

# The British oligarchy's global drug money-laundering machine

by Richard Freeman

The recent case of the international money-laundering maneuvers of Mexican political figure Raúl Salinas de Gortari, has put a spotlight on the issue of money laundering. Salinas's case involves the laundering of at least \$84 million of illicit funds (maybe as high as \$600 million), into Swiss and London bank accounts and Cayman Islands shell corporations, through the services of a senior officer of Citibank. The 1989-93 laundering of Salinas's illicit funds, which reportedly included some received from drug-traffickers, such as Mexico's Gulf Cartel drug lord Juan García Abrego, was accomplished with the knowledge and approval of top echelons of Citibank, as well as the U.S. Federal Reserve Board of Governors, potentially including Fed Chairman Alan Greenspan.

This is merely one example out of perhaps 50 that happen every week, but go unreported. It has a long history. During the 1980s and early 1990s, Colombia's Medellín drug cartel overran the world with tens of billions of dollars worth of cocaine per year. The cartel had a desperate need to launder its cash, which itself weighed several tons. According to Rachel Ehrenfeld, in the book *Evil Money*, the U.S. "institutions used by members of the Medellín drug cartel [for laundering] included Chemical Bank, Continental Bank International, Morgan Guaranty Trust, Security Trust International Bank and Republic Bank, New York." Among the international banks identified were Banco de Santander of Madrid, Spain and Miami; Union Bank of Switzerland in New York, Toronto, and California; and Lloyds Bank International of the Bahamas.

How is it possible that over the past quarter-century, since August 1971, the international narcotics and criminal money-laundering trade has survived and prospered? Why do the names of the world's biggest, most powerful, and most prestigious banks, with "impeccable credentials," show up in this trade, year after year? Why are the seemingly best efforts of law enforcement unable to stop them?

The answer is straightforward: No authorities have seriously gone after the real enemy. The people responsible for setting and enforcing anti-money-laundering policy, in particular in the advanced sector, will pursue investigations up to a point, sometimes collaring lower- and middle-level money-launderers. But they pull back at the idea of putting in jail the bankers and political figures "above suspicion." These are the people who run the trade and make it possible.

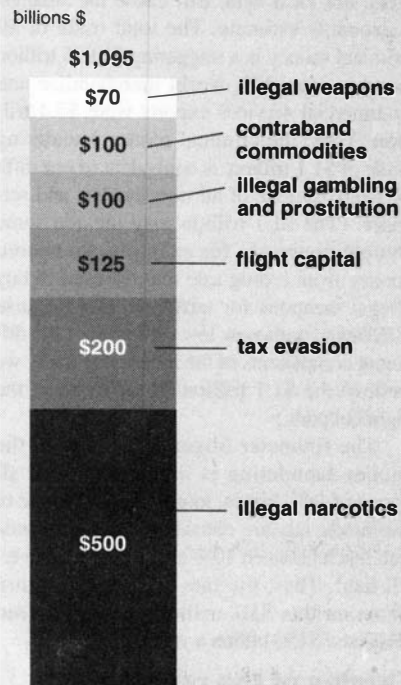
To be precise, this is the Anglo-Dutch-Swiss financier oligarchy, and the offshore banks based in the "former" British and Dutch colonial empires. The royal Privy Council officially rules in most of the British territories and "former" colonies. If one includes such postage-stamp countries as Liechtenstein and Luxembourg, as well as the British-controlled elements of the American, French, and German banking systems, such as J.P. Morgan and Edmond Safra's Republic National Bank, one has almost the entirety of the world's money-laundering apparatus. This comprises approximately 40 key commercial banks, and 20 investment banks, including English Queen Elizabeth II's personal bank, Coutts, which is an estimable force in the Channel Islands, as well as the Bahamas and Cayman Islands.

The Anglo-Dutch-Swiss financier oligarchy, and their satraps in the British Commonwealth, which total nexus we will call the "extended British Commonwealth empire apparatus," not only runs this criminal money laundering today, but has run it for two centuries, going back to the British Opium Wars against China and before.

## Hooked on drugs

The profits and level of cash flow from money laundering are huge: It is the biggest private cash flow in the world. *For this reason, the banks are more addicted to this narco-money stream than is the heroin junkie to his fix.* The banks could not give up this money without collapsing. The world banking system is utterly bankrupt, and the only real income stream it earns on its loans and

FIGURE 20  
The 'black' economy is flourishing: \$1.095 trillion per year



Source: EIR.

investment is not the electronic entries of derivatives trading, but what it steals from the population. Drug and criminal profits are among the principal sources of these—along with looting of Third World nations and the advanced sector. The British will do everything to protect the narco-money-laundering trade at all costs.

Figure 20 shows the estimated total amount of laundered money for 1995. The drug money component of about \$500 billion is computed by methods discussed elsewhere in this study. However, the actual figure may be significantly larger. Author James Adams, an authority on drugs, with sources in British intelligence, stated in the Nov. 15, 1995 London *Times*, "Last year [1994], \$400 billion of illegal drug money was laundered in America, of which \$320 billion came from the Colombia cartels." If \$400 billion is the figure for America alone, then EIR's estimate of \$500 billion as a world figure is extremely conservative.

Our figure of all other criminally laundered money, of \$595 billion, is also conservatively estimated. It encompasses such items as contraband of otherwise legal commodities (gold, gems, strategic metals, food, oil); ille-

gal weapons; flight capital; tax evasion; illegal gambling and prostitution. Official figures for these areas do not exist; *EIR* consulted law enforcement officials and experts in each field. For each item, *EIR* chose the smallest reasonable estimate. The total trade of all criminal money is a staggering \$1.095 trillion per year. In 1995, world merchandise and commercial services exports were \$5.4 trillion. Thus, the criminal money-laundering trade of \$1.1 trillion, is equivalent to one-fifth of world exports of all merchandise and services. (The \$1.1 trillion may include some double-counting: for example, laundered money from a drug sale may be used to buy illegal weapons for terrorists. But because *EIR* began with very low estimates of the different components of the laundering trade, we believe the \$1.1 trillion figure to be in the right ballpark.)

The financier oligarchy's take on the money laundering is immense. When all forms of fees, bribes, money earned by use of the funds, etc. are considered, the profit rate can reach between 10% and 15% of the overall haul. Thus, the rate of financial return alone on this \$1.1 trillion can be between \$100 and \$150 billion a year.

### Origins of the problem

The drug trade's dirty money laundering has been around for millennia. By the 1700s, the Middle Eastern portion of the drug trade was centered in Aleppo, Syria, and the Asian portion was run by the Dutch and then the British monarchies, through their East India Companies. During the 1950s and 1960s,

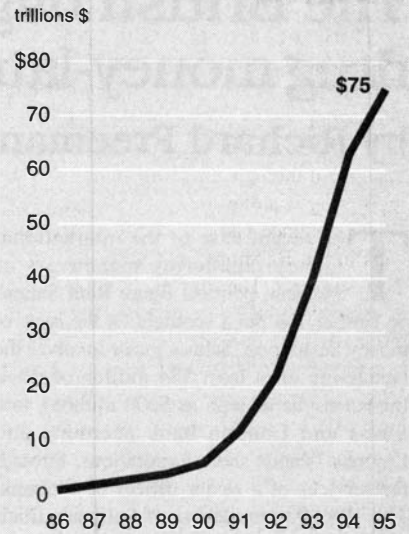
organized crime chieftain Meyer Lansky was one of the masterminds of the trade.

In August 1971, a turning point was reached. U.S. President Richard Nixon took the dollar off the gold standard, and the floating exchange-rate system was introduced. The volume of Euro-dollars—hot dollars and other currencies outside their country of origin—exploded, helped by the petro-dollar recycling after 1973-74. From a few billions in the 1960s, the Euro-dollar market zoomed to above \$1 trillion by the 1980s.

Once U.S. Federal Reserve Board Chairman Paul Volcker sent interest rates into the stratosphere in October 1979, and the U.S. banking system was deregulated in 1982, two conditions prevailed, both part of Britain's "post-industrial society" policy. First, manufacturing, agriculture, and infrastructure production collapsed. On a per-capita and per-household basis, the market basket of physical goods in the United States has collapsed by 40% since 1967 (see *EIR*, Jan. 1, 1996).

Second, speculative markets, from junk bonds, collateralized mortgage obligations and derivatives, to drugs, increasingly came to determine the geometry of the world economy. The more the physical economy collapsed, the more the speculative flows, which were growing at a hyperbolic rate, dominated. And within this arrangement, drugs and criminal activity, by design, came to rule the speculative markets. It is not an accident, that the leading derivatives-trading centers are also the leading drug-money-laundering centers. There are some legitimate funds in off-

FIGURE 21  
**World derivatives outstanding**



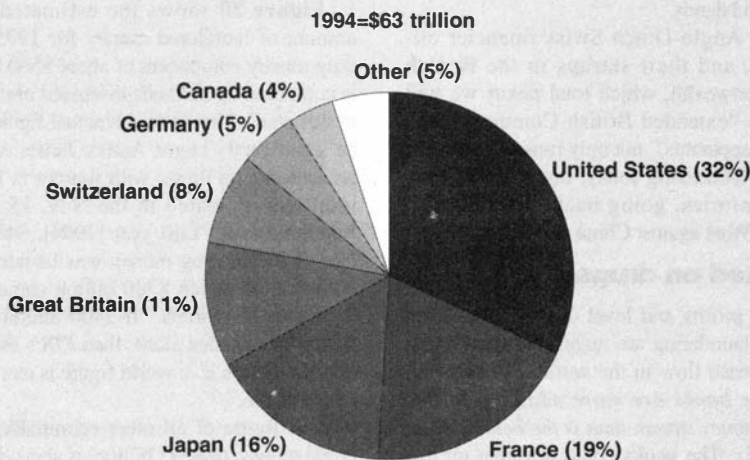
Sources: Federal Deposit Insurance Corp.; Bank for International Settlements, Basel Committee on Banking Supervision; Technical Committee of the International Organization of Securities Commissions (IOSCO); *EIR*.

shore banking centers, representing legitimate business. But this appears to be the minority. The narco and speculative markets are intermingled into one: It is now nearly impossible to separate one from the other.

Take the high-flying derivatives markets, the biggest speculative cancer in the world. The derivatives trade has exploded from \$1 trillion in derivatives outstandings in 1987, to \$75 trillion by 1995 (Figure 21). The national banking systems that hold these derivatives are shown in Figure 22, although it should be noted, that many of these national banking systems hold these derivatives not simply in their own countries, but in markets such as Hongkong, Singapore, and the Channel Islands. The paper profits on the derivatives are large, but they are only electronic entries in cyberspace. In reality, drug money, sucked from the consumption of the addicted population, is propping them up (Figure 23).

The drug trade not only gobbled up the speculative markets, but it started gobbling up the physical economy, turning over trillions of dollars of assets to the British narco-bankers. The corporate takeovers binge of the 1980s and 1990s was financed in significant measure by drug revenues. Further, the drug mob opened gambling casinos (legal gambling revenues in America in 1994 totalled \$407 billion, larger than the auto market), houses of prostitution, and more speculative

FIGURE 22  
**Derivatives exposure, by country**



Sources: Bank for International Settlements, Basel Committee on Banking Supervision; Technical Committee of International Organization of Securities Commissions.

markets. The economy was criminalized and destroyed.

### Three steps in money laundering

There are three steps in the process of turning criminal money into "clean" money:

1. The street-level drug dealer must enter the dirty money into the banking system;

2. The money-laundering machine will transport it through several locations, perhaps registering it along the way in a trust, with only a nominee name of a trust officer, perhaps in the Bahamas, indicating who owns the instrument. The trust gives the beneficial owner—the real owner—anonymity. If the money is then moved through 6-9 jurisdictions, each with bank secrecy, a process called "layering," it could take law enforcement 6-12 months to plow through each jurisdiction—such as going to courts to obtain warrants to search bank accounts—by which time, the statute of limitations on the crime could expire. This presupposes that the law enforcement agency can even trace the money after the second or third level of layering;

3. The money is finally lodged in an investment or a secret, numbered account, with the capability of moving it out at lightning speed, if necessary.

We shall look first at the street level of getting the money into the banking system. Second, we shall examine the ways in which the Anglo-Dutch-Swiss financier oligarchy moves this money many times around the globe, reaping as much as a 10-15% profit on the operation. This will demonstrate the extent of British control. Third, we shall look at how the laundered money is brought back "on shore," and where it is invested. A case study of the Bahamas will be examined.

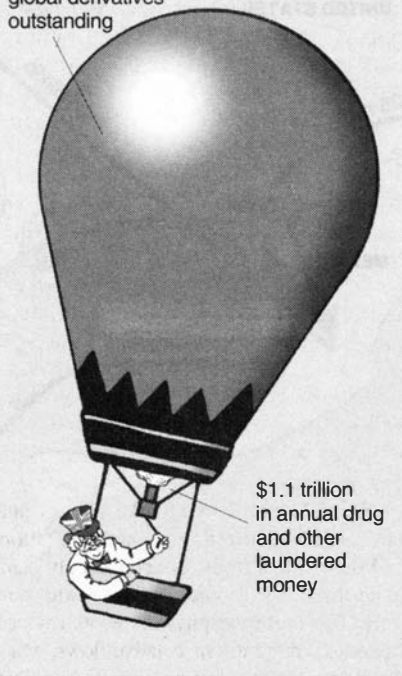
### Street-level money laundering

Since 1970, the United States has required all banks to file reports on all cash deposits of \$10,000 or more—called cash transaction reports (CTRs)—and in 1986, the passage of the Bank Secrecy Act put a penalty on banks that failed to properly and honestly file CTRs. The CTRs are filed with the Internal Revenue Service, and are made available to law enforcement agencies that demonstrate a need to consult them. This is to create a barrier to drug money laundering. It is a useful and well-intended step, but even if honestly adhered to (and there are many loopholes), it is simply inadequate as a deterrent against money laundering. However, there are many countries, starting with Great Britain, Canada,

FIGURE 23

### Drug and other laundered money flows are keeping the derivatives bubble afloat

\$75 trillion in global derivatives outstanding



Switzerland, the Cayman Islands, and Mexico, that do not even have a CTR reporting requirement or penalty provisions for lack of enforcement.

Entering the street-level drug money into the banking system is a bigger hurdle than it might initially appear. Take a hypothetical drug deal in the United States. Five kilograms of heroin (11 pounds) retails for \$6.5 million. But, \$6.5 million in \$20 bills weighs 370.5 kilograms or 812.5 pounds. The weight of the money is 75 times the weight of the drug smuggled in; \$100 billion in laundered drug money, in denominations of \$20 bills, weighs 12.5 million pounds. If it was difficult getting the drug smuggled into a country, think of how difficult it will be to smuggle the cash!

The drug dealer has two options. He will either launder the drug money revenues inside the banking system of the country in which the sale was made, or ship a sizable portion of the cash outside the country of sale, using the same smuggling network infrastructure he used to smuggle the drugs in, but in reverse.

Consider some examples of the first instance. Laundering the money in the country where the sale was made, means taking some of the money to the banks; in the

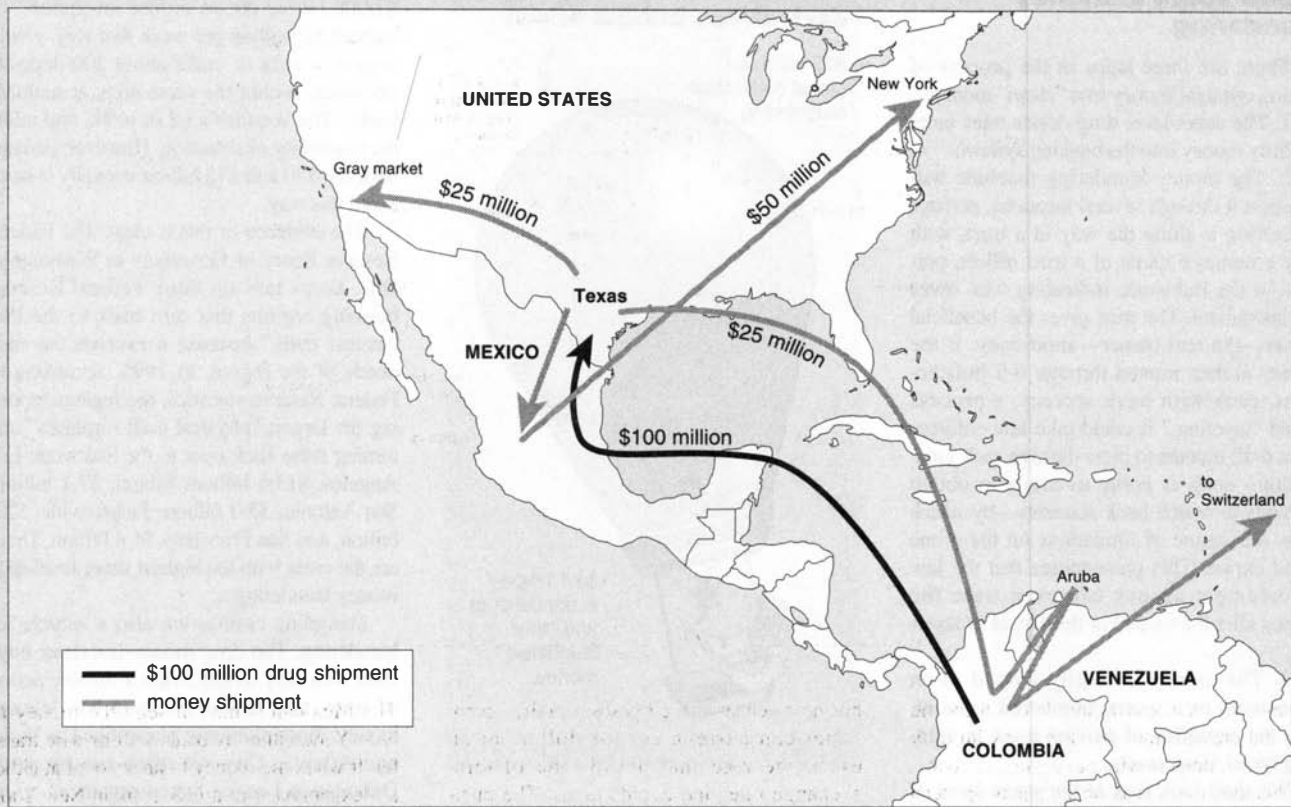
United States, that means employing "mules" or "smurfs" to make bank deposits in amounts of, usually, no more than \$5,000 to \$7,000, so as not to arouse suspicion. To launder \$1 million per week that way, would require smurfs to make about 200 deposits per week, within the same area, at multiple banks. This requires a lot of work, and raises the possibility of detection. However, perhaps between \$50 and \$75 billion annually is laundered this way.

The evidence of this is clear. The Federal Reserve Board of Governors in Washington, D.C. keeps tabs on those Federal Reserve banking regions that turn back to the Fed "excess cash," because it exceeds the cash needs of the region. In 1995, according to Federal Reserve statistics, the regions reporting the largest "physical cash surpluses" and turning these back over to the Fed were: Los Angeles, \$13.6 billion; Miami, \$7.1 billion; San Antonio, \$3.0 billion; Jacksonville, \$2.5 billion; and San Francisco, \$1.4 billion. These are the cities with the highest street-level drug money laundering.

Gambling casinos are also a vehicle for laundering. The drug money-launderer buys chits with dirty money, waits a suitable period of time, and cashes them in for "clean" money. Since casinos in places like Las Vegas and Atlantic City are often run by Anti-Defamation League-linked organized crime elements, the casinos are compliant, and many take a cut of 1-5% for the service. In January 1996, the General Accounting Office of the U.S. Congress published a study, "Money-Laundering: Rapid Growth of Casinos Makes Them Vulnerable," that shows the danger. It points out that between 1984 and 1994, the dollar amount wagered in gambling casinos in America increased nearly fourfold, from \$117 billion to \$407 billion. In this time period, nearly 60 riverboat gambling operations were opened. This increased the number of facilities and dollar flows available for the drug money-launderer. While gambling casinos are required to file CTR reports for cash transactions of greater than \$10,000, there are ways around that. Moreover, Nevada, the gambling capital of America, does not participate in the federal CTR reporting requirement of the Bank Secrecy Act (although Nevada has its own localized CTR reporting requirement). Prostitution is also legal in Nevada.

A third means of laundering is to use money-wiring services, such as Western Union, and check-cashing parlors, which do have to file CTR reports, but employ 15,000 employees, who are not carefully screened. In both money-wiring and check-cashing ser-

**How drug money is laundered: a hypothetical case**



...vices, there have been widespread instances of falsification of records to permit laundering.

In addition, money-launderers use retail businesses with high cash turnover, whose sizable weekly deposit levels are not expected to arouse suspicion at their banks. One example is the La Mina network in California, where gold coin and metal-plating firms in the 30-block Hill Street gold district of Los Angeles, working with the gold district of New York City, laundered \$1.3 billion in Cali Cartel drug money between 1987 and 1990. But any and all sorts of stores will be used.

On May 14 of this year, a shocking development occurred on this front. Citing the need to reduce bank paper work, the U.S. Treasury Department lifted the requirement that banks must file CTRs for all business deposits of \$10,000 or more. The new ruling, which is for a trial period, but is expected to go into effect permanently in the fall, states that any business whose stock is publicly traded on any American stock exchange is exempt from a CTR filing.

This is remarkable, because to take one example, the stock of Crazy Eddie's, a New

York City-based consumer electronics store, was publicly traded on an American stock exchange. However, the store was involved in a number of criminal enterprises, and its principal owner and founder, Eddie Antar, fled to Israel, after siphoning off more than \$74 million. He was arrested and is now in jail, though \$10 million is unaccounted for.

In the second option, the street-level drug money is physically shipped out of the country where the drugs were sold. The drug-producing network itself will either do this, or hire others to do it for a fee, often at 5-10% of the selling price of the drugs. In the United States, Colombian drug cartels often use Mexican smuggling networks to bring the drugs in and the money out.

Planes, speed boats, and even submarines, which make drug drops to a country, are now employed to ferry the cash supply out.

Smurfs are hired, at \$2,000-5,000 a day, to carry the drug money onto airliners, or in the bodies or tires of their cars. Several years ago, federal agents caught Maria Lilia Rojas carrying out of the United States \$1.43 million in six "Monopoly" boxes. In February 1986, officials in Texas arrested the pilot and

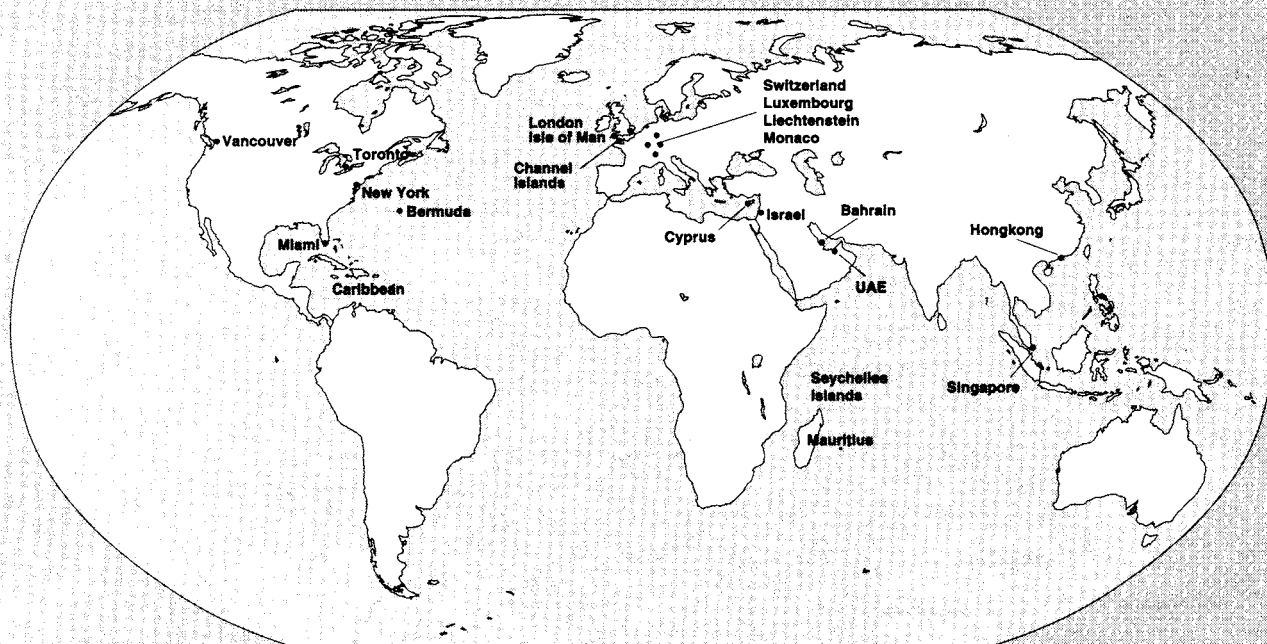
two passengers of a private jet, flying \$5.9 million out of the country. Today, that is small potatoes, compared to what some planes carry: \$50 million or more.

The 1993 passage of the North American Free Trade Agreement (NAFTA) has facilitated money smuggling across the U.S.-Mexico border, by easing border-crossing restrictions. A Dec. 3, 1995 *Houston Chronicle* article, "Houston Awash in Money Laundering: Authorities Only Dent Export of Drug Profits," reported that "U.S. officials admit that only about one of every 10 vehicles and one of every 30 commercial trucks entering the United States are inspected. *Even fewer vehicles leaving the country are inspected.*" Send 30 trucks across the border to Mexico with cash, and on average, one is stopped. This is 3% of total volume, an acceptable loss to the drug money trafficker.

So-called *giro* houses, which wire money across the border into Mexico, are another option. These are used extensively for legitimate remittances by immigrant laborers in the United States. Naturally, these *giro* houses are located near the border, in states such as Texas. But they are also used to launder dirty

MAP 13

## Offshore money-laundering centers



money. For example, a launderer enters the *giro* and presents the *giro* operator with dirty cash. The money is wired to a Mexican bank. The launderer, or his associate, picks up clean cash at the *giro*'s correspondent bank in Mexico. The *Houston Chronicle* reported, "In all . . . Houston *giro* houses may have laundered up to \$250 million, most of it on behalf of the Cali Cartel."

On March 4 of this year, Rayburn Hess, officer of the U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs, delivered a speech in Panama that presented a "hypothetical" money-laundering example based on real-life composite pieces of the money-laundering operations. We will use Hess's speech for pedagogical purposes. The example is schematically represented in **Map 12**.

Hess stated, "Assume that the Cali Cartel is moving \$100 million over the rather porous border from the United States to Mexico and operating on a 75% profit margin (earnings minus cost). . . . Cali wants to [receive] \$85-90 million in total." It is willing to pay \$10-15 million to those who help it move its drug money.

Hess presented the case of laundering the \$100 million in three steps, in amounts of \$25 million, \$25 million, and \$50 million:

1. The launderers "will sell \$25 million on the gray market." This is an underground foreign exchange market, where Ibero-American

businessmen swap their pesos (or other Ibero-American currencies) for dollars at an exchange rate that avoids the official exchange rate, and avoids taxes. The businessmen take the risk that they are getting dirty dollars. The money-launderer has gotten rid of his dollars and now has pesos. He transports the pesos he has acquired to Colombia, for example, exchanging them there for clean dollars.

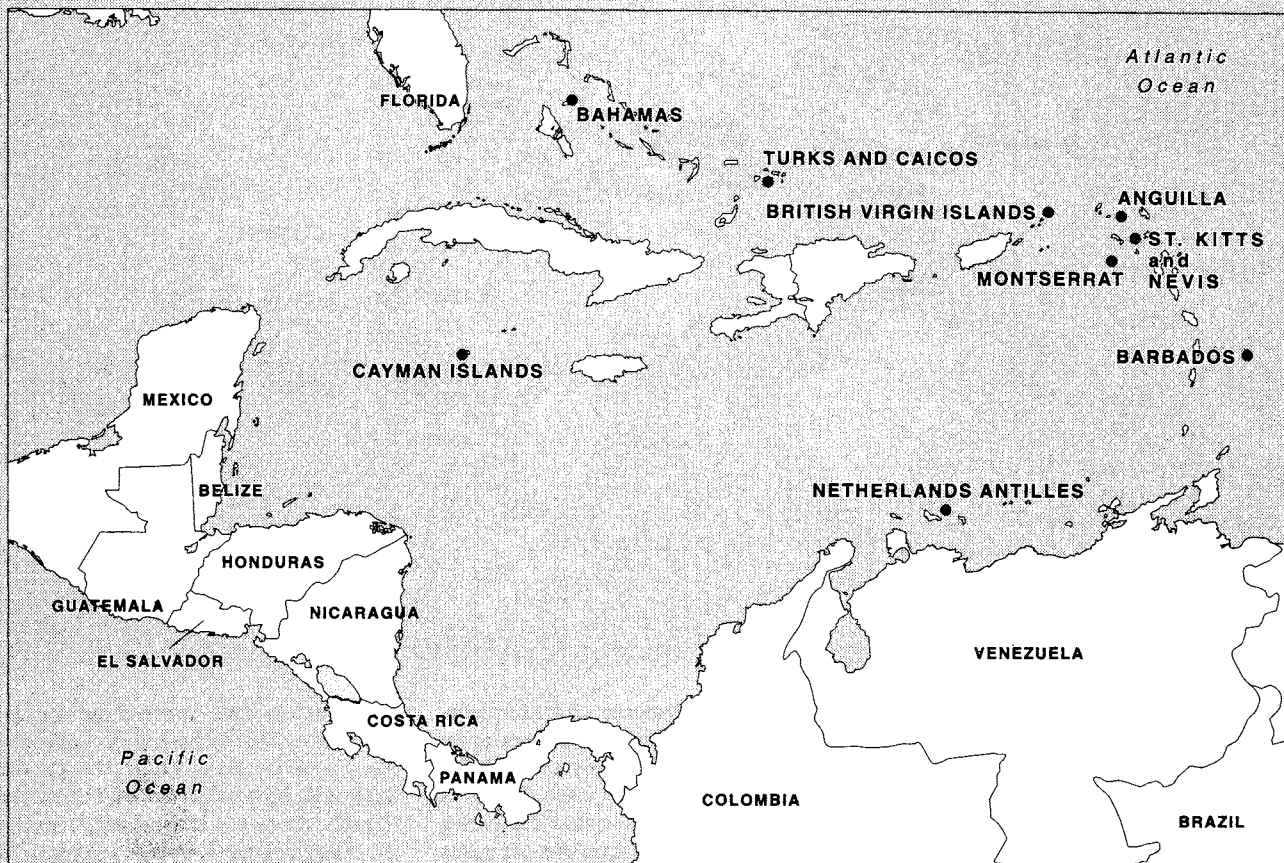
2. Next, there is a fake invoicing scheme: "A South American clothing manufacturer working with Cali obtains a permit [in his country] to export \$25 million worth of suits to New York" (or Miami, as represented in Map 12). The clothing manufacturer exports, however, only \$6 million worth of clothing. That clothing is unloaded in the Aruba free-trade zone, and secretly shipped back to Colombia, where it is sold through the underground economy. The crates which held the clothing are then filled with some fake material, and the clothing "manufacturer's agent picks up \$20 million in drug proceeds in New York and returns it to Colombia, covered by an export license."

3. The remaining \$50 million of drug money is smuggled by various routes described above, across the U.S. border into Mexico. The money is then deposited, by various money-laundering tricks, into one or several Mexican banks, which are more permeable than U.S. banks to laundered funds.

The Mexican bank can send the money to New York, either by bank draft or wire transfer. It wires the money to an account at either a Mexican bank or a U.S. bank in New York. Usually, the money is not directly wired, but is settled through interbank accounts. This means that the Mexican bank that is wiring the funds, will have already deposited \$50 million, *earned from a legitimate business deal*, at New York Bank A. When the \$50 million in laundered money is wired to New York Bank A, it then debits this \$50 million from the Mexican bank's account held with it. It gives the money to the money-launderer on whose behalf the \$50 million was wire-transferred. The money-launderer now has a clean \$50 million sitting in a bank in New York.

The process is aided by the fact that Mexican banks practice banking secrecy, which protects the identity of the person who wired the money.

The above example concerning money-laundering in Mexico, raises a serious question about the Mexican banking system. Under the NAFTA agreement, Section XIII, Financial Accords, the Mexican banking system was further deregulated. Foreign banks, which, with the exception of America's Citibank, had been banned from entering the Mexican domestic banking system, are now allowed in. Since 1995, two Canadian banks have been in the process of acquiring

**The Caribbean: the Anglo-Dutch monarchy's money-laundering lake**

Mexican banks: The Bank of Montreal has bought 16% of Bancomer, Mexico's second largest bank, with an option to increase its share to 55%; and the Bank of Nova Scotia has announced it will purchase 55% of the assets of Banco Inverlat, Mexico's fourth largest. These Canadian banks are experts, on behalf of the British, in money laundering. The Hongkong and Shanghai Banking Corp. is also sniffing around for corporations and banks to buy. This will make the Mexican banking system even more of a laundromat.

Hess's example also reveals a second deadly feature: the ease with which drug money can be laundered. This shows the glaring weakness of an anti-money-laundering approach that simply relies on cash transaction reports, suspicious activity reports (SARs), or the current U.S. anti-money-laundering strictures. So while a U.S. bank has to file a cash transaction report for a deposit of \$10,000 or more, it is not required to file a CTR for wire transfers between domestic U.S. banks, or a U.S. bank and a foreign bank, even though wire transfers typically are

many times larger than cash deposits.

According to a top Federal Reserve enforcement officer, a U.S. bank receiving a wire transfer is required to keep an internal record, listing only the name and address of the wire-sender and the name of the sending bank. Since Mexico has bank secrecy, the receiving U.S. bank may only receive the name of a dummy corporation, which is registered as a trust, say, in the Bahamas.

We begin to see how easy money laundering is, once the drug money has entered into the system. Wire transfers are a principal means for banks to settle accounts, or for businesses to move funds. The New York City-based Clearing House Interbank Payments System (CHIPS) electronically transfers funds and settles transactions in U.S. dollars for all the major banks that trade through New York City. One hundred and six of the world's biggest banks are members of CHIPS and avail themselves of this facility. In 1980, CHIPS transferred \$37 trillion; but by 1995, the per annum level of funds transferred by CHIPS reached a whopping \$310

trillion. A few studies have attempted to find out the volume of laundered money that moves through the wire transfer process. The results are inconclusive and even flawed. But were the amount only two-tenths of 1% of the total—and that could be very possible, meaning that one in every 500 transfers is criminally tainted—that would amount to \$620 billion per year.

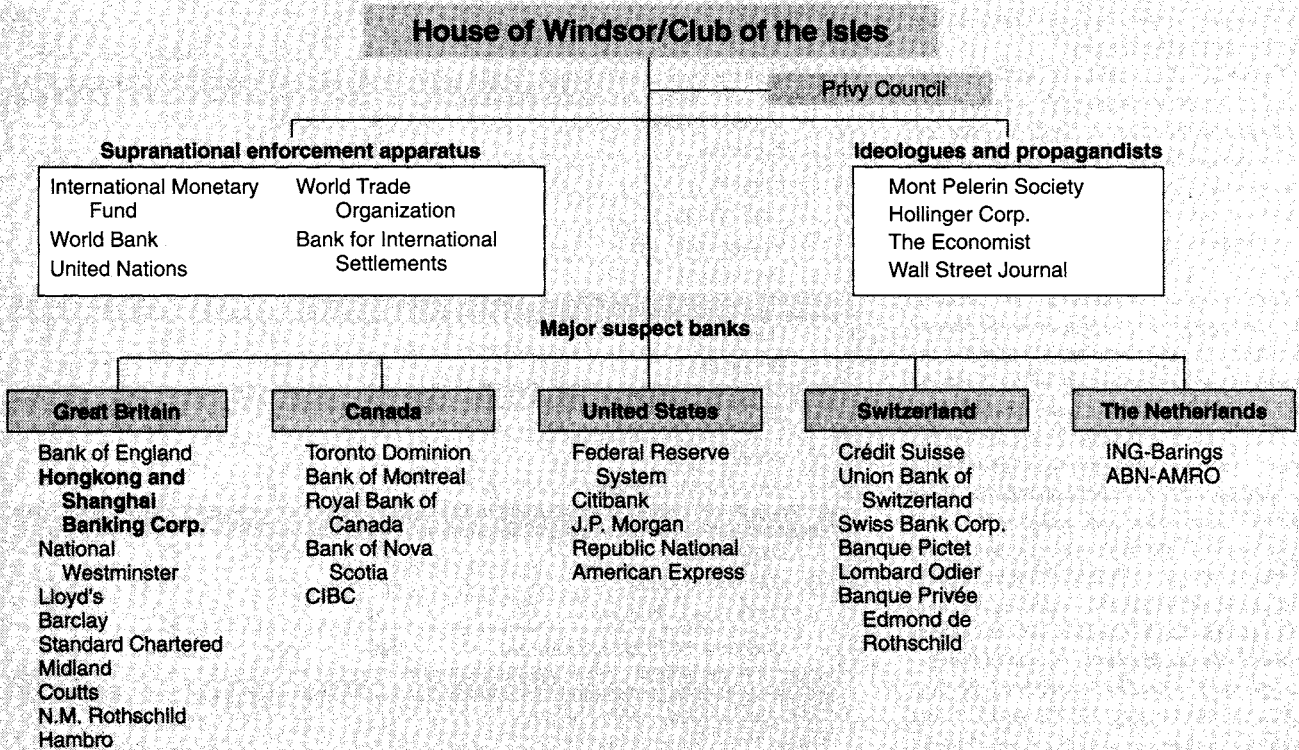
### **British control**

Once the street-level drug money has entered the banking system, the higher-level laundering takes over. It moves the dirty funds through six to nine jurisdictions, perhaps registering it along the way in a trust, with only a nominee name of a trust officer attached to the instrument, disguising the real owner, making it very difficult for law enforcement authorities to track down the dirty money and the perpetrators.

The British are masters of this, and run the system. The proof is incontrovertible and, for the most part, out in the open for the willing investigator or law-enforcement official

FIGURE 24

**The Dope, Inc. money-laundering apparatus**



to find. Today, the problem is that many law-enforcement figures could uncover the modus operandi of the money-laundering network; but it is run by the British oligarchy, and once the investigators find it is the British, they would have to take them on politically. Most flee in terror and deny what they have seen.

The reader should take a map of the world, and trace out all the key locations where the slave trade was run over 200 years ago. Most of them turn out to be part of the old British and Dutch empires. Now, mark all the places where smuggling and piracy predominated. Next, find the points of production and shipping routes of the 1700s and 1800s drug trade, and the financial centers which serviced them. Now, step back: The map will look strikingly similar to **Map 13**, which shows the key offshore financial centers of the 1990s. **Map 14** shows the Caribbean region, the British-Dutch lake where so many offshore centers and/or tax havens predominate.

This is no coincidence. The British and Dutch simply took these criminal haunts, and the old criminal infrastructure and civil administration, slapped on a fresh coat of paint, and put a sign on the door reading, "Offshore Financial Center." Most investigators take them at their word, as if they knew

nothing about history.

The actual command and control over world money laundering today resides in Great Britain (**Figure 24**). A large chunk of today's offshore laundering centers are officially governed by Britain's Queen Elizabeth II as their head of state and sovereign. Officially, the Queen's Privy Council is the ultimate legal authority in a legal system that permits bank secrecy and minimal regulation, and is governed by British law. Or else, these countries are ruled by allied Dutch-Swiss networks. It is not an exaggeration to say that nothing significant occurs in these money-laundering dives without the Privy Council's approval. If the Privy Council wanted to shut down money laundering, it could; it set it up in the first place. The same holds for the Queen herself.

In addition, while sometimes money laundering goes through small, obscure banks, most of it goes through the extended British Commonwealth network of 40 commercial banks and 20 investment banks. The drug-money flow is so large, that no smaller entities could handle it, and consistently hide it. This requires financial sophistication and tremendous political pull.

The list of major banks to be investigated for possible drug- and hot-money laundering,

includes: the British clearing banks Standard Chartered, Lloyds, and Barclay; private British banks such as Coutts and Rothschilds; the Canadian clearing banks, led by Scotia Bank (formerly Bank of Nova Scotia), Bank of Montreal, Toronto Dominion, and the Canadian Imperial Bank of Commerce; the big three Swiss banks, Crédit Suisse, Swiss Bank Corp., and Union Bank of Switzerland; some of the exclusive Swiss private banks, such as Banque Pictet and Lombard Odier; the Dutch banks ING-Barings and ABN-Amro; the British-controlled American banks Citibank, Morgan, and the Republic National Bank.

Then, there is a special institution, the linchpin of the drug money laundering, the \$350 billion-in-assets Hongkong and Shanghai Banking Corp. The HongShang, as it is called, was formed in the middle of the last century, specifically to finance Britain's opium trade with China. The HongShang is still the primary bank of issue for the British Crown colony and money-laundering center of Hongkong. But the HongShang also spans the globe, owning the powerful Midlands Bank in England; the Bank of the Middle East; Marine Midland bank in the United States; Mocatta Metals (through Midlands bank), one of the five banks that sets the world gold fix. It is active in the Caribbean.

With its headquarters moved to London, it still possesses markers of its past: On its board are the Swire, Keswick, and other old-line families, which ran the China opium trade during the last century.

The banks' direct financial profit on laundering \$1.1 trillion in drug and criminal proceeds per annum, is up to 10-15% of the volume of money that enters the banking system. (This is aside from any profits made in other phases of the drug trade). To illustrate the point: Suppose that a \$100 million deposit is made by a drug lord at one of the hundreds of offshore banks in the Bahamas. The bank, in turn, can charge a standard banking service fee, which can range between 1% and 3%, depending on what services are billed. Next, the bank has \$100 million to lend. According to the June 7, 1996 *Financial Times*, in the Bahamas, "the spread between typical borrowing and lending rates, currently stand[s] at more than 9%." That is, the bank makes a 9% profit on the money. The bank can lend to anyone, but frequently, it lends back money, above-board, to the drug lord who deposited the money in the first place. The loan gets the money "onshore" for the drug lord. As part of the pre-arranged money-laundering scheme, the drug lord is willing to pay the 9% interest rate spread as compensation to the bank. Finally, the bank can also collect, on top of all this, outright bribes, which can range between 2% and 5% of the proceeds. Total of all fees and charges (assuming that the bank's spread on money is not normally as high as 9%): 10-15%.

In March 1996, the U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs released its "International Control Strategy Report," which classified 201 nations and territories by the degree of money-laundering in that country. The report listed as either "high" or "medium-high"—the highest two ratings—the following countries and possessions: Aruba, Antigua, Canada, Cayman Islands, Cyprus, Hongkong, Israel, Liechtenstein, Luxembourg, the Netherlands, the Netherlands Antilles, Singapore, Switzerland, the United Arab Emirates, the United Kingdom, and the United States.

### Money-laundering havens

There are two ways that the laundered drug money will be held offshore: either as a deposit at a bank, or invested in one of the myriad of offshore investment instruments, such as trusts, mutual funds, and international business corporations.

When money is deposited in a country's banking system by someone who is not a national of that country, that is classified as a "bank's foreign deposit." When a bank lends

TABLE 2

### Foreign assets held in deposit banks, by country

(billions of \$)

	1974	1980	1990	1994*
<b>Industrial Nations</b>				
1. United Kingdom	109	356	1069	1160
2. Australia	0	0	11	14
3. Canada	14	35	52	55
4. Luxembourg	15	32	355	390
5. Netherlands	24	105	186	205
6. Switzerland	42	140	444	464
<b>Asia</b>				
7. Hongkong	7	28	464	582
8. Singapore	9	45	347	363
<b>Middle East</b>				
9. Bahrain	0	31	59	66
10. Israel	2	6	8	11
11. United Arab Emirates	1	6	18	17
<b>Western Hemisphere</b>				
12. Bahamas	25	125	175	170
13. Cayman Islands	15	85	389	410
14. Netherlands Antilles	0	7	16	30
<b>Subtotal 14 offshore centers</b>	<b>263</b>	<b>1001</b>	<b>3593</b>	<b>3937</b>
<b>Total all countries</b>	<b>466</b>	<b>1822</b>	<b>6794</b>	<b>7565</b>

\* Third quarter 1994.

Source: IMF.

money—usually the foreign money that was deposited in the bank—to someone abroad, that is classified as a "bank's foreign asset." Since foreign liabilities and foreign assets almost match, for most banking systems, one can talk about one or the other, to indicate the trend of both.

We will look at bank foreign assets, but we caution, this is not all the hot money in the banking system, because if a British money-lauderer, for example, deposits money in the British banking system, that is considered a domestic deposit, but it is still laundered drug money. Thus, the volume of the laundered drug and criminal proceeds in the banking system is bigger than that discussed below, although more than half of all drug money is held in banks abroad. On the other hand, not all the money in foreign bank accounts is illegal; these foreign accounts include legitimate business funds deposited and/or lent abroad. But for the countries listed below, the amount of foreign assets is anywhere from 10 to 50 times more than is needed by their domestic economies. What does a postage-stamp economy need with a few hundred billion dollars of funds? Yes, some of these haunts can help one escape taxation. But take away the \$1.1 trillion per annum drug and criminal money trade, a portion of which these banking systems cap-

ture and accumulate each year, and the category of "bank foreign asset" would fall by more than half, and up to 95% in some places.

*EIR* chose 14 financial centers to examine (Table 2), out of about 62. These 14 have the largest masses of funds, and statistical information is available on them, whereas for several offshore centers, only scanty statistics are available. The table lists the "bank foreign assets" of these 14 money-laundering centers. The British-Dutch-Swiss pedigree is apparent.

The next-to-the-last line in this table ("subtotal") tells quite a story. The level of foreign assets of deposit-taking banks in these 14, predominantly "offshore," centers, rocketed from \$263 billion in 1974 to \$3.937 trillion in 1994. This is a stunning 1,400% increase in just 20 years. It demonstrates the velocity of the money-laundering network's growth. For 14 economies, only one of which has a population of more than 20 million, to control nearly \$4 trillion in bank foreign assets, gives them huge leverage over the world economy. In most of these places, the level of bank domestic assets is virtually nonexistent. Compare the next-to-the-last line to the last line, which shows total world bank foreign assets. In 1995, the 14 financial centers held 52% of the world's total bank foreign assets. These 14 countries represent less



than 2% of the world's population.

A country breakdown shows:

*Cayman Islands*—population: 34,000; bank foreign assets: \$410 billion

*Switzerland*—population: 7 million; bank foreign assets: \$464 billion

*Bahamas*—population: 270,000; bank foreign assets: \$170 billion

*Luxembourg*—population: 390,000; bank foreign assets: \$390 billion

Then, there is Britain, the self-avowed speculative capital of the world. With a population of 58 million, Britain holds bank foreign assets of \$1.160 trillion, or 15% of the world's total. Britain holds more bank foreign assets than the United States and Germany combined, *despite the fact that their combined economy is seven times bigger than Britain's, and that their combined exports are five times greater than Britain's.*

What does Britain need all that laundered money for? Answer: to maintain its position as the speculative financial capital of the world. The British banking system is bankrupt several times over. But with these laundered funds, it can preserve its share of world financial turnover—and related political muscle. To wit: It underwrites 64% of all trading in equities in markets foreign to those equities' domicile; 45% of all international cross-border mergers and acquisitions; 75% of all debt borrowed in markets foreign to borrowers' domicile; 35% of all currencies swaps; it earns 50% of all shipbroking commissions, and so forth.

Unlike the American banking system, where the banks are required to file CTRs,

the British banking establishment doesn't think that that is a civilized practice. It wouldn't be "cricket" for the money-laundering trade, so such CTR reporting is not required. All the British require is the filing of Suspicious Activity Reports—which the American banking system requires also. In 1994, British banks filed a grand total of 13,000 SARs. In contrast, in 1994, American banks filed 8 million CTRs.

And while the British banking system proper does not formally have bank secrecy (however, just try to penetrate the gnomes of Lombard Street!), if strict bank secrecy is needed, the funds can first pass through any one of 10 British dependencies, ruled by the Queen, which do have bank secrecy, including the Cayman Islands, the British Virgin Islands, and the Channel Islands, which are off the coast of France, or the Isle of Man, which is off the coast of England.

Meanwhile, for continental money laundering, there is the impregnable Swiss banking system, with \$464 billion in bank foreign deposits. Switzerland enacted bank secrecy laws in 1934, largely to help protect money laundered from France. But it was quickly used during World War II to hide Nazi assets and assist the Nazi war machine. During World War II, Swiss banks furnished 90% of Germany's foreign exchange requirements, without which the Nazi regime could not have bought anything abroad. In 1943, Nazi Minister of Economics Walter Funk declared publicly that his government could not afford even a two-month break in the Swiss financial connection.

The Swiss bank secrecy code states that bankers, lawyers, and others cannot divulge information about their clients' numbered financial accounts. The penalty for violation is both jail time and a fine. Also, conveniently, tax evasion, and securities and foreign exchange violations are considered fiscal or administrative offenses in Switzerland, not crimes. Therefore, Swiss authorities usually refuse legal assistance to countries trying to prosecute violators of laws in these areas who have parked their money in Switzerland. This paradigm has been emulated by the offshore financial centers.

Nonetheless, the Swiss gnomes have developed a reputation—largely created and promoted by themselves—for financial conservatism and uprightness. This is nonsense: The Swiss are wild speculators; per capita, Switzerland has 10 times the dollar derivatives levels of the United States, making it the highest in the world. The Swiss Banking Commission is not even allowed to regulate Swiss banks, only the auditing firms are, which the Swiss banks hire and pay for.

A second look at Table 2 reveals something else: the high degree of domination that these 14 financial centers exercise over the bank foreign assets in the regions in which they are located. (This article follows the classification procedure of the International Monetary Fund, from which these statistics are taken, and classified both the United States and Japan as industrial nations, rather than placing them in their respective regions). Table 2 shows that just two British-run offshore financial centers, Hongkong and Singapore, control 92% of the bank foreign assets of Asia (minus Japan); three British-influenced financial centers, Bahrain, United Arab Emirates, and Israel, control 61% of the bank foreign assets of the Middle East; and three Anglo-Dutch-owned offshore financial centers, the Bahamas, Cayman Islands, and the Netherlands Antilles, control 91% of the bank foreign assets of the Western Hemisphere (minus the United States).

These offshore financial centers are strategically located amid the Asian, Middle Eastern, and Ibero-American drug trades and money flows. Map 14 shows that the offshore centers are midway between the drug-producing region of Colombia, Peru, and Bolivia, and the largest consuming market, the United States.

Table 3 reports the dollar amount of all assets—not just banking assets—of the leading money-laundering centers. This consists of the assets of banks, trusts, mutual funds, captive insurance companies, and offshore shipping. In 1995, the total of all offshore financial center assets stood at \$5 trillion, compared to \$1.5 trillion at the end of 1989. This is a stupendous growth of \$3.5 trillion in six years, or an asset build-up of \$550 billion per year.

The biggest source of tax haven offshore financial assets consists of trusts, which, as of 1995, held approximately \$2 trillion in assets. These trusts allow a money-launderer to transfer legal title of possessions to a holding company or some such instrument that provides anonymity, disguising who controls the possession. The areas in which these trusts are incorporated have little or no taxation, and little or no financial or corporate regulation; virtually any criminal, backed by a credit reference provided to him by a banker, can incorporate his dirty holdings into a trust.\*

The popularity of such trusts is attested to

\* Whereas in Table 2, the level for offshore bank foreign assets is \$3.9 trillion, the level used for offshore bank foreign assets in Table 3 is approximately \$1 trillion. It appears that the latter only uses net foreign assets, i.e., foreign assets minus foreign liabilities. Were the \$3.9 trillion level employed in Table 3, then total foreign assets of all kinds would be closer to \$7 trillion.

TABLE 3  
**British Empire's offshore financial centers**

	Total Assets (billions \$)
Cayman Islands	480
Singapore	390
Luxembourg	200
Switzerland	190
Hongkong	130
Lichtenstein	120
Channel Islands	110
Bahamas	100
British Virgin Islands	90
Curaçao	60
Turks and Caicos	30

Sources: "Comparison of Offshore Domiciles and Asset Protection Planning" by Walter H. Diamond; phone discussion with Mr. Diamond.

by the fact that the tiny British territory islands of Nevis and St. Kitts, with but 10,000 people, have 60,000 incorporated offshore companies, many of them offshore trusts.

In many cases, these trusts invest in offshore or onshore instruments, bringing a fairly high rate of return, many in the United States, Europe or, Asia. Thus, the money-launderer is able to preserve his ill-gotten gain and enlarge it.

### **Bringing the money onshore**

A good portion of the money that is deposited offshore, is brought back onshore in the form of a loan, which is what a "bank foreign asset" is. The commercial real estate markets in New York, Hongkong, London, Paris, Frankfurt, and Moscow are perfect vehicles for such loans, since it is widely expected that the purchase of an expensive building will involve borrowed money. Worldwide stratospheric real estate prices, reflect the effect of drug money in these markets.

The point for the drug-money-launderer in buying and selling office buildings, is either to own the property, or to get the money onshore. Let us say that real estate investor A, who is part of the drug cartel, borrows \$250 million of laundered money from a Canadian bank, to buy a commercial office building in Manhattan for \$250 million. The building may have previously sold for \$225 million, so the drug-tainted real estate investor dealer helps bid up the price. The investor holds the building for a certain period of time, and then sells it, perhaps for \$260 million. He now has a \$10 million profit, but, far more important, he has someone else's \$260 million in clean money.

The real estate properties, like hotels on Boardwalk in the "Monopoly" game, are a means to an ulterior end. Purchasing real estate is so popular, that the bidding process, through the use of drug money, has helped to drive real estate prices upward.

A second way of getting the money onshore is to plow the money into the investment market. Many offshore investment trusts are vehicles to purchase stocks, bonds, etc.

This has an established criminal history. During the 1960s, money from the drug- and dirty-money trade was laundered through the Geneva-based, Rothschild-run Investors Overseas Services (IOS) of Bernie Cornfeld and Robert Vesco. Some of this money was the "skim money" from the gambling and drug operations of Meyer Lansky, the financial godfather of organized crime. By the early 1970s, the offshore infrastructure of IOS was brought onshore and folded into the Rothschild-Morgan-run Drexel Burnham Lambert. During the 1970s and 1980s, until

its February 1990 bankruptcy, Drexel and its allies laundered hundreds of billions of dollars of drug money and other hot money, using it to take over and asset-strip American industry.

A good portion of corporate takeovers and stock market activity—foreign and domestic—takes place today with drug and criminal money, replicating the vehicle forms and practices of the IOS and Drexel, even though those two particular firms are defunct. Indeed, a survey of the major equity and bond markets of the world, particularly the highly touted "emerging market" stock and bond markets of the former communist bloc and the developing sector, would show a heavy use of drug and dirty money.

This is equally true of the \$75 trillion worldwide derivatives market. Brian Bosworth-Davies, a London-based expert on money laundering, who used to investigate derivatives fraud for Britain's Scotland Yard, told *EIR* on March 1 that huge sums of drug money and other illicit funds are laundered through the derivatives market. He described one transaction used to launder money, which, he said, "we encountered so many times, it became monotonous." A money-launderer would set up two companies, one based, say, in the Channel Islands of Jersey and the other in Guernsey. The Jersey company would open a trading account with one commodity broker; the Guernsey company would open a trading account with another commodity broker. "The Jersey company would take a long position [betting the price would rise] in a futures contract, in, say, September soy beans. The Guernsey company would take a short position [betting the price would fall] for the same amount for the same contract."

Whichever company loses, pays for the lose-out of its laundered drug money pool. The winner takes its profits out of the market in clean dollars (the two commodity brokers are not trading with each other, but with the general market). On balance, the transaction is a wash: The money-launderer is not trying to make money on the deal, but to get dirty money into the market, and clean money out.

More dirty money is laundered through the derivatives market than through gambling casinos. This Bosworth-Davies stated, "On the derivatives markets, if you trade a small amount, say \$10,000 or something like that, then you might be suspect. But trades of many millions of dollars—that's the norm."

### **The Salinas-Citibank case**

The U.S. Justice Department and at least one grand jury are investigating Raúl Salinas de Gortari's movement of illicit funds through Citibank to hiding places overseas.

While the ostensible target of the investigation is Salinas, it appears that Citibank is in the investigative sights as well.

*EIR* covered the case in depth in our issue of June 7, 1996 ("Money-Laundering Scandal Could Rock Citibank, Fed"). But an illustrative piece of the Citibank story proves conclusively the bankers' witting role in directing money laundering.

According to published reports, between 1989 and 1993, the person who moved at least \$100 million of Raúl Salinas's illicit money—and perhaps much more—into bank accounts in Switzerland, London, and the Cayman Islands, using false names, was Amelia Grovas Elliot, the head of the Mexico team of Citibank's Private Bank (\$80 billion in assets). Elliot was Salinas's personal banker. She had headed the Mexico team since 1983, and is a 27-year veteran of Citicorp.

At a May 12, 1994 drug trial, Elliot testified as a star prosecution witness, on how a supposedly "clean" bank, Citibank, then America's largest bank, administers banking operations in Mexico. During her testimony, Elliot asserted that she does not act alone at Citibank, and defined a chain of command. She described how Citibank's Private Bank accepts customers who usually have a starting net worth of \$5 million, and that the Citibank private banker "knows you [the customer], knows who you are, knows your family . . . recognize[s] your voice." Elliot was then asked to describe the long vetting process, including approval from higher-ups, that Citibank engages in, before it accepts a large deposit from a customer. This is the "know your client" policy. In response to a question about this, Elliot stated:

"The 'know your client,' at least in our bank, is part of the culture. It's part of the way you do things. It's part of the way you conduct yourself. If you come in with a prospect and/or name of a prospect, you will be sure to be asked, 'Who is this person, what do they do, who introduced them to you?' by at least three or four people higher than you are. It's just the way it is" (emphasis added).

A Citibank spokesman told *EIR* on May 10 who the "three or four higher people" in Citibank's chain of command would be, who would have to approve Elliot's decision to move Raúl Salinas's tens of millions of dollars around the world. These would include Citibank Chairman John Reed. Further, during part of the time that Citibank was laundering Salinas's money, Citibank, which had blown out in 1991, was under effective Federal Reserve Board receivership, and was

being held up by a Fed life support system. Fed supervisors were all over Citibank. Top echelons of the U.S. Federal Reserve Board, including potentially up to Chairman Alan Greenspan, would have seen the paperwork trail of the Salinas money, under whatever name it was being moved.

The Salinas-Citibank-Fed case illustrates the shortcomings in the current fight against money laundering. The basic U.S. anti-money-laundering approach suffers from two glaring flaws:

First, there are numerous loopholes. Just take the CTR reporting requirement. This is waived 1) for all wire transfers; 2) for all cash deposits of \$10,000 or more made by businesses whose stock is publicly traded on any American stock exchange; and 3) for

Citibank Private Bank customers, with net worths of \$5 million or more, such as Raúl Salinas. By simply qualifying to be a preferred client of Citibank's Private Bank (or any other bank's preferred client club), a bank customer can escape such scrutiny, if his banker applies for an exemption because the customer in question is so "valued."

The second flaw is methodological. Money laundering thrives because the entire banking system, under British control, is hooked on \$1.1 trillion in annual drug and criminal money flows; it depends on this for its very survival.

To succeed in the fight against money laundering, start at the top. Go after the John Reeds, Alan Greenspan, and the controlling layers of the Anglo-Dutch-Swiss financier

oligarchy, and the British Commonwealth political establishment, who run drug- and criminal-money-laundering as a worldwide integrated enterprise and one of the most profitable businesses on earth.

The chairmen and board members of the financial institutions that launder money, have never gone to jail in any major drug-money-laundering case in the last 30 years. They always claim, ingenuously, "I didn't know this was going on at my bank." In most cases, they never even have to set foot in a courtroom.

Put some of these top bankers and the British financier oligarchy in jail for 30 years. Watch the drug-money-laundering trade start to shrivel; watch the drug-trafficking trade collapse.

## The drug-laundering haven of the Bahamas

The 300-year criminal history of the Bahamas unites all the different strands of money laundering and the drug trade, revealing how the British orchestrate that trade. Its story could be repeated for each of the other exotic offshore British financial centers.

In 1973, the Bahamas was granted nominal independence. But even though the country elects a prime minister, Queen Elizabeth II is the head of state of the islands, and the Queen's Privy Council's "say so" is final in all legal matters. The population is impoverished, while banking and tourism constitute a huge portion of the Bahamas' fragile economy.

The Bahamas has a dual function: It is both a drop spot and transshipment point for drugs, and a drug-money-laundering center. The Bahamas is an archipelago of 700 islands, of which the closest is 50 miles away from Florida.

Since only 40 of the 700 islands are populated, the others make perfect drop points for drugs. During the 1980s, according to U.S. Drug Enforcement Administration reports, up to 75% of the drugs that reached the United States from Ibero-America went through the Bahamas first. American authorities, fearful of the drug flow into the United States, forced the Bahamas to take measures to cut back the drug flow. The June 7, 1996 London *Financial Times* reported, "It is guessed that no more than 10-15% of illegal drugs shipments to the U.S. now go through the islands." That may be an underestima-

tion, and the *Financial Times* admits that the drug flow is increasing, now that U.S. radars to monitor drug trafficking were recently taken down in Grand Bahamas, Exuma, and Great Inagua, in a cost-saving measure.

This is part of the Bahamas' historic profile. During the American Revolutionary War (1775-83) and the War of 1812, when Britain invaded America, the British used their colony of the Bahamas as a base for naval assaults on the United States. Because of this, in 1776, the American revolutionaries occupied the Bahamas. After the Revolutionary War, Tory sympathizers fled to the Bahamas, and became part of the establishment. During the British-backed Confederate uprising of the American Civil War, the British used the Bahamas as a base to run ships through the North's shipping blockade against the South. A successful blockade-running voyage could earn \$300,000.

During World War II, the pro-Nazi Duke of Windsor was exiled to the Bahamas, but was placed in the very important post of Bahamian governor general. During this time, the duke used Axel Wennergren, the Swedish eugenicist and Nazi agent, to launder money to Mexico. During the 1960s, organized crime godfather Meyer Lansky built the Resorts International casino on Paradise Island in the Bahamas, which served as an international money-laundering center.

The money-laundering Canadian banks

dominate the Bahamian banking scene, hiding behind Bahamian bank secrecy and lax Canadian banking laws to shelter drug money. In the Dec. 24, 1985 *Montreal Gazette*, in an article entitled, "How Canadian Banks Are Used to 'Launder' Narcotics Millions," William Marsden wrote that drug money is "hailed to Canadian banks [in Nassau, Bahamas] in huge stacks of small bills—sometimes millions of dollars at once—stuffed into suitcases, duffle bags, paper bags and boxes by narcotics smugglers. . . ."

"Trusted drivers and security guards ensure that their cash gets into the banks safely. And once the money is deposited, laws that forbid Bahamian bankers to disclose bank records ensure that it's safe from investigation by foreign narcotics and tax agents. . . ."

"Canadian banks, which handle 80% of banking business in the Bahamas, have become key instruments in 'laundering' illicit money—giving it a clean history—for smugglers hiding hundreds of millions of dollars from U.S. and Canadian narcotics agents.

"By taking these huge cash deposits, which is not illegal, the Canadian banks are facilitating criminal activity. . . ."

"In the past four years, Bank of Nova Scotia twice stonewalled U.S. investigations by refusing to hand over bank records of drug smugglers to a [U.S.] grand jury. The bank finally yielded after paying nearly \$2 million in fines."

Under U.S. pressure, the Bahamian banking system has made changes in its money acceptance practices, but during the past decade, the volume of laundered drug money has gone up.—Richard Freeman