



The Public Eye Awards 2006

Award in the Category “Taxes”

Speech by Lucy Komisar, Tax Justice Network, 25.1.2006

Citigroup: a culture and history of tax evasion

The Tax Justice Network has nominated and the Public Eye has named Citigroup winner of the tax-category award for excelling in socially irresponsible behavior by engaging in tax evasion and facilitating tax evasion by its clients. By its actions, Citigroup has violated both tax laws in many countries and the standards of corporate social responsibility and ethics.

Tax evasion by corporations and the very rich impoverishes people of all countries, increases the gaping divide between rich and poor, and shifts tax bills to the middle class and small businesses who don't and can't avail themselves of mechanisms created to hide and launder income and profits. Capital flight that is a function of tax evasion beggars the economies of developing countries, transferring the wealth of the poor to the industrial world.

Citigroup is not the only financial organization complicit in tax evasion. That is unfortunately standard procedure for global institutions, including of course Credit Suisse and UBS and the Swiss private banks. But Citigroup is the world's biggest financial services conglomerate, it has repeatedly broken promises to stop its errant ways, and it appears immune to punishment for its acts.

Citigroup officials have acknowledged that they use the offshore system to help clients avoid taxes. The use of “avoid” rather than “evade” is a legal nicety which occurs when the wealthy use their power to legalize nonpayment of taxes and hobble enforcement agencies to prevent investigation and prosecution. The cases here show that what Citigroup officials like to call “avoidance” is more likely “evasion” that hasn't been prosecuted.

The Parking Scandal of the 1970s

Between 1973 and 1980, Citibank shifted about \$58 million in profits from high-tax to no-tax jurisdictions through phony foreign exchange trades and loans. These foreign exchange operations were known as “parking.”

Exchange law controls aim to prevent excessive “shorting” of currencies. To short a stock or a currency is to sell it when you don't have it. If a trader thinks the Swiss franc is going down, he

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will sell it. He doesn't have to have it to sell it. Governments believed that people who shorted their currency would drive down its price. Therefore, many countries established limits for how large a position in their currency a bank could have. To avoid the limit, Citibank traders put their "positions" offshore.

The other use of parking was to launder profits. On any day, if there was a range of prices, a Citibank trader would do two offsetting trades where he lost money and a tax haven branch made a profit. Back-to-back loans – loaning money to a branch and borrowing it back at higher interest -- had a similar effect.

The parking branches were Amsterdam, Brussels, Frankfurt, Zurich, London, Milan, Paris, Toronto, Tokyo, Hong Kong, the Philippines, Singapore, Malaysia, Indonesia, India, Saudi Arabia and Mexico. They parked foreign exchange positions in the offshore tax havens Nassau, Panama, the Channel Islands, Monaco, and Bahrain.

Paperwork made it seem as if Citibank parking branches were losing money and the no-tax offshore centers were making all the profits.

Citibank management knew that with this procedure it was breaking the law. A Citibank internal auditor testified to the U.S. Securities and Exchange Commission (SEC): "It is very simple to do real transactions just for the purpose of transferring profits...They can be done at realistic rates by selecting [buy and sell price] quotes at different times during the day, making them almost impossible for an outsider to discover."

In 1977, a whistle blower in the Paris office told his bosses about the scam and the next year, when they had still taken no corrective action, he told the top corporate officials and then informed the SEC. Citibank fired him. The bank then attempted to disguise the trades by hiding them in numerous small transactions, using code word, listing phony prices on the books, making phone orders with no records, and falsifying audits.

The 2001 SEC report said, "The practices and procedures of such parking were done pursuant to policies laid down by senior management in New York." It said also that, "The facts show clearly that all levels of management (except the outside Board members) knew of the questionable conduct...and senior management approved it."

The SEC report noted that "the transactions engaged in by Citibank have all the attributes of evasion of the law, not avoidance." And that "elaborate efforts were made to disguise" the transactions, and the books didn't reflect the nature of the transactions. The report then concluded "it is clear that Citibank systematically and knowingly violated exchange control, tax or other laws of virtually all of the countries involved."

Laundering Money for Pinochet

In October 2004, Chile's tax authorities filed a lawsuit for tax evasion against former military dictator Augusto Pinochet. One of his tax-evasion money-laundering banks was Citibank, which hid and laundered at least \$5 million and perhaps millions more, according to the U.S. Senate Permanent Subcommittee on Investigations.

Citigroup ran accounts for Pinochet from 1981, when he was still dictator after the 1973 U.S.-supported coup, until 1996. It ran offshore accounts connected to the Pinochets until 2005, a total of at least 63 U.S. accounts and certificates of deposit for Pinochet and his family. The U.S. Senate report said, "Pinochet used the Citigroup accounts to move funds within the United States and across international lines, transact business, and construct an international web of secret accounts."

In June 2002, a U.S. bank regulator asked Citigroup whether their Private Bank had accounts for Pinochet or his wife, including accounts under a listed disguised names. The head of Citigroup's global anti-money laundering group said that an earlier global search had turned up no Pinochet accounts at the bank. Of course, there were dozens.

Private Banking, the key to the system: Laundering money for Salinas, Bongo, the Abachas

Citigroup's Private Bank accepts only very wealthy clients – with \$5 million minimum and generally more than \$10 million in deposits. It has about 25,000 such “special clients.” Among its services has been setting up off-shore accounts and arranging financial transactions for them to evade taxes.

U.S. Senator Carl Levin, at a hearing of the Senate Permanent Subcommittee on Investigations in 1999, said that the Private Bank of Citibank has had “a rogue’s gallery of private bank clients.”

They included

Raúl Salinas, brother of the former President of Mexico,
Asif Ali Zardari, husband of the former Prime Minister of Pakistan,
Omar Bongo, dictator of Gabon,
3 sons of General Sani Abacha, late military dictator of Nigeria,
Jaime Lusinchi, former President of Venezuela,
two daughters of Suharto, former dictator of Indonesia
General Albert Stroessner, former dictator of Paraguay

Levin said, “And these are just the clients we know.”

The same system Citibank used for them -- offshore shell companies and secret accounts – is the system it uses for thousands of other Private Bank clients who have something to hide.

Amy Elliott, Salinas's private banker, told the U.S. Senate subcommittee about the operation she set up for him. She called it "a very standard account structure in the international private banking industry, including Citibank."

She set up a personal investment company, or PIC, to hold Salinas's investments, with the shares of that corporation owned by a secret trust. She said, "Such an account structure provides for confidentiality and also allows for efficient tax and estate planning." She said that Salinas's desire to transfer money out of Mexico was “exactly what many other wealthy Mexicans, including my clients, were doing at the time.” She said it was a structure that at least 70 percent of Citibank's Mexican clients and most of its Latin American clients use. She said, "It was a standard structure within the International Private Bank."

She used classic tax-evading, money-laundering techniques: secret shell companies and accounts, a trust known only by a number, layering – one anonymous company owning another company that owns another company -- and concentration or correspondent accounts that blur the identities of depositors. Citibank helped Salinas move \$100 million from Mexico to Switzerland and London through shell companies and networked accounts.

Salinas's Citibanker Elliott said that bank vice chairman, William Rhodes, knew all about it.

The Argentine offshore bank scam of the 1990s, plus a secret videotape wherein a Citibanker offers to launder a "businessman's" profits

In 2001, Argentina defaulted on its national bonds. The economic crisis that followed brought hardship to the majority of Argentinians, especially to workers, women and the poor. Critics said the economic crisis was provoked by massive evasion of taxes and capital flight. That year, the program "Día D" of America TV in Buenos Aires sent an actor to catch Citibank promoting tax evasion.

The actor, who secretly video-taped the encounter, told the Citibanker that he had just sold a company and didn't want to report all the profits. The Citibanker told how he could help him evade taxes.

He would send the money via a wire in another name to a transit account at Citibank New York and then move it to an International Personal Banking account. As a nonresident foreigner, the

client wouldn't pay taxes. The Citibanker said, "You are not going to have problems with taxes." Argentine authorities wouldn't know about his account. He said, "Eighty-five percent of my clients do this operation. Eight-five percent of clients of the private bank have an offshore portfolio. They manage all the money abroad. Why? Because they are fed up with paying [taxes]."

After the program was broadcast, the Citibanker was fired and the bank moved its private bank accounts to Chile and Argentina.

Moving Russian money offshore in the 1990s

Deryck Maughan, CEO of Citigroup International, told a news conference in 2003 that, "Russia is a large opportunity for the group." Citibank would run clients' portfolios and for Russians who deposited more than \$25,000, it would open Citibank offshore investment accounts.

It wasn't the first time Citibank had helped Russians move their money offshore. A few years earlier, in 2000, the U.S. General Accounting Office (GAO) reported that Citigroup throughout the 1990s allowed more than \$800 million in suspicious Russian funds to flow through 136 U.S. accounts tied to shell companies registered in Delaware. The corporations were set up by a Russian immigrant who then opened Citibank accounts for them. Over 70 percent of the Citibank deposits for these accounts was quickly wire-transferred abroad, mostly to tax havens. Investigators believed it was money fleeing taxes or the profits of crime.

And today?

The Tax Justice Network report on Citigroup includes a list of 185 offshore subsidiaries listed in Citigroup's annual SEC filing. The corporation's past behavior raises questions about its continued use of the offshore secrecy system.

The Jersey subsidiaries

Examining offshore operations today, we looked at the Jersey network of 11 companies. The existence of these companies is not "hidden" or "secret," but the ownership structure, indicated in the chart in our report, is curious.

TJN asked Citigroup questions about the network and asked to discuss this report before publication with Citigroup officials, but the senior official who deals with civil society declined to respond.

Can Citigroup change?

New Citigroup CEO Charles Prince told the Wall Street Journal that he intends to make "values" a key focus. He said, "The world's largest financial-services firm needs to 'internalize' a strong code of ethics around the globe."

We agree. Rejecting profit laundering and tax evasion for itself and its clients would be a good place to start. A first step would be a refusal to operate subsidiaries in offshore tax havens that practice bank and corporate secrecy.

Lucy Komisar is a New York investigative journalist who is writing a book about the global impact of the offshore system. She is a member of the Steering Committee of the Tax Justice Network.

Sources are list in the full report. The report and related documents are available on <http://www.taxjustice.net>