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“Dark Alliance” 2.0: The Federal Reserve, Wall Street and the Laundering of Drug Money

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Antifascist Calling...

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In October 2005, at the height of the speculative financial bubble that eventually cost taxpayers trillions of dollars and devastated millions of lives, Citigroup Equity Strategy analysts Ajay Kapur, Niall Macleod and Narendra Singh published their provocative, though accurate portrayal of bourgeois amorality, *Plutonomy: Buying Luxury, Explaining Global Imbalances*.

According to these worthies, the egregious economic disparities between the filthy ruling rich and the rest of us revolve around the salient fact that the “world is dividing into two blocs–the plutonomies where economic growth is powered by and largely consumed by the wealthy few,” and the great mass of proletarians who need to sit down, shut up and worship at the feet of their masters.

To whit, their evocation of “disruptive technology-driven productivity gains, creative financial innovation, capitalist-friendly cooperative governments . . . overseas conquests invigorating wealth creation” as the engines driving capitalism’s criminogenic “wealth waves . . . exploited best by the rich and educated,” recalled Orwell’s dystopian vision of a future which imagined “a boot stamping on a human face–forever.”

In a follow-up piece published in March 2006, Citi claimed that “so long as the rich continue to get richer, the likelihood of these conundrums [obscene income disparities] resolving themselves through traditionally disruptive means (currency collapses, consumer recessions etc) looks low.”

Indeed, “While we have concerns about the spending power of the middle-income consumer in the US in the event of a housing slowdown, the richest 10% are less exposed to a housing slowdown, as their wealth is more diversified.”

In other words, while Citi’s “plutonomic” clients were gobbling up an ever greater share of the world’s wealth, hyperinflating the real estate bubble and peddling fraudulent “investment instruments” that *still* threaten to drive the global economy into the abyss, “we believe that the rich are going to keep getting richer in coming years, as capitalists (the rich) get an even bigger share of GDP as a result, principally, of globalization.”

“We expect the global pool of labor in developing economies to keep wage inflation in check,” they opined, “and profit margins rising–good for the wealth of capitalists, relatively bad for developed market unskilled/outsource-able labor.”

If you’re an average worker, even one with an advanced degree and mountains of student debt, well, too bad suckers!

What could go wrong with this rosy picture? “Beyond war, inflation, the end of the technology/productivity wave, and financial collapse, we think the *most potent and short-term threat would be societies demanding a more ‘equitable’ share of wealth*.” (emphasis added)

Worry not dear plutonomes, there’s an app for that too in the form of militarized police deploying the latest in “less than lethal” technologies–pepper spray, tear gas, tasers and the like to keep those uppity proles at bay!

Lost amidst their prattle about the merits of investing in firms which cater to the rich (“do I buy Bulgari, Burberry and Coach or do I limit my options to Hermes and Toll Brothers?” The consensus opinion: “Buy them all!”), was any discussion of the social costs of these massive frauds, bloody imperialist wars of conquest or the hyperinflation of bank balance sheets with veritable “wealth waves” generated by the global drug trade and organized crime, some “3.6 percent of GDP (2.3-5.5 percent) or around US$2.1 trillion in 2009,” according to the United Nations Office on Drugs and Crime (UNODC).

There you have it, “market wisdom” in all its glory from an insolvent, bailed out bank!

Handed some $45 billion (£29.78bn) in TARP funds, the Treasury Department and Federal Reserve secretly backstopped more than $300 billion (£197.31bn) in toxic assets on their books in addition to the “$2.5 trillion [£1.64tn] of support from the American taxpayer through capital infusions, asset guarantees and low-cost loans,” as financial analyst Pam Martens pointed out in *Wall Street on Parade*.

‘Dark Alliance’ 2.0

Although journalists and researchers have spent decades documenting the links between secret state intelligence agencies like the CIA and organized crime conglomerates who butter their bread through global narcotics rackets, the role of major financial institutions in the grisly trade continues to be relegated by corporate media to the realm of “conspiracy theory.”

But in the wake of rising public anger over the Obama administration’s collusion with Wall Street drug banks, we were informed by *The New York Times* that the “Federal Reserve hit

Citigroup with an enforcement action on Tuesday over breakdowns in money laundering controls that threatened to allow tainted money to move through the United States."

According to the *Times*, the Federal Reserve "took aim at Citigroup and its subsidiary Banamex USA over failure to monitor cash transactions for potentially suspicious activity."

The Fed's Consent Order charged that Citigroup and Banamex USA "lacked effective systems of governance and internal controls to adequately oversee the activities of the Banks with respect to legal, compliance, and reputational risk related to the Banks' respective BSA/AML [Bank Secrecy Act/Anti-Money Laundering] compliance programs."

An unnamed bank spokeswoman told the *Times*, "Citi has made substantial progress in a comprehensive manner across products, business lines and geographies," and will continue "to take the appropriate steps to address remaining requirements and build a strong and sustainable program."

Nothing to see here, right?

Tellingly however, neither Citigroup nor Banamex USA admitted wrongdoing. In what is standard boilerplate in such agreements, the Fed meekly submitted that their "enforcement action" was issued "without this Order constituting an admission or denial by Citigroup of any allegation made or implied by the Board of Governors." Nor did the Fed "give specific examples of problems" at either bank, *Reuters* reported.

During Senate Banking Committee hearings last month, Senator Elizabeth Warren (D-MA) grilled federal banking regulators over their non-prosecution of Wall Street drug banks.

Referencing penalties levied against HSBC after the British banking giant was caught red-handed laundering billions of dollars for Colombian and Mexican drug cartels, Warren demanded: "What does it take? How many billions of dollars do you have to launder for drug lords" before a criminal prosecution?

Judging by the actions of Obama's Justice Department, apparently the sky's the limit.

But if history is any guide to current Citigroup "lapses," you can bet that the bank's balance sheet is awash with dirty money.

As a prelude to the Federal Reserve's Consent Order, last April the Office of the Currency (OCC) issued a cease-and-desist order charging Citigroup with "deficiencies in its BSA/AML compliance program."

OCC regulators stated that the bank had "failed to adopt and implement a compliance program that adequately covers the required BSA/AML program elements due to an inadequate system of internal controls and ineffective independent testing."

According to OCC, Citigroup "did not develop adequate due diligence on foreign correspondent bank customers and failed to file Suspicious Activity Reports ('SARs') related to its remote deposit capture/international cash letter instrument activity in a timely manner."

In their infinite wisdom, the Federal Reserve did not include fines against the bank, but the Board of Governors hastened to assure Citigroup's masters (their future employers?) that

the Consent Order was issued “solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony.”

You bet it was!

Citigroup and Banamex: The Salinas Affair

If all this sounds familiar, it should.

One of the more infamous cases involving taxpayer bailed-out Citigroup’s ties to money laundering drug cartels emerged in the late 1990s when Raúl Salinas de Gortari, the brother of former Mexican President Carlos Salinas, was arrested after his wife, Paulina Castañón, attempted to withdraw $84 million from a Swiss account controlled by Raúl under an alias.

Salinas, who spent ten years in prison over the murder of his brother-in-law, political rival José Francisco Ruiz, was released in 2005 when a Mexican appeals court overturned that conviction.

After nearly 13 years of legal proceedings into the origins of the Salinas fortune, *SwissInfo* reported that “Switzerland will hand over $74 million (SFr77.3 million) to Mexico from bank accounts linked to the brother of a former Mexican president.”

“The funds–more than $110 million in bank accounts linked to Raúl Salinas–were originally frozen after the Swiss authorities initiated criminal proceedings against Salinas in 1995 for money laundering.”

But as *Narco News* investigative journalist Al Giordano reported back in 2000,

> “The Chief Operating Officers of drug trafficking are not Mexicans, nor Colombians: they are US and European bankers, those who launder the illicit proceeds of drug trafficking. Institutions like Citibank of New York–as this report documents–are the true beneficiaries of the prohibition on drugs and its illegal profits.”

Indeed, “some of these men,” Giordano asserted, “like Banamex CEO Roberto Hernández Ramírez–are rags-to-riches stories. Hernández, according to Forbes magazine, could not afford to finance an American Express credit card in 1980. Today he earns the largest annual salary in Mexico–reported as $29 million dollars–and is a billionaire presiding over Mexico’s top banking institution.”

According to *Narco News*, when former President Carlos Salinas initiated bank privatization during the 1990s at the urging of the Bush and Clinton administrations, “the single biggest winner” was none other than his old pal Roberto Hernández. And Hernández, according to investigative journalist Mario R. Menéndez Rodríguez, the editor of *Por Esto!*, was “the financial engineer of the Gulf Cartel, launched in the 1980s by Juan N. Guerra and based in the Texas border city of Matamoros, Tamaulipas.”

Reprising their earlier investigations, Giordano reported that “Hernández had been accused–publicly and via a criminal complaint–by the daily newspaper *Por Esto!* of trafficking tons of Colombian cocaine through his Caribbean costa properties on that

peninsula since 1997."

"The newspaper," *Narco News* averred, "published photos of the drugs, the smuggling boats, the Colombian garbage strewn upon the shores, the airfield and small airplanes that, witnesses testified, brought the cocaine north to the United States, with confirmation from sources as diverse as local fishermen and high officials of the Mexican Armed Forces."

For their investigative efforts both Giordano and Menéndez were sued for libel by Banamex and Hernández in 2000, a case summarily dismissed by the New York Supreme Court, which "established, for the first time, First Amendment protections for Internet journalists in the United States."

Banamex was bought by Citigroup in 2001 for the then princely sum of $12.5 billion (£8.21bn).

As *El Universal Gráfico* journalist José Martínez reported at the time of the Citibank-Banamex buy out, "One of the mechanisms utilized by Mexican investors is the opening of secret accounts in foreign banks that have business in this country. There, the exclusive Citibank, for decades, has been the preferred bank of the elite of wealthy and powerful people involved in the middle of scandal. In recent years this financial institution has been involved in innumerable cases connected to the management of dirty money."

According to Martínez, "Citibank has been linked to the political scandals derived from the diversion of funds by part of the Mexican elite, among them some narco-traffickers."

And as Mexico City's *Milenio* newspaper columnist Jorge Fernández Menéndez detailed in his 1999 book *Narcotráfico y Poder* in reference to Raúl Salinas:

> The relation of of Raúl Salinas with the Gulf Cartel presumably surged at the end of the 1980s and began with Juan N. Guerra, who since the middle of the decade had led this organization dedicated to drug trafficking (above all, marijuana) and contraband. In 1989, Guerra made various investments in construction projects, mainly in Villahermosa, with Raúl Salinas. But, already an old man with grave health problems, with a limited vision of his activity, Juan N. Guerra was not the ideal individual to head the project that would be settled by the strong growth of the Cali Cartel: the change from marijuana to cocaine.

Fernández noted that when the Gulf Cartel was taken over by Juan García Abrego, "…as the person responsible for the operation of the cartel, Raúl Salinas de Gortari [w]as the presumed chief of political relations and power of the same."

Never mind that before his arrest on money laundering charges, Raúl only earned an annual salary of $190,000 as a "public servant," Swiss and US investigators uncovered an illicit cash horde to the tune of hundreds of millions of dollars.

Where did Salinas' money come from?

In addition to the outright theft of funds from the Treasury as alleged by federal prosecutors in Mexico, according to a 1995 *Los Angeles Times* report, Salinas "amassed at least $100 million in suspected drug money."

Switzerland's top prosecutor at the time, Carla del Ponte, "launched the investigation after the U.S. Drug Enforcement Administration supplied information that led Swiss agents to the accounts in Geneva, where they arrested Raúl Salinas' wife and her brother on Nov. 15 as the pair attempted to withdraw more than $83 million."

Del Ponte told the *Los Angeles Times* that after observing Salinas' interrogation by Mexican federal prosecutors the sums found in those accounts were "suspected to be from the laundering of money related to narcotics trafficking."

In 1998, when Swiss prosecutors completed their Salinas investigation, *The New York Times* disclosed that "Swiss police investigators have concluded that a brother of former President Carlos Salinas de Gortari played a central role in Mexico's cocaine trade, raking in huge bribes to protect the flow of drugs into the United States."

That Swiss report stated, "When Carlos Salinas de Gortari became President of Mexico in 1988, Raúl Salinas de Gortari assumed control over practically all drug shipments through Mexico. Through his influence and bribes paid with drug money, officials of the army and the police supported and protected the flourishing drug business."

Leveraging "a low-profile position in the administration's food-distribution agency," Swiss investigators revealed that "Raúl Salinas commandeered Government trucks and railroad cars to haul cocaine north, skimming payoffs that the Swiss estimate at upwards of $500 million. On what some of his reputed former associates referred to as 'green light days,' he arranged for drug loads to transit Mexico without concern that they might be checked by the army, the coast guard or the federal police."

But without the complicity of major banks, amassing and then hiding, that much loot would be impossible. Enter Citibank's "Private Banking" division.

A 1998 report by the General Accounting Office (GAO) pointed a finger directly at Citibank. Investigators revealed that "Mr. Salinas was able to transfer $90 million to $100 million between 1992 and 1994 by using a private banking relationship formed by Citibank New York in 1992. The funds were transferred through Citibank Mexico and Citibank New York to private banking investment accounts in Citibank London and Citibank Switzerland."

With the connivance of bank officials, in 1992 Salinas was able to "effectively disguise" the source of those funds and their destination.

Indeed, with hefty fees secured from assisting their well-connected client Salinas, Citibank "set up an offshore private investment company named Trocca, to hold Mr. Salinas's assets, through Cititrust (Cayman) and investment accounts in Citibank London and Citibank Switzerland."

Forget due diligence or "know your customer" (KYC) rules firmly in place under the Bank Secrecy Act (BSA), Citibank "waived bank references for Mr. Salinas and did not prepare a financial profile on him or request a waiver for the profile, as required by then Citibank know your customer policy" and "facilitated Mrs. Salinas's use of another name to initiate fund transfers in Mexico."

This should have triggered alarm bells over at OCC, but like today's banking scandals involving Wachovia, HSBC and JPMorgan Chase, US "regulators" sat on their hands and did nothing.

Eager to extract those fees from a dodgy client, Citibank's Vice President for Legal Affairs was forced to admit to GAO investigators that the bank "only" violated one aspect of their KYC policy, their failure to prepare a financial profile of Salinas.

However, a 1999 Senate Permanent Subcommittee on Investigations report on "Private Banking and Money Laundering" revealed that "a culture of secrecy pervades the private banking industry."

"For example," Senate investigators disclosed, "in the case of Raul Salinas . . . the private bank hid Mr. Salinas' ownership of Trocca by omitting his name from the Trocca incorporation papers and naming still other shell companies as the shareholders, directors, and officers. Citibank consistently referred to Mr. Salinas in internal bank communications by the code name 'Confidential Client Number 2' or 'CC-2.' The private bank's Swiss office opened a special name account for him under the name of 'Bonaparte'."

And despite the fact, as Senate staff averred, "Federal Reserve examiners stated in internal documents that the Citibank private bank lagged behind other private banks they had reviewed," and that Citi's Swiss headquarters had received the "worst possible audit rating" in 1995, and that Citibank's "poor audit score were 'not taken seriously' within the private bank," no regulatory action was taken.

Two years later, a Federal Reserve examiner wrote: "The auditors are a key asset of [the private bank]. The problem is that for years audit has been identifying problems and nothing has been done about it. In 1992 [the private bank had] 66% favorable audits in 1997 the percentage of favorable audits was 62%. … It appears that there are no consequences for bad audits as long as [the private bank] meets their financial goals."

Bingo!

As *Time Magazine* investigative journalist S.C. Gwynne reported at the time, Citibank and the soon-to-be-merged with Travelers behemoth now known as Citigroup (that 1998 merger was illegal under Glass-Steagall, but that's another story, one which directly correlates to the Act's 1999 repeal by the Clinton crime family and their Republican co-conspirators in Congress), private banking for upscale clients with the means to invest at $1 million "is now the crown jewel in the financial giant's strategy for growth."

"That strategy," Gwynne wrote, "calls for Citibank and its parent, Citigroup, to reduce their reliance on cyclical corporate and real estate lending, which tends to be high risk and relatively low profit. It will emphasize the lower-risk, higher-margin business of consumer banking–and especially one-stop financial shopping for the world's booming population of the newly rich."

Keep in mind, Gwynne was writing in 1998 before the real estate bubble was inflated and Wall Street banksters dove head first into the dubious "residential mortgage" marketing machine that nearly sunk, and still threatens to sink, the capitalist economy under endless waves of fraud and corruption.

"At Citigroup and like-minded institutions around the world," Gwynne noted, "folks with six- and seven-figure portfolios can find not only traditional banking services like checking and savings accounts but also strategic financial advice; introduction to high-yield investment vehicles like hedge funds; tax advice and accounting; estate planning and all manner of

insurance. They can also get help in protecting their assets from potential claimants like creditors and ex-spouses, which can involve moving money discreetly from country to country."

Indeed, private banking funds were "part of a $17 trillion global pool of money belonging to what bankers euphemistically call 'high-net-worth individuals'–a pool that generates more than $150 billion a year in banking revenue."

Hidey holes in the Cayman Islands and other destinations used for squirreling-away illicit cash, such as the world's *largest* financial black holes, the US State of Delaware and the City of London, remain convenient resting places for loot amassed by various global narcotics combines.

Limited at the time by an "ongoing Department of Justice investigation," a lawyerly dodge that prevents corporate criminality from *ever* coming to light, GAO investigators "could not determine whether Citibank's actions violated law or regulation."

The Federal Reserve were also less than forthcoming and "did not comment on whether Citibank's actions were violations because information available to it at the time we inquired was insufficient for it to make a determination."

According to asleep at the wheel regulators at OCC, Citibank's "actions did not violate civil aspects of the Bank Secrecy Act" since under rules then in place "private banking's know your customer policies are voluntary and not governed by law or regulation."

But as the Mexican weekly news magazine *Proceso* reported in 2001 during the Salinas affair, "Citibank of New York was transferring Juárez drug cartel money to Uruguay and Argentina, where Mexican drug lord Amado Carrillo Fuentes and his associates went calmly about their business, with help from local politicians and businessmen. Not long after, investigations would reveal that in 1998-99, more than $300 million belonging to Mexican drug traffickers went through Citibank."

As *El Universal Gráfico* noted, when the self-described "Lord of the Heavens" sought refuge in South America, he "had account # 36111386 in Citibank of New York. From this place, the financial operators of the narco-trafficker passed large sums in millions of dollars to ghost banks like MA Bank of the fiscal paradise of the Cayman Islands."

In late 2000, when the Senate Permanent Subcommittee on Investigations again began looking into drug money laundering allegations against Citibank, they received information from Argentine legislators who claimed there was "a gigantic political-financial conspiracy involving even Citibank President John Reed."

Years later, those suspicions were corroborated when a US investigation, Operation Casablanca, "revealed that [money from] the Juárez cartel entered Argentina through two Citibank accounts and others in shell banks in the Cayman Islands and the Bahamas."

Juan Miguel Ponce, the head of Mexico's Interpol branch, "took advantage of Operation Casablanca to explore the vein of Juárez cartel allies in Argentina. He claims to have discovered documents in Mexico proving that large contributions were made by the cartel to 1999 campaign in Argentina of Peronist presidential and vice presidential candidates Eduardo Duhalde and Ramon 'Palito' Ortega," *Proceso* disclosed

As James Petras reported in 2001, when Salinas was arrested "and his large-scale theft of government funds was exposed, his private bank manager at Citibank, Amy Elliott, said in a phone conversation with colleagues (the transcript of which was made available to Congressional investigators) that 'this goes [on] in the very, very top of the corporation, this was known … on the very top. We are little pawns in this whole thing'."

Fast forward twelve years: More than 120,000 Mexican citizens have paid with their lives as a result of the grisly trade and the American people are still the pawns of "plutonomic" banksters whose "wealth waves" come from the perverse influence bought by oceans of drug money flowing through a thoroughly corrupt capitalist system.

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