

Israel Seen as Paradise for Money Laundering

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JERUSALEM, Feb. 20 — Summoned to a downtown bank last month, the police arrested a woman who they suspected was laundering profits for foreign racketeers. A native of Chechnya, she had reportedly tried to open an Israeli account with \$50 million in Venezuelan checks in the name of an apparently fictitious Gibraltar investment firm.

If so, it would not have been the first time Israel had attracted professional money-scrubbers.

In recent months, the authorities have been asked to investigate cash transfers linked to a \$340 million insider-trading deal involving a Russian telecommunications company and to the huge money laundering scandal involving the Bank of New York. Last summer, the conviction of an Israeli crime boss in Miami for running a money laundering business for the cartel in Cali, Colombia, prompted renewed concern about the recycling of cocaine money here.

But the police and prosecutors here face an almost insurmountable problem: Money laundering is not a crime in Israel.

Although that may be about to change, right now Israel does not make it illegal to bank or spend the proceeds of illicit offshore enterprises. As a nation founded as a safe haven for Jews, there is a longstanding tradition of welcoming immigrants and their assets. Banks and brokerages are not obligated to verify the provenance of a customer's investment funds. Reporting requirements for new accounts are minimal, as are the penalties for a failure to comply with those rules.

"Israel is a paradise for money laundering, because it is not against the law," said Cmdr. Yossi Sedbon, head of the investigative division of Israel's national police. "I don't know if it is really that big a business here. But millions come in and go out, and you can't do anything about it."

Many families here fled nations that prohibited them from expatriating their money; those who managed to circumvent such restrictions were applauded, not interrogated. Immigrants from the former Soviet Union brought an estimated \$2.5 billion to Israel in the 1990's, much of it from foreign accounts their home countries had restricted. Israel was not about to enforce Soviet-era capital controls or question the legality of those transfers.

But those policies have been systematically exploited by sophisticated international criminal networks, the authorities here say.

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In 1988, Israel signed an international convention in Vienna banning drug money laundering, but it could not be ratified in Parliament because Israeli law was not in compliance with the treaty.

Since then, a few legislators and Justice Ministry professionals have pushed unsuccessfully to make money laundering a crime.

Russian immigrant leaders have complained that their people felt unfairly targeted. The politically powerful banks fought regulation, and advocates of continuing Jewish immigration worried that stringent financial reporting might discourage others.

Now, however, legislators say chances are good that a bill will pass this year.

"We are trying to resolve the conflicts of interest involved -- the right of the police to investigate, and the right of the citizen to privacy," said Tsipi Livni, a member of the opposition Likud Party who heads the committee writing the antilaundering bill. "But I am very concerned. When the chief of police speaks about billions, I think it is a problem."

As drafted, the legislation would adopt American-style reporting requirements for most banking and stock market transactions, as well as procedures for confiscating assets and prosecuting bankers.

But foreign tax evasion would not be considered a crime, Ms. Livni said.

Nor would the legislation impose the reporting requirements on Israel's \$5 billion-a-year diamond trade, conducted traditionally on the basis of cash and handshakes.

Those omissions worry some. "Israel is facing a problem of organized crime and probably, though I don't have evidence of it, of links between organized crime and the diamond industry," said Patrick Moulette, who heads an antilaundering task force for the 29-nation Organization for Economic Cooperation and Development, based in Paris.

Officials at Israel's Diamond Exchange vigorously deny that their business has been exploited by money laundering gangs, even though some local organized crime figures -- including Eli Tisona, the convicted Florida investment counselor for Colombia's drug lords -- have also been prominent gem dealers.

But the decision not to penalize foreign tax infractions may prove more significant. Most of the dirty money washed clean by Israeli banks stems not from narcotics or protection rackets, but from off-the-books business deals, said Menachem Amir, a criminologist at Hebrew University. "It is black money, but is mostly income tax evasion, not drug money," he said.

In recent months, several figures implicated in the Bank of New York money laundering scandal and in a web of obscure financial institutions abroad have been found to hold Israeli passports and to maintain homes here, although they reside and operate in Russia or Europe.

Commander Sedbon says he believes that some fraction of the money siphoned out of Moscow ended up in Israel. But he says it is difficult to quantify.

After the collapse of the Soviet Union and the emigration of most Jews from the Islamic Middle East and North Africa, Israel can now afford to tighten financial rules for immigrants, Professor Amir says.

But there is still resistance. Two years ago, Gregory Lerner, an immigrant businessman, acknowledged in court that he had defrauded Russian banks of \$48 million and used the money to try to start a bank here. He was fined \$5 million and sentenced to six years in prison -- not for bringing in stolen money, but for resorting to bribery, blackmail and fraud in local dealings. Though he admitted guilt, his conviction was criticized by some Russian immigrant leaders, who contended he was unjustly punished for offenses elsewhere.

With expected good-behavior sentence reductions, Mr. Lerner is likely to be released next year. He will then be allowed to enjoy his fortune, which the Israeli authorities cannot touch. Extradition back to Russia, even if Moscow so requested, would be difficult legally, and unthinkable politically.