic) like Benex. I witnessed the whole pantyhose operation carried out to launder money and in nine months their turnover in Italy rose to $18–$19 million."

Roizis says the two men acquired twelve stalls selling pantyhose and were "offered Mafia protection to run the kiosks business" but had to pay the Koptovo Mafia organization $1,500 a month for their protection. Every month at a fixed date, if Rizner and Kouznetsov did not pay the protection money, a "meter would be started," that is, the money owed would increase by 100 percent per day. For this reason everybody was ready to pay at the pre-fixed deadline. They scared Kouznetsov to death. He was beaten up, together with Rizner. The pantyhose operation fell apart as its academic instigators were forced to pull out.

The Israeli Bridge

The Russian mafia, not to mention the Russian business community more generally, has a high proportion of Jewish members. This may be explained by that religious group's marginal place in Russian society. During the period of the Tsars, the Jews experienced much anti-Semitism, ill treatment, and discrimination. To survive, many had to develop forms of marginal existence, struggling to make a living while evading discriminatory laws. Some were forced to exploit the system and became tough operators. Others resorted to mysticism and their religious faith that provided another gentler world. Many lived on the margins of society.

The dawning of capitalism in the late 1980s under Mikhail Gorbachev presented an opportunity for Russian Jewish businessmen to come in from the margins and to make money in the newly legitimized Russian capitalist economy. The oligarchs, who themselves are exclusively Jewish, grasped the opportunity of making a great amount of money in the privatization and other parts of the newly liberalized economy.

Jews brought up under a cruel mix of Communism and anti-Semitism could have little respect for Soviet law (though this was not, of course, limited to Jews), and that disdain endured through the Boris Yeltsin and Vladimir Putin eras. There were even Jews who emerged as leaders in the Moscow brigady or criminal gangs. Russian politicians later sought to win political advantage by tapping into historic Russian anti-semitism and referring to the religious origins of newly-enriched oligarchs and mafia members.

The creation of the Jewish state of Israel in 1948 presented Russian Jewish businessmen and Mafiosi with a second country in which they were entitled to live, purely by virtue of their religion. Israel welcomed the Russians both because they were Jews (one of the country's missions is to be a home for Jews) and because they brought cash. Israel had sought to develop an economy that matched that of the West, rather than its poorer Arab neighbors, so Russian wealth was accepted without care for its provenance. Israel's political insecurity and its lack of international friends outside the United States have exacerbated its dependence on dubious sources of funds. Black money similarly was sought by South Africa and Rhodesia (now Zimbabwe) when they were subjected to international boycotts.

Israel's desperation for foreign exchange means Russian Mafiosi have been allowed to integrate themselves into the country's political and financial system. It also means Russian Mafiosi have been given shelter and a great deal of security, which they would not have experienced either in Russia or in Western Europe. Meyer Lansky, the Jewish American Mafioso, for example, fled there to escape American tax and criminal authorities. Lansky is the exception to the general rule as he was extradited to the United States. But many Russians with criminal records have used their wealth to promote themselves into the top echelons of Israel's political parties.

One consequence of the country's receptivity to Russian money is a reputation for a relaxed stance on money laundering. Israel has not fully implemented stringent anti–money laundering rules and the Financial Action Task Force (FATF) has blacklisted the country.

The amount of black money swilling around the Israeli economy is estimated to range between $4 and $20 billion according to Israeli police officials who say Russian mobsters have bought factories, insurance companies, and a bank. They have attempted to buy a newspaper and even a kosher wine company. The risk that unsavory elements could secure control of a part of the military complex remains a concern of law enforcement officials.

As much as 10 percent of the newly emigrated Russian population of Israel is allegedly criminal, and Israeli prostitution and some elements in its powerful diamond industry are now in the hands of Russian operators. Jonathan Winer, a Washington lawyer and the former deputy assistant secretary of state for international law enforcement under President Clinton, has claimed, "There is not a major Russian organized crime figure that we are tracking who does not carry an Israeli passport." The problem has become so great that Israel's former chief of police intelligence, Hezi Leder, prepared a report on Russian organized crime in the country for the Israeli government that concluded that Russian organized groups had become a strategic threat. An intra-agency intelligence committee was set up by the Israelis as a result of the report, but it appeared powerless to act.

The financial system's weak money laundering controls explain some highly unusual cash payments allegedly made into Israeli banks. Thus no less an authority than the former Israeli minister of National Security, Moshe Shahal, told a gathering of intelligence heads in 1996 that a corrupt deputy ex-prime minister of the Ukraine smuggled $300 million of illicit cash into Israel in several suitcases and deposited it in an Israeli bank. Robert Friedman, writing in his book, *The Red Mafiya,* quotes an American underworld crime figure saying, "I've watched Russian mobsters exchange suitcases full of cash out in the open at the Dan Hotel's swimming pool in Tel Aviv."

The infiltration of the financial system was demonstrated at the trial of Gregory Lerner, a Russian mobster living in Israel who travels the globe in part to do business and in part to escape his victims and those pursuing him. Lerner, using the Israeli name of Zvi Ben-Ari, was arrested at Tel Aviv airport in May 1997 as he was about to board a flight to the United States. He was charged with attempted bribery, defrauding four Russian banks of $106 million using a pyramid scheme, and attempting to set up a bank in Israel to launder money for the Russian mafia. Lerner pleaded guilty to bank fraud, forgery, and bribing government officials and was sentenced to eight years in jail. He served five years before his release in February 2003.

Lerner's involvement with the Russian mafia dates back to the 1980s, when he was convicted in Russia for major fraud. He later came under suspicion during the investigation of a $20 million larceny case. In 1994, the manager of one of the Russian banks in which Lerner was involved was killed in a mysterious explosion while he was riding to Moscow airport on his way to Israel, where he was due to inform Israeli police of Ben-Ari's activities.

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Ben-Ari was later arrested during a business trip to Switzerland and deported to Russia, where he managed to jump bail and return home to Israel.

There can be no more colorful mobster than Joseph Kobzon, who made his name in Russia as an immensely popular singer of patriotic ballads. Indeed, he was said to have brought Leonid Breznev to tears at public functions with his soulful renditions. But, according to the CIA, Kobzon supplemented his performing income with the proceeds of crime. The Americans described Kobzon as a spiritual leader of the Russian mafia in Moscow. It has been alleged that Kobzon brokered the sale of surface-to-air missiles to Iran, according to a U.S. federal wiretap affidavit.

When the U.S. State Department revoked Kobzon's American visa in June 1995, citing his links to the Russian mafia, Kobzon's need for an Israeli home was reinforced. Israel has come close to excluding him, but Kobzon managed to exert enough "protexia" (influence with powerful friends) to ensure his safe admission on every occasion.

Many Russian Jewish businessmen regard Israel as their bolthole when they find the heat uncomfortably strong in their native land. Equally, they regard North America as having streets paved with gold. Semion Mogilevitch had great plans for the launch of a company to raise money in Canada to fund his Eastern European business interests. The outcome would be rather less glittering than the initial golden promise.

The YBM-Magnex Bubble

Mogilevitch needed critical mass to break into North America and, in 1993, merged his two main operating companies with Magnex 2000, the Hungarian company that sold industrial magnets and military hardware, to achieve it. He refinanced the new venture by arranging for his Jersey-based company, Arigon, to send $30 million to his American company, YBM. The money was "smurfed" in the form of numerous wire transfers of funds, in chunks ranging between $10,000 and $1 million plus. This form of laundering, first encountered by New York police officers investigating a banking scam, involves breaking up large sums of money into amounts that are small enough to be deposited into the American banking system without arousing suspicion. Smurfing takes its name from a popular children's cartoon series about the adventures of a horde of tiny people known as smurfs. They take their orders from a benevolent father figure called Papa Smurf. Benevolence is far from the minds of the players in this particular activity.

Igor Fisherman, Mogilevitch's trusted childhood friend and adviser, was given the job of pulling the two companies together and making them a presence on the North American scene. Fisherman, now YBM-Magnex's chief operating officer, was a trained mathematician with a respectable pedigree, having once served as a consultant to Chase Manhattan Bank in New York City.

The two men plotted the financial path that would enable them to expand the company while enriching themselves and their own enterprise. They set their sights on a stock market listing and targeted the lightly regulated (at that time) financial markets of Canada, which were already notorious for scams perpetrated by bogus gold, precious metals, and oil prospecting companies.

The duo of Mogilevitch and Fisherman would be joined by a third scholar and financial whiz kid, Jacob Bogatin, a professor of physical metallurgy and Mogilevitch's long-time colleague from Saratov, near Kazakhstan. Bogatin had served on the boards of Mogilevitch's Arbat and Magnex companies in Budapest but had yet to cut his teeth in the West.

In 1995, Bogatin traveled to Northern Canada with the mission to turn Mogilevitch's financial interests into something that could be marketed to the investing public. He did extensive research into Canadian stock markets, before deciding on one of the country's less regulated exchanges, Alberta. The stocks listed there were mostly agricultural and the investors were rich but financially unsophisticated farmers. Alberta's regulators would not trouble to delve into the background to a new listing.

Bogatin obtained a listed company called Pratecs Technologies Inc. as a shell with nothing more than a name. The YBM shareholders register read like a role call of Mogilevitch's extended family. Mogilevitch, his ex-wife Tatiana, their daughter Mila, and Mogilevitch's former mistress, Galina Grigorieva, were among the major shareholders. Another shareholder was Mogilevitch's associate, Alexei Viktorovitch Alexandrov.

Alexandrov, a director of Arigon, was nicknamed "the plumber" for his deft handling of leaks and planting disinformation on behalf of Mogilevitch's organization. He was also Mogilevitch's contact with the Hungarian police and responsible for procuring Russian women for Mogilevitch's sex industry operations, which stretched across the width of Eastern Europe. Alexandrov was another smart operator, holding degrees in economics and engineering.

Shortly after the company was listed, the directors announced plans to issue ten million shares at twenty cents per share to enable Pratecs to acquire a string of off-shore companies owned by Mogilevitch. This was almost defeated when the British security services, which had been investigating Mogilevitch's empire for some three years, told the Alberta Stock Exchange, in advance of the listing, that YBM and Pratecs were not only controlled by Mogilevitch but that the probable intention of obtaining a Pratecs listing was to have a vehicle to launder dirty money, manipulate shares, and deceive legitimate investors. A British intelligence report describes the money as largely the proceeds of Russian organized crime in Eastern Europe from the Mogilevitch and Solntsevo organizations.

The Canadian authorities were shown some of the work undertaken by British police in an operation they called "Sword." Documents seized from the London offices of Arigon and Arigon's lawyer, who was arrested and interrogated, purported to show that the lawyer had used his client's accounts to launder more than $50 million in criminal proceeds on behalf of Mogilevitch. The funds, allegedly laundered through the Royal Bank of Scotland, were said to have originated from a variety of dubious sources in the former Soviet Union. The Alberta authorities suspended the listing of Pratecs but waited to be convinced by the outcome of the lawyer's trial in London to see if the sources of Mogilevitch's money were as "black" as the UK authorities claimed.

But the trial did not deliver the goods the British had hoped. The Russian government had refused to cooperate in providing evidence against the solicitor and the trial was abandoned. The Canadians gave the go-ahead to the Pratecs share issue, saying that without a criminal conviction, they could not accept the veracity of the police evidence.

In fact, the damage had already been done to the Mogilevitch empire, whose UK companies were closed down and whose Channel Islands–based assets, primarily Arigon itself, were frozen. Mogilevitch was banned from entering the United Kingdom and the Royal Bank of Scotland was subjected to a high-level internal enquiry by the UK Special Investigation

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Unit. The solicitor involved was disbarred although he has long denied any involvement in laundering Mogilevitch's money. Mogilevitch's own fortune was decreased by these events. Mogilevitch's associates were boiling in anger at a $3.5 million debt Mogilevitch owed them and plotted to have him killed at a party to be held at Mogilevitch's restaurant in Prague, U Holubu. Mogilevitch was warned and survived.

In July 1995, Bogatin arranged for Pratecs to acquire the Mogilevitch assets and it began trading on the Alberta stock exchange. The first stage of Mogilevitch's plan to acquire and build a financial asset in the West was completed. The authorities had not been a problem.

Pratecs was now on the move. A year later, in 1996, Mogilevitch was sufficiently confident to move Pratecs to the much larger Toronto stock exchange. Its name was changed to YBM-Magnex International. Reflecting its size and its founders' claim to respectability, they appointed the international auditing firm of Deloitte & Touche as its accountants. The firm was happy to take the Russian money, but it is not known how much due diligence they used to look into its sources. But there is one thing to be sure of—the responsible partner rues the day he first met up with Igor Fisherman, YBM's finance director.

The shareholders appeared to have taken the message that YBM was respectable and ignored concerns held by the British police, published in the form of obscure court reports in the United Kingdom, about the sources of the company's money. Instead, they saw a diverse industrial conglomerate with assets as far afield as Philadelphia and Budapest, and they were enthusiastic. The Exchange made it their favorite stock with a market capitalization approaching a billion Canadian dollars. This ensured its admission to the prestigious Toronto Stock Exchange 300 index. In another bid for respectability, Mogilevitch appointed David Peterson, the former premier of Ontario, to its board.

The British Metropolitan Police continued nagging away at Mogilevitch and his booming stock market company. They produced a report, written by detective John Wanless, which said that Mogilevitch was using the stock exchange listing primarily to legitimize the criminal organization by floating on the stock exchange a corporation that consists of UK and U.S. companies whose existing assets and stocks had been artificially inflated by the introduction of the proceeds of crime. Mogilevitch was said to be using

YBM to transfer funds between Britain, Hungary, the United States and Canada.

When doubts began to be expressed in 1997 about the company's financial practices, its auditors Deloitte & Touche came to its aid, saying that the company was sound. Investors' fears were temporarily allayed.

But law enforcement authorities on both sides of the Atlantic now started to act on their earlier warnings. Undercover surveillance of YBM's factory in Pennsylvania showed that it occupied no more than a small section of a former schoolroom and was not capable of supporting either the 165 employees or the $20 million in sales claimed in its glossy published report. The U.S. Attorney's Office in Philadelphia followed up the FBI investigation with its own and came to a similar conclusion. Similar surveillance of the firm's activities in Budapest revealed questionable activities. One auditor who visited the factory reported that armed guards were posted at the gates and cars with Russian license plates were stationed in the car park. There was a strong suspicion, he commented, that YBM-Magnex appeared to be in the business of making magnets for the defense industry.

The employees of Deloitte & Touche now tried desperately to reverse their earlier commendation of the company. In 1997 they reported that one or more illegal acts might have occurred which may have a material impact on YBM's 1997 financial statements. This referred to the inclusion of $15.7 million worth from the sale of magnets to the Middle East and North America, which later analysis had shown to be invented. The firm issued YBM-Magnex an ultimatum—hire an outside auditor to conduct a sweeping re-evaluation of the business or we resign. YBM refused and the auditors resigned. The firm's audit partner is reported to have been understandably extremely distressed following the affair.

YBM-Magnex did not have much longer to run. The firm's offices in Pennsylvania were raided in May 1998 by no less than five American law enforcement agencies, including the Federal Bureau of Investigation and the Drug Enforcement Administration. The authorities took no chances, salvaging virtually every piece of paper they could find in their bid to prove that YBM-Magnex was a money laundering machine. The stock was suspended as soon as word of the raid was passed to the Toronto Stock Exchange. It never resurfaced.

Information released by the investigators showed the company was little more than a hoax. Its advanced process to desulphurize oil, which accounted for 20 percent of its 1997 revenues, did not exist and, in September 1998, court documents filed in Alberta showed that $20 million in revenues was missing. After Mogilevitch's men quit, money was found to have passed through front companies and banks in Moscow, the Cayman Islands, Lithuania, Hungary, and a branch of Chemical Bank in Buffalo, New York, in the United States. Among a massive number of funds transfers in and out of YBM-Magnex, the FBI discovered that YBM had received $270,000 from Benex, the laundering scheme discussed in the following chapter.

The charges against the company—of mail fraud and of securities fraud—were anti-climatic, given the events that preceded them. In 1999, YBM-Magnex pleaded guilty and was fined $3 million, a laughably small sum in the light of the tens of millions of dollars that had been laundered through YBM-Magnex.

Deloitte would not be allowed to forget their involvement. In 1999, two of the YBM-Magnex shareholders sued them, amongst others. The suit alleged, "Deloitte breached its duty of care to the plaintiffs and the other class members, made negligent misrepresentations in connection with the issuance of its audit opinion in respect of YBM's financial statements for the year ended December 31, 1996 . . . Deloitte was negligent . . . in failing to identify and warn [about] irregularities relating to related party and other suspicious transactions in Eastern Europe."

Russian payments to YBM-Magnex made using the Benex system alerted police to Mogilevitch's sources of money, and these sources continue to be investigated. The Brainy Don's empire has yet to yield all its secrets. Benex sheltered inside the prestigious American bank, the Bank of New York. As the following chapter reveals, Semion Mogilevitch was far from alone in using that system to move his crooked money around the globe.

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