

The Dollar Racket

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More and more often, we find out that America has imposed a penalty on a non-US bank or company. In addition, the names of these banks and companies are well known and the amount of the penalties being imposed is formidable (sometimes hundreds of millions of dollars). It is a new phenomenon of global economic life and is unprecedented. Banks and companies have been fined, but by the authorities of the countries where they are based.

Conditions for the racket

Some experts believe that the enormous fines some non-US (primarily European) banks are being forced to pay in penalties today is part of America's financial restructuring campaign announced by the US President. Others believe that the fines are a new competitive weapon being used by American banks against European ones. Still others believe that the new mechanism of levying fines is the new global initiative of America's ruling elite to strengthen the country's geopolitical superiority over the Old World and the world as a whole. There are also other theories behind what today is becoming known as the dollar «racket»...

On the one hand, after the events of [11 September 2001](#), the US began vigorously adopting legislation that dealt with money laundering, corruption, financial terrorism, tax evasion, organised crime, drug trafficking, cybercrime and other security threats. It is interesting that the new generation of laws adopted in America are of an extraterritorial nature. This means that if a threat to America's security is created by the actions (financial operations) of foreign banks, companies and individuals outside of America itself, legal liability may still be applicable to these entities. American courts could then impose a penalty or other form of punishment on these foreign banks, companies and individuals. Given that common law prevails in America, US court decisions on the penalising of non-resident entities are currently rubber-stamped almost automatically. Furthermore, the US is initiating the development and ratification of a variety of international conventions on combating the threats listed above with other countries. Conventions like these are becoming additional grounds for penalising non-US perpetrators in America.

On the other hand, in order to monitor all of the violations being committed by foreign banks, companies and individuals outside of America, Washington has spent decades creating a global financial-information system. This system, which I described in my article [«The world under the eagle eye of the US government and banks»](#), allows all the actions of non-resident entities in the world to be monitored and all violations of America's rules of the game outside of the US to be recorded.

The history of Standard Chartered

Standard Chartered was, until last year, one of the most secret banks. It was established in

Great Britain as far back as the middle of the 19th century and is thought to be part of the Rothschild empire. Like the Rothschilds themselves, Standard Chartered preferred to remain in the shadows after the Second World War, but in terms of the scale of its operations, it became one of Europe's largest banks. In recent years, 90-95 percent of this bank's pre-tax profit has been obtained from operations outside of the US, Great Britain and Continental Europe. In August 2012, the bank was forced to blow its cover owing to a scandal initiated by the US Department of Financial Services (DFS). It brought charges against Standard Chartered alleging that the bank had carried out illegal transactions aimed at supporting the Islamic Republic of Iran. According to the DFS, these transactions amounted to a quarter of a trillion dollars, and the New York branch was helping to shift the money between British and Middle Eastern banks to the benefit of Iranian citizens. According to American authorities, in fact, Standard Chartered could be linked to terrorist and extremist organisation in Libya, Sudan and Myanmar, which are also areas covered by US sanctions. The New York Department of Financial Services (a subdivision of the DFS) declared: «For almost 10 years, the bank schemed with the government of Iran and hid from regulators roughly 60,000 secret transactions, involving at least \$250bn». As noted above, Standard Chartered passed money through its New York branch on behalf of Iranian financial clients, including the Central Bank of Iran and state-owned Bank Saderat and Bank Melli, which were subject to US sanctions. At the centre of the scandal were so-called «U-Turn transactions», which meant that the money was not issued from Iran and did not end up in that country, but was moved on behalf of Iranians between British and Middle Eastern banks with the help of the New York branch of Standard Chartered. The US Ministry of Finance had banned such operations in November 2008 because of the fear that they were being used to bypass sanctions. According to the regulator, actions like these were damaging America's entire financial system, making it vulnerable to weapons and drug trafficking and terrorists. Ultimately, the American authorities demanded that the bank pay a fine of \$667m. As reported by the media, the fine has already been paid.

The «cropping» of other foreign banks

The system of monitoring bank transactions is an important factor in the competitive struggle between US and Western European banks. America is especially worried about banks in London, which is why they find themselves in the crosshairs of the American intelligence agencies. Every entity that has been accused of collaborating with Iran over the past year has been of British or Dutch descent. In June 2012, the Dutch bank ING admitted breaching the sanctions imposed on Iran and agreed to pay US authorities the enormous fine of \$600m (and according to some reports, this was also for breaching sanctions imposed on Cuba). At the time, this was the biggest fine ever imposed in the entire history of sanction breaches.

The British bank Barclays PLC also agreed to pay \$453m after an investigation by American and British authorities showed that the Bank had allowed serious violations when making decisions on lending and deposit operations, virtually participating in money laundering.

In the summer of 2012, the US Senate tackled the British bank HSBC Holding which, according to American intelligence agencies, had been handling operations for the practically US-controlled Mexico, providing services to Mexican drug dealers. The bank was also accused of breaching sanctions imposed on Iran. Only in December 2012 did HSBC declare it was ready to pay US authorities a fine totalling \$1.92bn.

In 2012, the scandal regarding the manipulation of the Libor interbank lending rate reached its peak. Major European (primarily British) and American banks had been manipulating the rate for a number of years, allowing them to get rich illegally. An investigation into the Libor manipulations was started in 2008 and involved other major banks as well as Barclays such as the Royal Bank of Scotland, Lloyds Banking Group, Citigroup, HSBC, UBS and Deutsche bank, with Barclays being the first bank to admit responsibility. Over the last year, there have been a number of subsequent investigations by the financial supervisory authorities of America, Great Britain, Switzerland and a few other European countries regarding these manipulations. The banks were charged with heavy fines. It should be said that the fines for these manipulations were considerably more substantial than in Europe. Thus in December last year, the Swiss bank UBS declared that for manipulating the Libor rate, it would be paying a fine of nearly 1.4bn Swiss francs (\$1.5bn).

The US FATCA law and foreign banks

Serious problems may arise for foreign banks with regard to the fact that the US FATCA (Foreign Account Tax and Compliance Act) law on the taxation of foreign accounts came into full operation this year. According to this law, foreign banks will be obliged to report all clients which may have something to do with the US (citizenship or residence visa) to the American Internal Revenue Service, as well as disclose information about their operations and account balances. If the government or bank refuses to comply with the requirements of FATCA, then the US will withhold a 30 percent tax on all the income of these banks from sources within the US. In this way, the US tax authorities can take control of the global financial system. Even if an American (a citizen or resident, including the owner of a «green card») did not provide information on their foreign accounts or companies, this is now dealt with by the foreign bank. It is not impossible that some small financial organisations outside of the US are completely refusing to provide services to American clients, to avoid getting tied up in the rather burdensome accounting procedures of the US Internal Revenue Service regarding their accounts. They still have to enter into an agreement with the US Internal Revenue Service, however, otherwise they will find themselves being subjected to the penalty tax even if they do not have any clients from America. Consequently, the information on American taxpayers that the Internal Revenue Service of the United States had previously had to obtain with a fight (remember at the very least the story involving the Swiss bank UBS) is now going to be offered by foreign banks both regularly and voluntarily.

In March 2013, the US Internal Revenue Service announced that it was planning to search for its debtors around the world and was expecting to receive \$5m in fines from the foreign banks concealing them. First on the list were banks in India, Israel, Hong Kong and Singapore. Sanctions against the Swiss bank Wegelin, which did not have any business operations in America, became the precedent. Lawyers say it has placed the continued existence of banking secrecy in doubt and has prepared the financial sector for the rules of FATCA.

«The government has no intention of letting up in its relentless pursuit of wealthy Americans with secret accounts offshore, and soon it will have even more tools to work with», says Mark Matthews, a former chief of the Internal Revenue Service's criminal-investigations division who is now a lawyer at Caplin & Drysdale. Over the past four years, the US government has already managed to obtain \$5.5bn in unpaid taxes and penalties.

A decision on the possibility of imposing sanctions against a foreign bank not operating on US soil was passed on 4 March 2013. The oldest private bank in Switzerland, Wegelin, was

fined \$74m by the American authorities for tax law violations. Wegelin was established in 1741 and was considered one of the country's most prestigious banks. The bank did not have any offices or departments on US soil, therefore it was certain it did not face any penalties as a result of the facts of the case. In January 2013, the bank admitted that it had closed its eyes to the activities of its American clients who had been avoiding paying taxes. It is more than likely that Wegelin will close soon after it pays the fine. As a result of the trial, the bank virtually ceased its business operations and its clients began withdrawing their money. Wegelin was the main bank Americans used to avoid paying taxes after the Swiss bank UBS entered into an agreement with the authorities in 2009. UBS agreed to breach its banking secrecy law and gave the US authorities the names of 4500 of its clients (the US had insisted on information about 52,000 non-resident accounts). Nevertheless, the bank still had to pay a \$780m fine. The bank lost a further \$20m owing to the mass exodus of clients frightened by the bank's willingness to relax the banking secrecy law.

New York as the centre of the dollar racket

It is not just banks that are getting caught in the US authorities' field of vision, but also companies in the non-financial sector of the economy. With this, it may not just be a case of breaching American sanctions against one country or another, but also corruption violations and offences in other countries. For example, in 2010 the US Justice Department accused the German group Daimler, which owns Mercedes-Benz, of bribing officials in 22 countries, including Russia. Daimler pleaded guilty and preferred to pay its way out of trouble. The Germans paid the US government a fine of \$185m. Furthermore, the affair had absolutely nothing to do with the US: the company did not bribe American officials and no American laws were violated.

New York, where the majority of US banks in which foreign banks open up their own correspondent accounts are situated, is playing its own special role in the dollar racket. While in turn, New York banks have their accounts in the Federal Reserve Bank in New York. No matter what anybody says, New York is still the global financial centre with which neither London, Tokyo, Frankfurt or Hong Kong can compare. After all, the lion's share of all global dollar-denominated transactions passes through New York. This includes those that have absolutely nothing to do with the US. Consequently, the New York State Department of Financial Services, which was created in 2011, also has its special role to play in the exposure of bank and company wrongdoers. Around 4,500 organisations, with assets of \$6.2 trillion, are under the direct control of this agency.

Lawyer David Pitofsky, from the law firm Goodwin Procter, observes: «Even if a transaction is done, say, in Japanese yen, if a blip in the system turns these into dollars, that in theory could mean it falls under US law» (<http://www.bbc.co.uk/news/19172065>). This circumstance is a powerful incentive for non-US banks and companies to replace the US dollar with the currencies of other countries when making international payments, while at the same time creating their own regional systems of international payments. There is no doubt, for example, that there is a need for the immediate creation of an integrated group of Euro-Asian countries involving Russia, Belarus, Kazakhstan and other post-Soviet countries. International payments within this group could then be made in roubles, and Moscow would be able to lay claim to the status of regional financial centre as an alternative to New York.

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