

Bank of New York Sued by Russian Customs for \$22Bln for money laundering

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Global Research, May 18, 2007

The Moscow Times 18 May 2007

Region: [Russia and FSU](#), [USA](#)

Theme: [Global Economy](#)

The Federal Customs Service filed a lawsuit in Moscow on Thursday seeking \$22.5 billion in damages from the Bank of New York for suspected money laundering, the service and its lawyer said.

The lawsuit could be linked to the money laundering charges brought against former Yukos chief Mikhail Khodorkovsky and his business partner Platon Lebedev earlier this year, a member of their defense team said.

The bank, the world's second-largest custodian of investor assets, dismissed the claims as being "totally without merit" and promised to mount a vigorous defense.

Customs service lawyer Maxim Smal accused the bank of involvement in "an illegal scheme" that helped Russian businesses bring money into Russia without paying taxes from 1996 to 1999, Interfax reported. He filed the lawsuit with the Moscow Arbitration Court.

The customs service confirmed the filing of a lawsuit against the Bank of New York in a statement later in the day, and said it would reveal more details at a news conference Friday.

The lawsuit stems from a confession by former BNY vice president Lucy Edwards in 2000, which followed a lengthy U.S. investigation into suspicious transactions at the bank, Smal said.

Several accounts that existed at the bank in the 1990s, Edwards said, were part of an illegal network that allowed Russian businesses to defraud their government of customs duties and tax revenues by transferring funds in and out of Russia in violation of currency controls.

These accounts belonged to Benex International and BECS International and were opened in 1996 by Peter Berlin, a Russian emigre with the assistance of Edwards, who was his wife and also a Russian emigre. The New York prosecutors who conducted the investigation reached a settlement with the bank in November 2005.

From 1996 to 1999, some \$7 billion flowed from Russia via the Benex and BECS accounts to third-party recipients around the world, the prosecutors said.

Yukos majority shareholder Group Menatep, now known as GML, was linked to the Bank of New York scandal through its investments in titanium producer Avisma. Some of the \$80 million proceeds from Menatep's sale of Avisma shares in 1998 were transferred to accounts

in Benex.

The events covered by the U.S. investigation occurred more than 10 years ago and were resolved by the company, the Bank of New York said in a statement. "While we have not seen the complaint, based on our knowledge of the facts, we believe any such suit would be totally without merit, if not frivolous, and we would expect to defend it vigorously," the bank said.

Lawyers "purporting to represent" the customs service approached the bank previously and said they would dispose of the matter for a tiny fraction of the amount now claimed, the bank said.

The bank has a representative office in Moscow, but no assets or accounts that could be seized or frozen should the customs service win the case, said Kevin Heine, a BNY spokesman in New York.

Robert Amsterdam, a Canada-based lawyer for Khodorkovsky, said prosecutors could seek to beef up their case through the Bank of New York lawsuit.

"It doesn't strike me that it's impossible," he said. "It would reflect something different than what we've seen."

Yury Shmidt, a Moscow-based lawyer for Khodorkovsky, said that nothing in the documents relating to Khodorkovsky's case suggested any link with the Bank of New York.

"I don't think there is a link, and I hope there is no link," he said.

Prosecutors filed new charges against Khodorkovsky and Lebedev in February, accusing the two men of embezzling and laundering up to \$25 billion from 2000 to 2003. The two are already serving eight-year sentences on fraud and tax evasion charges.

Prosecutors formally suspended their investigation into the new charges in mid-April, Amsterdam said. "The case is completely on hold," he said.

"A few months ago, it looked like we'd have a trial by now, but they're no longer rushing," he said. The defense team was given no reason for the suspension, he said.

Prosecutors have asserted that the oil revenues were embezzled and laundered through offshore trading companies and Khodorkovsky's Open Russia foundation.

They claim that from 2000 to 2003, Yukos officials illegally transferred billions in crude oil sales through two trading subsidiaries, Fargoil and Ratibor, both registered in tax havens. The revenues from sales of the refined product were then said to have been transferred back to Yukos, and the profits siphoned off by Khodorkovsky and his associates.

Antonio Valdes Garcia, the former head of Fargoil, fled from authorities in Moscow in mid-January, just days before he and former Ratibor president Vladimir Malakhovsky were due to be sentenced over their involvement in the purported embezzling scheme.

Lawyers for Khodorkovsky and Lebedev have said the charges are intended to make sure that Khodorkovsky and Lebedev are not released on parole in advance of December's State Duma elections and the March 2008 presidential vote. If convicted, Khodorkovsky and

Lebedev face an additional 15 years in prison.

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