

06VIENNA515: USG CONCERNS OVER AUSTRIAN BANKING OPERATIONS

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(b) and (d).

Introduction

¶1. (S/NF) In view of continued Washington questions about the operations of Raiffeisen Zentralbank (RZB) and Bank Austria Creditanstalt (BA/CA) in several areas, this cable attempts to consolidate all the information that this Mission has regarding allegations and GoA responses. Embassy would appreciate any additional information Washington agencies may have regarding these banking concerns. The following message has been cleared with all relevant agencies at post.

Summary

¶2. (S/NF) The Austrian Ministry of Finance (MoF) told us February 15 that Bank Austria/Creditanstalt (BA/CA) has agreed to "stop doing business" with North KOREAn entities. An Austrian Financial Market Authority (FMA) official told us February 14 that the FMA was "uncomfortable" with Raiffeisen Investment Holding AG's (RIAG) involvement in RosUkrEnergo (RUE) and RUE's role in the Ukrainian–Russian gas deal. However, the FMA is satisfied that an internal RIAG due diligence and an outside due diligence by the U.S. risk consulting firm Kroll revealed no derogatory information on RUE's unnamed investors and no links to Russian organized crime boss Semyon Mogilevich. Both the FMA and MoF emphasized RIAG's commitment to expand operations in Eastern Europe, maintaining that western commercial influences in the region were beneficial to the countries. Embassy's Legatt Office has been cooperating closely with Austrian law enforcement authorities since summer 2005 on a multi-country investigation of Mogilevich's money laundering activities in the region. End Summary.

¶3. (S/NF) On February 14 and 15, EconUnit Chief followed up on ref B and C discussions in separate meetings with xxxxx from the Financial Market Authority's (FMA) xxxxx of the Ministry of Finance's Financial Markets Directorate.xxxxx reviewed the various USG concerns (ref D) in a systemic manner. Both appreciated the information the USG had shared, agreed to continue cooperation on a technical level regarding USG concerns, and acknowledged that there was a political component associated with these issues.

North KOREA

¶4. (S/NF) xxxxx told us that following a meeting with Finance Minister Karl-Heinz Grasser the week of February 6, Erich Hampel, the CEO of BA/CA, agreed to stop BA/CA's business relations with North KOREAn entities. xxxxx speculated that BA/CA probably made the decision to maintain its good reputation.

¶5. WMD Proliferation Financing Issues

¶A. (S/NF) USG Concern: Novin Energy Company, a firm affiliated with Iran's nuclear program, was involved in a payment from Creditanstalt to Mileace General Trading in May 2004 (ref D).

(S/NF) GOA Response: xxxxx reiterated information discussed during Treasury U/S Levey's meeting with xxxxx, the FMA's Executive Director (ref B). The Iranian Mission to the International Atomic Energy had opened a deposit bank account for Novin Energy Company at BA/CA. According to xxxxx there have been no transactions that aroused the FMA's suspicion. Periodically, there is a large transfer to the Iranian National Bank. The FMA identified only one payment to Mileace General Trading in New York for an amount "under Euro 100,000."

¶B. (S/NF) USG Concern: Since 2001, Creditanstalt xxxxx has facilitated about a dozen Iranian transactions, mostly nuclear-related (ref D).

(S/NF) GOA Response: xxxxx said the FMA was satisfied, based on discussions with BA/CA, that xxxxx had not engaged in any illegal or questionable activity. xxxxx is aware of the sensitive nature of his position. He has over 10 years experience in this position and works very closely with the Austrian Financial Intelligence Unit (FIU), xxxxx stated.

¶C. (S/NF) USG Concern: Syria was preparing to purchase rocket motors for training aircraft from the Czech supply company Omnipol. Financing was to be arranged with

Creditanstalt (ref D).

(S/NF) GOA Response: BA/CA has no direct business relationship with Omnipol. However, Omnipol does have an account with HVB Czech, a subsidiary of BA/CA. According to xxxxx HVB Czech needs BA/CA's authorization to transfer amounts in excess of Euro 500,000. xxxxx maintained that the only financing Omnipol has had through HVB Czech was for the Czech Army's purchase of U.S. military equipment.

¶6. Terrorist Financing Issues

¶A. (S/NF) USG Concern: The Palestinian Association of Austria (PVOE) maintained a Creditanstalt account as of early ¶2003. PVOE -- designated by the U.S. Treasury Department as a terrorist entity and renamed the Palestinian Humanitarian Association (PHV) -- collects donations on behalf of HAMAS-affiliated charities in the Palestinian territories. PHV's Internet website indicates that the organization continues to maintain an account at Creditanstalt (ref D).

(S/NF) GOA Response: xxxxx stated that BA/CA had closed all its PVOE accounts well before the U.S. designated PVOE as a terrorist entity. xxxxx claimed that the FIU has conducted two extensive investigations into PHV, which did not turn up anything suspicious.

¶B. (S/NF) USG Concern: As of late November 2004, xxxxx , a former regime official now on the Iraqi interim government's "Most Wanted" list, claimed to have transferred a large sum of unspecified currency from the Arab Bank in Amman, Jordan, to RZB to finance the Iraq insurgency (ref D).

(S/NF) GOA Response: xxxxx said that RZB has not identified any accounts belonging xxxxx following a thorough search that included numerous transliterations of xxxxx.

¶C. (S/NF) USG Concern: The Vienna-based NGO Irakhilfswerk in Österreich instructs donors to send funds to Creditanstalt (ref D).

(S/NF) GOA Response: xxxxx characterized Irakhilfswerk's websites as distasteful, e.g. with gruesome pictures of wounded or dead U.S. military personnel. Nevertheless, xxxxx said an extensive investigation by the Austrian security services (BVT) revealed that Irakhilfswerk does indeed use collected funds for charitable work in Iraq, e.g., purchasing medicines and clothing. xxxxx said the FMA continued to monitor Irakhilfswerk accounts closely.

¶7. Money Laundering Issues

¶A. (S/NF) USG Concern: Following the recent U.S. sanctions on Banco Delta Asia (BDA), there are indications that North KOREA moved several million euros from BDA to Creditanstalt in October 2006 (ref D).

(S/NF) GOA Response: xxxxx restated information in ref C, stressing that the FMA had no evidence that the BDA had ever had an account with BA/CA. However, there was one payment transfer in the amount of Euro 7 million that originated from a Macao trading company via the Bank of China and Dresdner, which BA/CA transferred to the Sberbank in Moscow. The FMA admitted it did not know what the payment was. Other payments from BA/CA's few North KOREAn accounts were typically to international entities active in North KOREA, such as UNICEF, WFP, WHO, and the Swiss Development Agency. xxxxx emphasized that the FMA exercised additional surveillance regarding North KOREAn financial activities through the Austrian banking system.

¶B. (S/NF) USG Concern: U.S.-indicted crime boss Semyon Mogilevich probably uses RZB and its subsidiary Raiffeisen

Investment Holding AG (RIAG) as a front to provide legitimacy to the gas company that we suspect he controls, RosUkrEnergo

(RUE). RUE makes direct payments of \$360,000 annually to each of two RIAG executives in "consulting fees." We assess that the payments probably are bribes for RIAG to maintain the front for Mogilevich (ref D).

(S/NF) GOA Response: xxxxx acknowledged that the non-transparency surrounding the gas deal had become a major political issue in Ukraine and Russia. The FMA is "uncomfortable" that an Austrian bank is in the middle of the controversy. The FMA, xxxxx continued, had had "intense discussions" with RZB/RIAG, but could not uncover any legal improprieties. RIAG also conducted a strenuous due diligence review of the unnamed RUE investors. Neither RIAG's internal due diligence nor an independent due diligence by the U.S. risk consulting firm Kroll had revealed derogatory information or links to criminal activity, including to Seymon Mogilevich (ref A). Regarding the RUE payments of \$360,000 to RIAG executives, xxxxx maintained that the payments, in the names of the four RIAG executives on the RUE

Coordination Committee, went directly into a RIAG account, to which none of the executives had access. RZB General Legal Counsel told xxxxx January 30 that the Kroll Report found "no link between the undisclosed investors and Mogilevich." (Note: Embassy is working with RIAG to obtain a copy of the Kroll report. End Note.) xxxxx speculated that RIAG's primary objective is to prepare RUE for a January 2007 IPO on the FTSE.

(S/NF) Embassy Note and Comment: Embassy's Legatt Office has been cooperating closely with Austrian law enforcement authorities since summer 2005 on a multi-country investigation of Mogilevich's money laundering activities in the region. Embassy suggests that Washington agencies carefully consider this on-going investigation in regard to further intervention with various GoA entities on Mogilevich's links to RUE. End Embassy Comment.

¶C. (S/NF) USG Concern: RIAG holds a 61% stake in Priorbank, Belarus' largest foreign-owned bank. Priorbank maintains close ties to the Lukaschenko regime (ref D).

(S/NF) GOA Response: xxxxx noted that Raiffeisen had been active in Eastern European markets, some less democratic than others, for many years. Raiffeisen believed that western commercial engagement, rather than isolation, had had positive effects in undemocratic countries (ref A). He noted that EBRD is a 13.5% shareholder in Priorbank. xxxxx noted that there were no international financial or trade sanctions against Belarus or senior Belarussian officials.

¶8. Suspicious Activity Reports

¶A. (S/NF) USG Concern: U.S. banks reported 75 and 217 suspicious activity reports (SARs) since the late 1990s involving BA/CA and RZB, respectively. Some transactions involve shell companies used by criminal groups (ref D).

(S/NF) GOA Response: xxxxx said the Austrian FIU did not believe that the quantity of SARs filed since the late 1990s was especially high, especially for BA/CA. xxxxx said RZB believes the overwhelming majority of its SARs stem from its major U.S. dollar clearing operations throughout Eastern and Central Europe. xxxxx added that the FMA had met with the CEOs of BA/CA and RZB to heighten the banks' awareness of USG concerns.

Statistics on BA/CA and RZB

¶9. (U) Bank Austria Creditanstalt (BA/CA) maintains 1,521 offices and branches, including 1,121 in Central and Eastern Europe, South East Europe, and the CIS countries. In 2004, its balance sheet assets totalled 146,516 million Euros. It

has 31,300 employees, of whom 21,100 are in Central and Eastern Europe, South East Europe and the CIS.

¶10. (U) Raiffaisen Zentralbank (RZB) has 987 offices, including 970 in Central and Eastern Europe, South East Europe and the CIS. It had balance sheet assets of 67,946 million Euros in 2004. It employs 27,200, of whom 24,500 are in Central and Eastern Europe, Southeast Europe and the CIS.
McCaw