Chapter 2

BoNYGate

The tentacles of the Russian mafia spread globally. Their money went into laundering schemes in Italy, London, Lithuania, France, and many places we don't yet know. But the schemes started in New York, in one of America's most prestigious banks, the Bank of New York.

WE EXPECT OUR BLUE CHIP BANKS to deliver honest and reliable service. We expect them to handle our money with care, and to be scrupulous with their customers and their staff. So it comes as quite a shock to discover that money launderers exerted great influence over the Bank of New York (BoNY), one of America's leading banks, for the best part of the 1990s. BoNY's lack of oversight enabled Russian money to escape the net of revenue officials and local police, while the bank's managers allegedly made a turn on the process of capital flight. Worse than that, some of Russia's most heinous mob members were customers of a secret bank-within-a-bank nestling inside BoNY.

That is the conclusion of a number of legal documents that have been filed since two Russian bankers were charged with money laundering at the bank, and other offenses.

The following account reviews the allegations in three sets of court documents in particular. The first and largest was a civil complaint filed in the U.S. District Court, Southern District of New York by shareholders of The Bank of New York Company Inc. The second case was brought by a group of depositors of the Russian bank, Inkombank, against The Bank of New York Company Inc. Finally, there is a series of documents detailing the indictments produced by the government in the criminal case brought on October 5, 1999, against Lucy Edwards, Peter Berlin, Alexei Volkov, and Svetlana Kudryavtsev. Kudryavtsev worked in the Bank of New York's Eastern European division.

If the allegations in these documents prove to be true, BoNYGate is among the biggest single money laundering exercises in history. Despite the allegations, no action has been taken against the bank's chairman and former chief executive officer at the time the laundering was committed, Thomas Renyi, and the bank itself, flourishes. Renyi has admitted that there was a "lapse" of internal controls on the part of BoNY. Renyi made this admission when he gave evidence before the House Committee on Banking and Financial Services of the U.S. Congress investigating the BoNY case on September 22, 1999. Renyi has denied all allegations in both the BoNY shareholders and the Inkombank depositors complaint referred to above, and he has never been charged by authorities with any wrongdoing.

Lawyers acting for shareholders of the Bank of New York claim that BoNY's top management is culpable. They say BoNY received a percentage of the dirty money that was deposited with them by Russian tax evaders, on the assumption that tax evaders with something to hide would never complain to law enforcement authorities.

They allege that Renyi, "knew and assisted in the Bank's participation, with private banking leaders, in the implementation of these illegal tax evasion, money laundering, and capital flight schemes." It is stated elsewhere in the complaint that "Renyi actively conspired, directly participated in, and personally benefited from schemes to illegally divert and steal Russian assets." These allegations have never been tested in court but if true they would be extremely damaging as Renyi remains chairman of the company. Another defendant named in the civil complaint filed by Bank of New York shareholders was John Malone, the prominent chairman of Liberty Media and a member of the bank's board since 1986. He, too, has denied all allegations of wrong-doing.

The Bank of New York

The Bank of New York was probably the least likely place to expect such illegality. Its Number One Wall Street headquarters indicated blue blood and establishment. Its founder was Andrew Hamilton, a father of the U.S. Constitution. BoNY was the sixteenth largest bank in the world in the late 1980s and well respected for its integrity.

But the bank had hit hard times when the Russian bonanza beckoned. The value of its investments in real estate had collapsed and it needed new revenues. Enter here Bruce Rappaport. He was BoNY's largest shareholder and saw Russia's potential. Rappaport was a self-made American lawyer, who was in addition a linguist. He had also taken advantage of the land of opportunity. Born in Israel of Russian and Jewish parents, he had made a massive fortune financing oil and energy-related projects. He had been involved in a financially dubious Indonesian oil company and had worked with the Gulf Group, owned by the Gokal brothers. Abbas Gokal, one of the brothers, would later be entangled in the Bank of Credit and Commerce International (BCCI) laundering scandal and in due course received a fourteen-year prison sentence in the UK. Two banks in Antigua and Barbuda, purportedly controlled by Rappaport, were the subject of a suit filed in the Boston federal court by regulators seeking to retrieve $7 billion worth of drug money. The judge, citing lack of jurisdiction, dismissed the case and Rappaport denied wrongdoing.

Finally, Rappaport, through his friend William Casey, a former head of the Criminal Intelligence Agency (CIA), has had a long history of involvement with U.S. intelligence operations. Rappaport's bank, Inter-Maritime Bank (IMB), based in Geneva, directed the Bank of New York's expansion plans in Russia. Rappaport worked closely with BoNY's chairman at the time, J. Carter Bacot, to expand contacts in Russia and bring in Russian money. In fact, the two banks set up a joint entity, called IMB-BoNY, to forge links with Russia. Rappaport said in a statement following the Bank of New York exposé, "I know none of the individuals involved in this matter, and I certainly have no knowledge of whatever their business was about."

The architects of the scandal that enveloped Bank of New York worked much further down the bank`s food chain. They were a Russian husband and wife team, Lucy Edwards and Peter Berlin, who created a secret bank-within-a-bank in BoNY to facilitate the movement of the flight capital and illegal earnings of Russian politicians and leading Mafiosi. Their money and clients would later be traced to numerous crimes. Benex International, the company they created to make the criminal transfers, would become synonymous with Russian illegality.

Nick Kochan, *The Washing Machine,* Mason, OH: Thomson/South-Western, © 2005

Benex: Lucy Edwards and Peter Berlin

Lucy Edwards' name suggests little of her origins. She was born Ludmilla Pritzker in Leningrad, in the then Soviet Union. Today it is St. Petersburg, a major city on the River Volga. The "Edwards" part of her name comes from her unlikely marriage to a nineteen-year-old American merchant seaman Brad Edwards in 1977, a man she met casually at a club in her hometown. Shortly afterwards, the couple moved to Illinois where their daughter Amy was born. They then moved to Colorado where she worked as a bank teller and waitress. After the marriage fell apart in 1988, Lucy got a low-level job handling commercial accounts at BoNY.

Four years later, Edwards met a fellow Russian, Peter Berlin, and they married within a few months of their first meeting. Berlin was a scientist who had graduated from the Moscow Institute of Physics and Technology in 1978, with a degree in molecular chemical physics. But he had not pursued science, instead he had set up small import-export firms. He had left Russia in 1989 and started exporting electrical goods to Russia from the United States, but business was poor and by 1992 he was down on his luck.

Edwards' career, on the other hand, was thriving. Her energy had brought her to the attention of her boss at BoNY, Natasha Kagalovsky, with whom she traveled to Russia on several occasions. In 1994, she was promoted to loan officer. A year later, Edwards and Berlin hatched a scheme to make themselves rich. The scheme was designed to shift around the world Russian money.

Natasha Kagalovsky was married to Konstantin Kagalovsky, one of Russia's most influential financiers. This archetypal "New Russian" had started as an academic economist, and been recruited into the government as an adviser to Yegor Gaidar. Gaidar was an economist, who from November 1991 to January 1994 had played a leading role in the transformation of the Russian economy. Kagalovsky had also advised Boris Yeltsin, and used his public influence to win major positions in the banking and oil companies controlled by the oligarch, Mikhail Khodorkovsky. He held senior positions at Bank Menatep and Yukos.

Natasha Kagalovsky and Lucy Edwards visited Russia frequently, showing off BoNY's Micro/Ca$h system. This was a money transfer system, which allowed a customer to transfer money across BoNY's entire banking network. BoNY did not enquire who used Micro/Ca$h or where the money came from, but users were treated as customers of the bank. When they wanted to put the money into another bank, the BoNY name ensured it got sanctuary. Micro/Ca$h undoubtedly could be used properly. But there were those who saw its criminal possibilities.

Micro/Ca$h gave Edwards and Berlin the technology and the banking networks for launching a secret money transfer business. They gave this business the name Benex International. Now they needed a client and sources of funds. These came through Depositano Klearingovi Bank (DKB), a bank recruited by Edwards on one of her visits to Russia. DKB had many Russian clients with large quantities of funds to whom this secrecy appealed. In late 1995, Edwards suggested to Kagalovsky that her husband wanted to set up a finance company on behalf of DKB with an account at BoNY. Kagalovsky raised no objection although it was probably against BoNY's rules for a bank manager to have access to an account on behalf of a relative.

There was no shortage of clients for Benex, and they came from the highest and lowest echelons of Russian society. Tatyana Dyachenko, the daughter of former Russian President Boris Yeltsin, the former finance minister Alexander Livshits, oligarch Vladimir Potanin, and prominent Russian politician Anatoly Chubais were among them.

But so too was Semion Mogilevitch, the notorious Ukrainian gangster whose YBM-Magnex company was involved in market rigging in Canada. He made nine transactions through Benex accounts, as was revealed in Chapter 1. The Colombian Cali drugs cartel (see Chapter 7) also channeled money through Benex.

In February 1996, Peter Berlin set up an account at One Wall Street, BoNY's New York headquarters on behalf of Benex International; another, opened six months later, was on behalf of a related company, BECS. They had their offices on Queens Boulevard in Forest Hills, New York, and Edwards set up the Micro/Ca$h computer system there. Berlin appointed his Russian friend, Alexei Volkov, a director of Benex International, alongside himself. DKB now had access to one of the world's most advanced money transfer systems.

DKB expanded by taking over Bank Flamingo, a Russian commercial bank, and Berlin gave Flamingo a set of the Micro/Ca$h equipment. This time the equipment was put into Bank Flamingo's Moscow offices and

Berlin created a company called Lowland, based in New Jersey, to handle Flamingo's affairs. It is unclear to what extent BoNY's board was aware of the scale of funds movement and their sources and destinations.

Lucy Edwards was promoted to vice president in BoNY's Eastern European division in 1996, reporting to Kagalovsky. Edwards and Berlin moved to BoNY's London office with their two children but they made frequent visits to New York and Russia to build up the Benex client base. Benex boomed. The U.S. Government indictment in the criminal case against Berlin and the others alleges that between February 1996 and August 1999, more than $7 billion of funds originating primarily from Russia was deposited in, and transmitted through, the Benex, BECS, and Lowland accounts. It also alleges that approximately $4.9 billion was deposited in or transmitted through the Benex account at the Bank of New York. It further alleges that between December 1996 and August 1999, approximately $2 billion was deposited in or transmitted through the BECS account at the Bank of New York. Some $358 million went through Lowland.

The money they sent ranged from advance payments made by companies that vanished shortly after their registration to payments for exported goods, where the due amounts were wire-transferred directly to third-party beneficiaries in foreign countries, instead of being transferred back to Russia. The full gamut of fraudulently acquired and criminal money flowed down this pipeline.

No less than 87,000 separate transfers passed through Benex, BECS, and Lowland either on their way to or on their way back from Russia. Reports of transactions are said to fill entire rooms at the Federal Bureau of Investigation's building. Police authorities say that not all Benex dealings were criminal, although the majority were designed to assist the owner of the funds, at the very least, to avoid tax.

BoNY's tentacles spread much further than Benex. In fact, they percolated throughout the Russian banking system. The American bank, for example, forged links with a Moscow-based commercial bank called Inkombank, which had many rich Russian clients with money to hide in offshore hideaways, out of sight of Russian tax authorities. Natasha Kagalovsky and Vladimir Doudkin, Inkombank's vice chairman, joined in a common cause to allegedly provide what we would call today tax shelters.

The class action suits contend that they acted with the knowledge of high management. The clever schemes they created were dubbed *prokrutki*, or "spinning," on the basis that the schemes involved whirling millions of dollars of Russian money around the world's financial system so fast that nobody could catch it.

Prokrutki worked in the following way according to the allegations in the suit filed by BoNY shareholders and referred to above. "After a major 'investment' was placed by a Russian customer with Inkombank or one of its satellite offshore companies, BoNY would execute a series of electronic funds transfers (EFTs) from the Inkombank dollar account to specific offshore front companies and bank accounts. Usually several layers of these transfers were executed in succession, hence the name *prokrutki*. The ultimate goal of this spinning around was to obscure and disguise the true origin of the funds being moved through the BoNY accounts . . ." Offshore shell companies, sham loans, fake stock transactions, and contrived bankruptcies were allegedly used by Inkombank to disguise the fact that vast sums of black money were being spun through a sophisticated international washing cycle.

The lawsuit filed by the depositors of Inkombank against the Bank of New York Company Inc. describes the trail of money in detail. For example, Inkombank allegedly used a Cyprus-registered shell company under its control, Aspirations Holdings, to purchase 1,200 common registered shares in Inkombank with a face value of 1,200,000 rubles. At that time, the existing rate of exchange was 200 rubles to one dollar, but Aspirations paid four times the face value, namely $24,000. Inkombank then bought back its shares for $2,400,000, one hundred times the amount paid by Aspirations. The 1996 audit of Inkombank by the Central Bank of Russia showed that the "agreement" had no requisites such as the address or other personal details for Aspirations, and the signature of the purported "foreign shareholder" (Aspirations) was illegible. This transaction had thus purportedly allowed Inkombank to embezzle $2,376,000 of bank assets, which were then funneled through the Bank of New York's accounts with the Bank of New York's advance knowledge that the transaction was bogus.

Sham loans were alleged to be another effective way of muddying the money trail. The civil complaints allege that Inkombank principals employed this technique to move assets out of Russia and into their personal control. The basic format of these sham loan transactions is alleged to be as follows:

> Step One: Inkombank made a bogus United States dollar "loan" to Company A, which was secretly controlled by bank principals.
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> Step Two: Company A in turn "lent" or "invested" the proceeds in Company B, also secretly controlled by bank principals.
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> Step Three: When the original loan from the bank to Company A fell due, Company A defaulted.
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> Step Four: Rather than take a bad debt charge on its books for the original loan to Company A, Inkombank assigned the defaulted loan to Company C, also controlled by bank principals, in exchange for promissory notes of Company C. In this way, the loan was carried forward on the bank's records; in effect, it was "extended" rather than defaulted on.
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> Step Five: Company A dissolved. Ultimately, Company C also dissolved, when its promissory notes fell due. Proceeds of the "loan" remained in Company B, or were transferred through additional shell companies controlled by the bank's principals.

One of the complaints recounts a set of transactions dated December 15, 1995, as an example of this technique. Inkombank allegedly lent $35 million to three companies called Neftegaz, First Moscow, and Tokur. The three companies defaulted but not before they passed on the loans to two shell companies controlled by Inkombank's shareholders. They were called Overseas and Mathur, and they issued the bank uncollateralized promissory notes. The shells in turn went bust, but not before the original borrowers, Neftegaz, First Moscow, and Tokur, had sent the original $35 million to offshore entities controlled by Inkombank principals and officers of the Bank of New York using international wire transfers and Bank of New York accounts. The upshot of the alleged scheme was to provide a false trail for any auditor or regulator who wanted to try to follow or understand the illegal payments.

But the cover would not last and in 1996 the Bank of New York's relationship with its Russian correspondent banks, in particular Inkombank, attracted the attention of officials who were particularly concerned about its Russian customers. On June 6, 1996, the Central Bank of Russia issued a report of its audit of Inkombank, detailing evidence of widespread misconduct by Inkombank and its senior officers. The report said that the misconduct pervaded all aspects of the bank's operations, including "improper funding of the Inkombank capital account, illegal inside deals between Inkombank and its senior executives and shareholders, and the making of unsecured, interest-free loans to Inkombank insiders and companies they controlled."

BoNY's correspondent banking facilities are used in all the alleged schemes that have been listed so far, but to what extent did the bank and Natasha Kagalovsky realize what was happening? Kagalovsky has vehemently protested her innocence and claims to have no knowledge of the scams being perpetrated in the Inkombank case. However, she is frequently referred to in the complaints. Some allegations relate that Natasha Kagalovsky and others at Inkombank created "sham contracts and backdated contracts . . . to falsely verify transactions that, in fact, had never occurred in order to validate illegal money transfers. As part of these schemes, Kagalovsky provided Inkombank with confirmations of fictitious wire transfers. For example, on one occasion in 1996, Inkombank, at Kagalovsky's request, created false documents, backdated to 1993, concerning a supposed transaction involving a Russian company, Transneft. Kagalovsky was among those who used the term *konformashka* (translated as 'confirmation') to refer to such phoney documentation."

Multitudes of offshore companies were allegedly created in the *prokrutki* process. One of these was Tetra Finance Establishment, based in Liechtenstein. Testimony to New York banking regulators shows that Tetra was controlled by principals of Inkombank "to divert the bank's money through offshore accounts." It was reported in November 1999 that earlier in the decade Natasha Gurfinkel, who became Natasha Kagalovsky, had been given power of attorney over the company.

The complaint filed by shareholders of the Bank of New York suggests that certain of BoNY's bankers and their Russian colleagues divided the money that they had allegedly skimmed from Russian clients in the course of the *prokrutki* just described. The alleged skimmng was performed using a computer program which investigators later analyzed. In other words, people from BoNY and Inkombank allegedly deceived the Russians who were evading taxes, presumably because people who handle or steal black money are unlikely to incriminate themselves by "snitching" to the authorities.

The complaints say that, "in April 1994, Vladimir Doudkin, Inkombank's vice chairman, sent the computer specialist who wrote the program a chart showing the movement of funds through a web of offshore companies and accounts. The chart aroused the specialist's suspicion because the scheme depicted involved a pre-planned default on a loan by the entity to which the loan was to be made. The chart also made explicit references to 'fake promissory notes.' The specialist refused to proceed with the project, telling Doudkin that the global custody system appeared to be an illegal money laundering scheme. Doudkin replied, 'what do you care? You'll be handsomely paid.'"

One of the complaints further alleges that BoNY's leading bankers involved in the scam gave themselves code names to disguise the ownership of their share in the "Retirement Fund." Code names are part of the banker's armory of disguises to blot out from their printed records the names of sensitive or high-profile clients. (See Chapter 9 for Citibank's code names for its politically sensitive private clients.) Natasha Kagalovsky, BoNY's head of the Eastern European department, was called "Gurova," Doudkin became "Illyinsky," and his colleague at Inkombank, Vladimir Winogradov, was named "Winoff."

It was a cast list that might have come out of *War and Peace*. Indeed the plan might have been just as fictional, but if these complaints are to be believed, the system was created to allow bankers to apportion their share of the proceeds as anonymously as possible. Secrecy prevailed as the bankers allegedly slipped in and out of America to organize their affairs. Winogradov was admitted under his code name, Winoff, to Pascack Valley Hospital in Westwood, New Jersey, for treatment of a kidney condition. The complaints allege that, while he was at the hospital recovering from quite an uncomfortable biopsy procedure, he had a visit from Renyi. They purportedly chatted about schemes to move money out of Russia through the Bank of New York. Winogradov used the back of a hospital menu to illustrate the flow of money through various entities, resulting in a $10 million fall-out payment for an offshore account.

The shareholders' allegations in the complaint go on to say that the men talked about the details of offshore accounts that might receive the black money. Renyi is alleged to have said that he wanted to use FirstTen S.A., a Panamanian company, because it was an older, less suspicious company. The two men also purportedly discussed a loan from the American Export-Import Bank (Eximbank) that was on its way to Inkombank. Eximbank was a federal agency of the U.S. government. The two men saw opportunities to make money, and they allegedly later met in New York at the Waldorf Astoria hotel to talk about their percentages.

In much the same way as the bankers allegedly fabricated names and accounts to keep safe their own shares of the laundered money, so they allegedly fabricated paperwork and false auditing trails for their punters to explain unusual transfers and losses. The complaints later indicated how the alleged scheme worked. One alleged: "the conspirators established 'independent' offshore companies to which they caused their banks to make unsecured loans, never intending the loans to be repaid. The conspirators also caused offshore companies to engage in fictitious business transactions using bogus sales contracts, letters of confirmation for electronic funds transfers, and other documents . . . It was precisely these types of transactions, in high risk locations such as Russia and offshore havens that FinCEN (the U.S. Financial Crimes Enforcement Network), the agency responsible for administering the Bank Secrecy Act, had specifically identified as being potential money laundering schemes."

Bust

The Bank of New York was first investigated by British police in 1997, following the affairs of a tipster named Stuart Creggy. Creggy was prosecuted in 2001 in New York for forgery and falsifying business records. In November 2002, Creggy was convicted of seventeen counts involving conspiracy and falsifying business records. An appeal hearing is expected to take place in 2005. The UK's National Crime Squad passed the information on to Neil Giles, a British police liaison officer and quasi-intelligence officer working at the British embassy in Washington, D.C. Giles in turn passed on the information to the FBI's Russian Organized Crime Unit.

Russian police authorities, who had seen kidnapping and ransom payments pass through Benex, noted the name at the same time and asked the Federal Bureau of Investigation for help. Finally, in August 1998, Republic National Bank reported to the FBI a suspicious movement of $10 million from Russia through Benex.

In fact, Republic National Bank was claimed to have had some links of its own with Russian mafia. In December 1999, one year after it went to the authorities to explain this unusual movement of money through Benex, Republic's billionaire owner Edmund Safra died in a fire in his Monaco apartment. Monaco has a wealthy ex-patriot Russian population. The circumstances of the fire were highly suspicious and there was an uncorroborated rumor of Russian mafia involvement.

The Benex trail took British investigators to the house in London of Berlin and Edwards. They put the address in London's chic West End under constant surveillance. The British National Crime Squad worked in conjunction with the FBI to set up some elaborate traps for them, although it seems that none was particularly successful. For example, it has been reported that Federal investigators set up an undercover agent posing as a diplomat to approach Berlin to discuss a deal to convert a Russian defense factory for civilian use. British investigators were later said to have taped Berlin boasting of his ties to the diplomat, but nothing more came of it.

Benex International provided the U.S. and UK intelligence community with a window into Russian and East European organized crime. It seems obvious that they would have good reason to keep it open as long as possible. But the investigation was brought to a sudden end by the publication of a revealing account in *The New York Times*. This is widely believed by UK police insiders to have come from a source inside BoNY itself, which had collaborated with the investigating authorities. Certainly, police sources could barely disguise their anger at the leak.

In August 1999, the investigating authorities were phoned by the reporters from *The New York Times*, Raymond Bonner and Timothy O'Brien, telling them that they were about to reveal news of the investigation and they had a few hours to comment. It hit the investigators hard.

One police officer serving with the UK's National Crime Squad said, "The FBI went to BoNY in order to discuss the problem surrounding the accounts and of course if you do that you are telling a bank you may have a serious problem. Well, the bank's got to look after its own interest. So it would make sense for the bank to say, well if you say we've got a potentially big problem here but we can't do anything about it because you're investigating it, where does that leave us? So it would make sense to leak it so you could bring it to an end from the bank's point of view. Once it's made public they shut the accounts down so you then reduce the risks to the bank. I don't know if that's the case but I'd be surprised if it wasn't. I can understand them doing it. If I were a senior manager at BoNY I'd have done exactly the same, if I'd have suddenly been told I was in the center of what could be biggest money laundering case the world's seen and it was."

The same source in the National Crime Squad said that the police had to act as soon as they received the newspaper report on August 18, 1999. He said, "It didn't help because we were in the middle of the investigation and we were getting fantastic intelligence on what Berlin was up to because he was involved in all sorts of things. It just meant that we had to take immediate action in order to preserve evidence, we had to go and execute a search warrant."

Another National Crime Squad source commented, "We were looking very hard at Berlin and Edwards in London, when we were forced into a situation where we searched the London home of Berlin and Edwards. The decision was to search 62 Montague Mansions, Baker Street. Computers were seized; Berlin and Edwards were not arrested or interviewed. A load of stuff was taken, Edwards's office at BoNY in Canary Wharf was searched and a load of stuff . . . we had a long negotiation with BoNY over legal privilege matters, arguments about documents. The FBI came over to the UK."

On the following day, August 19, 1999, a detailed account of the Benex operation was published in *The New York Times.* The front page story, entitled "Activity at Bank Raises Suspicions of Russian Mob Tie," said, "billions of dollars have been channeled through the Bank of New York in the last year in what is believed [by law enforcement officials] to be a major money laundering operation by Russian organized crime . . . Investigators say the transactions seem to add up to one of the largest money laundering operations ever uncovered in the United States, with vast sums of money moving in and out of the bank in a day."

It was an effective demonstration of the power of the press, as U.S. police then had to close their investigation and prepare something for the lawyers. On October 6, 1999, an indictment was unsealed in the Southern District of New York charging Lucy Edwards and Peter Berlin with "conspiracy to violate United States and New York State banking laws. The United States

Attorney for the Southern District of New York has announced that the investigation of money laundering and other possible crimes involving Bank of the New York is wide-ranging and continuing in nature."

On February 16, 2000, Lucy Edwards, her husband Peter Berlin, and three of the shell companies they controlled—Benex, BECS, and Lowland—pleaded guilty to a number of federal crimes, including, first, "conspiracy to launder money through international funds transfers in violation of Russian law, defrauding the Russian Government of customs duties and tax revenues;" second, "to making corrupt payments to members of Bank of New York's Eastern European Division for their participation and facilitation of, and to earn and launder commissions from, the unlawful banking schemes;" and third, "to conducting unauthorized and unregulated banking activities through accounts at Bank of New York."

Edwards and Berlin were named in two counts that each carry a possible maximum five-year prison sentence. They both agreed to forfeit to the United States more than $1 million in proceeds from their criminal conduct, including their London residence and the contents of two Swiss bank accounts. In their testimony, Berlin and Edwards admitted that between late 1995 and September 1999 they were part of the money laundering conspiracy that allowed Russians to defraud their government by wiring money out of the country to avoid customs duties and taxes. The money-transmitting scheme was also used for other criminal activity, including the payment of $300,000 in ransom to the kidnappers of a Russian businessman. Some four years later, none of the guilty parties has been sentenced. Alexel Volkov, who was indicted alongside Edwards and Berlin, has not entered into any plea agreement with the Federal authorities, said his lawyer.

Officials working for the Bologna Public Prosecutor's Office, Anti-Mafia District Division, subsequently observed how the weakness of U.S. banking regulations facilitated the Russian scheme. They said, "The Russian banks Flamingo and Depositano Klearingovi, through the accounts at the BoNY opened in the name of three named companies (Benex, Lowland, and Sinex), could operate without being duly authorized by the Federal Reserve, as if they had licensed branches in the United States." The Italian authorities said the scheme accounted for the disappearance of some $8 billion from the former Soviet Union.

Italian investigators had taken a particular interest in the Benex scheme because a company based in Rimini (an elegant seaside resort on Italy's east coast) called Prima had engaged in numerous transactions with Benex. Their research found that Prima was controlled by two Russian hoodlums, Oleg and Igor Berezowski, whom Italian police have since charged. Italian police believe that Prima was a front for the repatriation of money to Russia that had been secretly spirited out of the country during the late 1980s.

The investigation of Prima—a massive exercise called Operation Spiderweb—led to the discovery of a series of other companies based in Paris which were controlled by a reputedly brilliant Russian called Andrei Marisov. These Paris-based companies have been the subject of French prosecution and have been closed down. Marisov has been arrested and charged with fraud.

However, these companies were allegedly linked through an export company called Kama Trade AG to another company called Nordex which greatly intrigued the authorities. Nordex had been founded in 1989 by Dr. Grigori Loutchanski, a Russian businessman who has been the subject of much investigation for alleged financial irregularity. Western authorities have never charged or convicted Loutchanski of an offence. He was however convicted for embezzlement by Latvian authorities in 1983 and served a prison term. Loutchanski has since said those charges were motivated for political rather than judicial ends.

Loutchanski successfully sued *The Times* newspaper in 2000 over an allegation that he was linked to the Russian mafia. He said in a witness statement made to the UK High Court in November 2000, that, "I am aware of the suspicion that the Nordex group of companies has been used to launder money for criminal entrepreneurs in Russia. This is completely untrue. All the monies paid into off-shore companies are covered by invoices bona fide raised by the trading transactions of the Nordex Group. The payments from these accounts have been made by way of commissions and . . . . Incidental benefit to our partners in Russia, with whom the Nordex group have made contracts." Loutchanski has also denied in the same document having any involvement with the Bank of New York, or Benex.

Concern over the Bank of New York case gave rise to a report by the U.S. Senate Sub-committee on Correspondent Banking. This was published in

2001 and explained the role of United States Correspondent Banking in International Money Laundering. Following the publication of this massive and shocking investigation, pressure was placed on banks to investigate their correspondent relationships more thoroughly and make them more transparent.

The international links of the largest banks enable Russian criminals to export illegal capital and corrupt schemes to the most far-flung corners of the globe. But laundering can also be facilitated using commodities. Africa's most precious natural asset is its diamonds and its most eagerly sought product, in some quarters, is tragically weapons. Victor Bout sought out people who controlled the diamond fields who wanted weapons, and he found people who owned weapons who were prepared to accept or do deals with diamonds. Bout's networks spanned the globe, as we shall discover next.