



# Behind the Magnitsky hoax: HSBC's offshore crime machine and the new Cold War against Russia

**Editor's introduction:** British specialist on Russia Mary Dejevsky proposed in a 13 July column in the *Independent* that the actions of British intelligence vis à vis the USA in 2016 looked more like "attempts to interfere in someone else's election" than anything the Russian government may have done. We agree. She was referring to GCHQ's having "tipped off their US counterparts ... about a supposed Russian connection" and to "ex"-MI6 officer Christopher Steele's authorship of a dossier of unverified dirt from Russian sources on Donald Trump.

The "British track" is also visible in the new Russia-gate story, trumpeted by the Anglo-American media in mid-July: a June 2016 meeting between Donald Trump Jr and Russian lawyer Natalia Veselnitskaya, who has lobbied to overturn the 2012 US "Magnitsky Act", which imposed sanctions on particular Russian government and business people ("Dissecting the latest Trump-Russia 'fake news'", *Washington Insider*, AAS, 19 July 2017). The source of the

media's i.d. format for Veselnitskaya, "Kremlin-connected lawyer", is the same as the chief lobbyist for the Magnitsky Act itself—former American, now Englishman William Browder, CEO of Hermitage Capital Management.

Few journalists have paid attention to the close involvement of Browder's company with the British bank HSBC. Yet the case is stronger for Browder's being an agent of "the British Crown/City of London criminal financial empire", as our *New Citizen* of Nov./Dec. 2016/Jan. 2017 identified it, than for Veselnitskaya's being an agent of "the Kremlin".

The article published here is part of a larger dossier based on an investigation of the crimes of the major City of London banks, which demonstrated how criminality has become the norm in London-New York banking and its gigantic offshore system. In the 1990s HSBC and Browder's Hermitage Capital Management were at the forefront of bringing that criminality into Russia in a huge wave.

By Anton Chaitkin

HSBC—originally the Hongkong and Shanghai Bank—was established in 1865 in Hong Kong, the colonial coastal enclave the British empire had taken from China in the 1839-42 Opium War. The British bank was notorious as the leading institution in the criminal opium trade, which continued into the 20th century. Early in the 21st century, HSBC again became infamous for crimes including money-laundering for narcotics cartels.

The bank has also maintained its notorious ties with British Intelligence, exemplified by the careers of Jonathan Evans (Lord Evans of Weardale) and Sherard Cowper-Coles. Lord Weardale, head of MI5 in 2007-13 after working as its leading expert on al-Qaeda, joined the board of HSBC Holdings soon after his retirement. Career diplomat and top MI6 figure Cowper-Coles, as UK Ambassador to Saudi Arabia in 2003-06, was instrumental in forcing Britain's Serious Fraud Office to drop its investigation of the Anglo-Saudi al-Yamamah arms deal, which generated a slush fund used to fund terrorism. Cowper-Coles today is an advisor to HSBC's senior executives.

### The money-laundering infrastructure

HSBC's leaders pulled together the apparatus used in its most recent criminal phase by purchasing other institutions between 1999 and 2002.

In May 1999 HSBC announced it would acquire the offshore-vectored interests of billionaire Edmond Safra, namely the Republic National Bank of New York and the Swiss bank Safra Republic Holdings, for US\$10.3 billion. Safra's banks concentrated on placing the money of his wealthy clients beyond the reach of tax authorities and law enforcers curious as to the money's sources.

Safra also specialised in Russia operations. Upon the collapse of the Soviet Union in 1991, British Prime Minister Margaret Thatcher and US President George H.W. Bush had helped open up Russia to raw-materials looting and other gangsterism. Safra's Republic of New York was a key

intermediary: every day it bought new \$100 bills from the New York Federal Reserve Bank and shipped as much as a tonne or more of them on an overnight flight to Moscow. Investigative reporter Robert I. Friedman wrote about this operation, "Russian banks ... have purchased the \$100 bills on behalf of clients, who typically pay for the cash with wire transfers from London bank accounts.... Federal authorities estimate more than \$40 billion—all in uncirculated \$100 bills ... was shipped to Russia" in January 1994-January 1996. The cash was being used "to finance a vast and growing international crime syndicate.... [T]he hundreds are also being used to fuel the Russian mob's flourishing dollar-based global drug trade, as well as to buy the requisite villas in Monaco and Cannes.... More than a dozen Russian bankers have been killed since 1994—one for simply refusing a loan."<sup>1</sup>

In 1996 US\$25 million from Safra went as seed money to establish Hermitage Capital Management, a fund that was to run complex financial investments in Russia under the direction of William Browder, grandson of the 1930s US Communist Party leader Earl Browder. Born in 1964, the younger Browder would relinquish his American citizenship and become a British subject in 1998. Safra's and Browder's firm took billions out of Russia through offshore conduits.

In this period, Russians suffered a sharp population decline as the post-Soviet economy collapsed under the weight of inflation, privatisation, asset-stripping and other financial crimes.

### HSBC's Moscow ops

Edmond Safra was murdered in his fortified dwelling in Monaco on 3 December 1999, the day after New York State regulators approved the acquisition of his banks by HSBC. Initially police and media reported that two hooded intruders, suspected to be Russian mafia hit men, had set the fire that killed Safra. The story was changed to

1. Robert I. Friedman, "The Money Plane", *New York* magazine, 22 January 1996.

place the blame on his male nurse.

The Federal Reserve approved HSBC's acquisition of Safra's banks on 6 December, three days after his murder. The deal doubled HSBC's private banking business to about 55,000 international private banking clients, with US\$120 billion in funds under management.

Through its offshore units in Guernsey and the Cayman Islands, HSBC now controlled Hermitage Capital Management and its Moscow-based proprietor Browder. Hermitage became by far the largest foreign-owned investment fund in Russia, with (officially) US\$4 billion under management. Through it, HSBC siphoned more billions out of that bleeding country.

In November 2005 the Russian authorities revoked HSBC client Browder's visa, sent him back to London, and denied him future entry in the interest of "ensuring the security of the state, public order or public health." The firm was charged with tax evasion.

In the first 18 months after Safra started up Hermitage Capital Management, the fund had grown by 800 per cent to US\$1 billion. Its value collapsed in the late 1990s with the general Russian financial crash of mid-1998. But under HSBC's offshore management, it ballooned again, so that someone who had put in US\$10 million in 1996 had US\$230 million by the time Browder was kicked out of Russia.

WikiLeaks obtained a 2009 "private briefing document", evidently originating with Hermitage Capital Management, which spins the affair to portray HSBC and Hermitage as victims of fraud by the Russian government. This document discloses an example of the offshore network through which Russia was looted, a picture not usually available to public view. It maps the relationship of HSBC Management (Guernsey) Limited (Manager), HSBC Private Bank (Guernsey) Limited (Trustee), and HSBC Private Bank (Global) with Hermitage Capital Management in a "joint venture ... that invested in Russia on behalf of institutional and individual investors from around the world", including from Saudi Arabia, Israel, Oman, the UAE, Lebanon, Hong Kong, South Africa, the United States, Europe and South America. It presents Hermitage as the largest portfolio investor in Russia from 1996 to 2005, more than twice the size of the next biggest fund.<sup>2</sup>

Stephen Green, HSBC's chief executive since 2003, and Tony Blair's Foreign Secretary Jack Straw lobbied the Russian government to restore Browder's status, to no avail.

### The Levin report on HSBC

The US Senate Permanent Subcommittee on Investigations, chaired by Sen. Carl Levin (Democrat of Michigan), released its report "US Vulnerabilities to Money Laundering, Drugs, and Terrorist Financing: HSBC Case History" on 17 July 2012. It set forth evidence that HSBC had been party to "a wide array of money laundering, drug trafficking, and terrorist financing"—indeed, the largest money-laundering and terror-financing scheme in history.

HSBC's Mexican affiliate, for example, had channelled US\$7 billion into the United States in 2007-08 alone, which may have included "proceeds from illegal drug sales in the United States". US Assistant Attorney General Lanny Breuer told a New York press conference that Mexican drug traffickers had deposited hundreds of thousands of dollars daily in HSBC accounts. Mexico's Sinaloa cartel and Colombia's Norte del Valle cartel laundered at least US\$881

2. [Wikileaks.org/gifiles/attach/172/172317\\_Hermitage%20Presentation.pdf](http://Wikileaks.org/gifiles/attach/172/172317_Hermitage%20Presentation.pdf).

million through HSBC in New York and through its Mexican unit. The Levin Report further noted that HSBC-Mexico had a Cayman Islands branch, which handled 50,000 accounts and US\$2 billion in 2008, but had no staff and no office. It reported that HSBC had financed and serviced banks in Saudi Arabia and Bangladesh tied to terrorist organisations, and that it had cleared US\$290 million in "obviously suspicious traveller's checks" for Russians who were likely money-launderers, claiming to be in the used car business.

The US Office of the Comptroller of the Currency took not a single enforcement action against HSBC despite the bank's egregious violations, such as failure to monitor US\$60 trillion in wire-transfer and account activity (HSBC had a backlog of 17,000 un-reviewed account alerts on potentially suspicious activity) and lack of due diligence for money-laundering before opening accounts for HSBC affiliates. On 11 December 2012 US authorities fined HSBC the miniscule sum of US\$1.92 billion—a slap on the wrist for this multinational behemoth with 2011 profits of nearly US\$22 billion on some US\$2.5 trillion in assets—for allowing money-laundering by criminals and terrorist networks. It was the third time since 2003 that HSBC had officially promised US authorities to cease misconduct.

The *New York Times* of 10 December 2012 outlined the considerations in the Obama Administration's decision to save HSBC by imposing a fine but no criminal indictment: "State and federal authorities decided against indicting HSBC in a money-laundering case over concerns that criminal charges could jeopardise one of the world's largest banks and ultimately destabilise the global financial system."

### The crime cover-up that drove a new Cold War

On 14 December 2012 President Barack Obama signed into law the *Russia and Moldova Jackson-Vanik Repeal and Sergei Magnitsky Rule of Law Accountability Act of 2012* ("Magnitsky Act"), which portrayed HSBC and its Hermitage Capital Management as victims of Russian human rights violations. The law was named for Sergei Magnitsky, an auditor in a law firm representing HSBC and Hermitage Capital Management, who had been jailed in Russian on charges of fraud and tax evasion and died in custody.

As debate raged within the Obama Administration over what penalty to put on HSBC for its money-laundering and assistance to terrorists, Senator Levin had criticised the Magnitsky bill, which was simultaneously being pushed through the Congress by those seeking a new Cold War policy. Levin criticised the House-passed Magnitsky text, which, unlike a draft Senate version, singled out Russia. If alleged human rights violators were to be denied US visas, said Levin, then this should be applied across the board, regardless of what country they come from. "Applying the sanctions contained in this bill solely to Russians, as the House version does, not only diminishes a universal value. Because it adds a political twist, it will stoke a nationalistic response in Russia", he warned.<sup>3</sup>

The Senate went ahead and passed the House version on 6 December 2012. Obama signed it just three days after HSBC had gotten off with a token fine for blatantly aiding international criminals and terrorists. But HSBC stayed completely out of the "Magnitsky" news, the passage of the bill heavily lobbied by Browder—co-founder and CEO of HSBC's close partner Hermitage Capital Management! The new Cold Warriors had changed the subject.

3. Carl Levin statement of 5 Dec. 2012, published on [VoteSmart](http://VoteSmart).