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Russian Industrialist in Money Laundering Inquiry Accuses Moscow Aides

By TIMOTHY L. O'BRIEN

A powerful Russian industrialist whose empire is under investigation in the money laundering inquiry at the Bank of New York said Friday that a large part of the billions of dollars moved through the bank was controlled by Russian officials protecting their fortunes by shipping their money abroad before Russian markets collapsed last year.

In his first interview since the money laundering investigation became public last week, the industrialist, Mikhail Khodorkovskiy, said by telephone from Moscow that many Russian officials began selling Government securities in 1998 because they had inside knowledge about Government deliberations in the months leading to a decision to permit the devaluation of the ruble. That move occurred in August 1998, and caused the Russian economy, and the value of Government debt, to spiral sharply downward.

Anyone who sold securities before the devaluation would have gotten out of the market while the securities' value was still relatively high, locking in profits on the high-flying bonds just before they fell to earth. Khodorkovsky said he believed that Russian officials did just that, shipping their profits abroad through a front company and into the Bank of New York.

Khodorkovsky, of course, has a vested interest in this theory. He believes that Russian investigators, who he said have yet to make contact with him, are poised to re-examine his business dealings in light of the money laundering inquiry. By pointing his finger

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at the investigators' current and former political bosses, Khodorkovsky seemed to be warning Russian leaders that they too may be dragged into the wide-ranging investigation.

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Even so, Federal investigators believe that the amount of money moved through the Bank of New York -- at least \$4.2 billion and possibly as much as \$10 billion -- was so large that Russian organized crime figures linked to the investigation could be directly responsible for only a small part of it. Investigators say it is very likely that the bulk of the money that flowed through the bank is tied to corporate embezzlement and political graft in Russia. And Russia's securities markets, marred by rampant insider trading, have long been considered easy for public officials in Russia to manipulate.

The Bank of New York confirmed last week that it was cooperating with an investigation of what Federal authorities describe as the biggest money laundering inquiry in history. The bank has not been charged with any wrongdoing.

Khodorkovsky, 35, is the chairman of Yukos, one of Russia's largest oil companies, and was the chairman of Menatep, a now insolvent Russian bank. Federal investigators are examining whether Menatep moved funds illegally through the Bank of New York. Investigators' interest is heightened because Natasha Kagalovsky, a Bank of New York executive suspended until the investigation is complete, is married to Konstantin Kagalovsky, who is the vice chairman of Yukos and was also vice chairman of Menatep. The Kagalovskys have not been charged with any wrongdoing.

The Kagalovskys "wish to state unequivocally that they have never been involved in money laundering in any way, shape or form," the couple's lawyer, Stanley Arkin, said in a statement. "Nor do they have any knowledge of such activity."

Arkin's statement was prompted, it said, by "unfair press coverage" based on "innuendo, rumors, selective and irresponsible leaks from U.S. governmental sources and disingenuous 'guilt-by-association' assumptions."

Khodorkovsky called a reporter directly Friday to offer his theory on what was behind the money laundering scandal and to defend his integrity.

"Menatep never in its history has done any money laundering," he said through an interpreter. "Menatep has undergone investigations by many commissions on this issue."

Nonetheless, he said the money laundering investigation at the Bank of New York was significant. "The investigation that is under way in the U.S. appears to be of great importance," he said. "Because if the investigation is carried out competently, we will see that Russian

criminals will be caught red-handed."

Khodorkovsky said that Russian organized crime figures were undoubtedly tied to the scandal, and that he believed, as has been reported, that Semyon Mogilevich, a reputed head of Russian organized crime, was involved in the matter. Investigators say Mogilevich used a company called Benex to launder funds through the Bank of New York. Mogilevich could not be reached for comment; in the past he has denied any ties to organized crime.

Khodorkovsky declined to speculate on other crime figures he believed to be involved in the scheme, saying he feared for his safety, but he enthusiastically offered his view that political insiders in Russia had shipped their own ill-gotten gains through the Benex pipeline.

The chronology of events surrounding the money laundering investigation adds some credibility to this view. In early 1998, just as Russia's economy began to show serious signs of strain, funds started moving through the Benex accounts at the Bank of New York. Activity in the accounts is believed to have been particularly heavy starting in the fall of 1998, shortly after the Russian ruble was devalued, accelerating a financial crisis in the country.

Individuals with direct knowledge of the money laundering investigation have said that more than \$4.2 billion passed through these accounts between early 1998 and March 1999.

"I believe that such huge money over such a short period of time could only be generated by that operation," Khodorkovsky said, referring to his theory that Russian Government officials took advantage of inside knowledge about the financial crisis and shipped bond gains abroad.

But United States intelligence officials believe that many commercial banks in Russia also began shipping money out of the country shortly after the ruble was devalued, when a 90-day debt moratorium imposed by the Russian Government gave the banks an opportunity to avoid paying debts by stashing their cash abroad.

Khodorkovsky was privy to an exclusive meeting in Russia's presidential offices attended by a handful of powerful Russian financiers the weekend before the ruble was devalued. The group successfully pushed for the moratorium, although Khodorkovsky said Friday that he had not taken advantage of his position as an insider.

News reports about the money laundering investigation at the Bank of New York have offered a variety of other theories about where the money came from in Russia. The International Monetary Fund and the United States Department of Agriculture said Friday that they had no evidence to support one of those notions -- that their aid to Russia had been misappropriated. But the I.M.F. conceded Friday that it had badly misjudged how challenging it was to lend and track billions of dollars in corruption-plagued countries like Russia.

The issue of whether I.M.F. loans to Russia were illegally diverted

was extensively investigated earlier this year with no evidence found then that indicated misappropriation.

Still, Representative Jim Leach, an Iowa Republican, who said this week that he would hold hearings in mid-September examining the threat of money laundering and the Bank of New York case, said Friday that further I.M.F. loans to Russia should be halted until steps are taken to insure that the money is not diverted.

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