

EUROPE

MILOSEVIC CONNECTION SCALE OF ISLAND'S UN SANCTIONS-BUSTING RAISES CONCERNS OVER COMMITMENT TO FIGHT MONEY LAUNDERING, AMID NEGOTIATIONS TO JOIN EU IN 2004

Defiant Cyprus bank that helped fund two wars

By Kerin Hope in Athens and Stefan Wagstyl in London

The gleaming steel-and-glass headquarters of Popular (Laiki) Bank of Cyprus makes a striking contrast with the discreet office blocks occupied by most Greek Cypriot companies. But even more suggestive of the group's ambitions is a metal sculpture in the courtyard pointing aggressively towards the sky.

When the international community shunned Yugoslavia as a pariah state for much of the 1990s, Cyprus seized its chance to do business with Belgrade, and Popular Bank became former Yugoslav President Slobodan Milosevic's main financial link with the outside world.

According to a report by Morten Torkildsen, an investigator at the United Nations war crimes prosecutor's office, Popular Bank, the island's second largest bank, allowed a group of Yugoslav-controlled front companies to operate in defiance of UN sanctions.

These companies supplied Mr Milosevic's government with fuel, raw materials, spare parts and weapons to pursue wars in Bosnia in 1992-1996 and in Kosovo in 1998-1999.

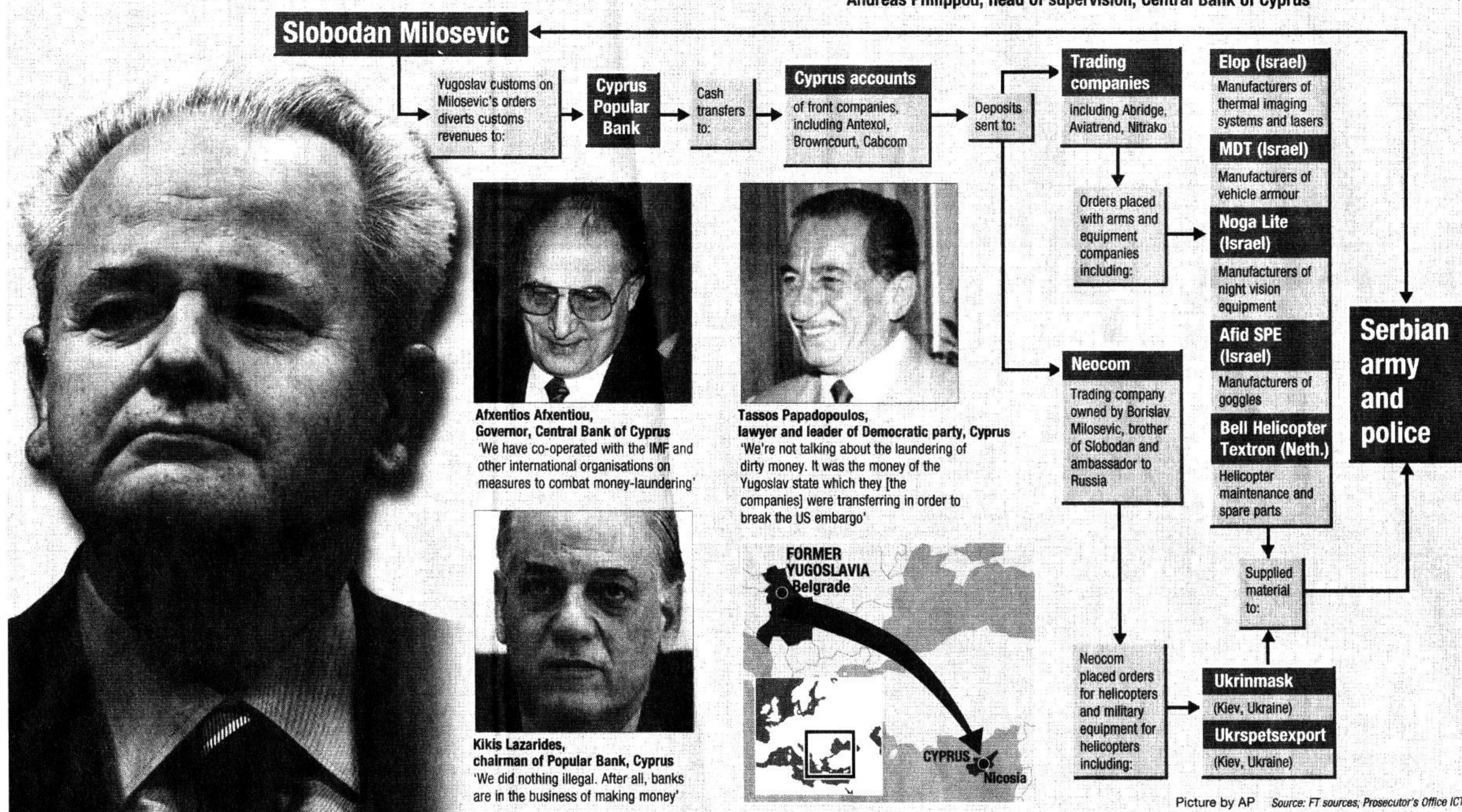
Mladjan Dinkic, the Yugoslav central bank governor, said during a visit to Cyprus last year that as much as \$4bn (£3.9bn, £2.5bn) in foreign currency might have been transferred to Cyprus between 1992 and 1994. The funds were mainly deposited in Popular Bank and its Greek subsidiary, European Popular Bank, he said.

A Financial Times investigation has revealed that instead of taking measures against Yugoslav sanctions-busting, leading members of Cyprus's close-knit elite facilitated the transactions. They included Afxentios Afxentiu, governor of the central bank; Kikis Lazarides, chairman of Popular Bank; and Tassos Papadopoulos, a prominent lawyer and leader since 2000 of the Democratic party, the island's second-biggest political party.

The scale of the island's involvement with Belgrade has revived concerns about Cyprus's commitment to

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implementing international anti-money-laundering practices at a time when the island's bid to join the European Union in 2004 is under negotiation.

Yet the Greek Cypriot bankers and politicians who were involved sound embarrassed rather than repentant. Mr Lazarides told the FT: "We did nothing illegal. After all, banks are in the business of making money."

Cyprus's willingness to help Mr Milosevic get around UN sanctions stems from a long tradition of close ties between Cyprus and Yugoslavia. Greek Cypriots overwhelmingly backed Mr Milosevic during the Yugoslav succession wars.

Cyprus's business links with Yugoslavia were well established before the federation collapsed. After 1989 Serbian businessmen opened offshore trading companies

and took advantage of the island's favourable tax treaties with former communist states. But after UN sanctions were imposed in July 1992, the number of Yugoslav-controlled offshore companies on Cyprus soared from fewer than 1,000 to more than 7,000.

Officials at the Cyprus central bank registered Yugoslav front companies as offshore trading businesses. They were financed with cash flown from Belgrade to Cyprus and deposited in special accounts, mainly at Popular Bank. The accounts were managed by officials at the Nicosia-based offshore branch of Beogradska Banka, a state-owned bank

run by Borka Vukic, one of Mr Milosevic's closest associates. Cyprus initially had few measures in place to counter money-laundering. But the

relationship with Mr Milosevic continued after an anti-money laundering law was approved in 1996. And cash continued to be transferred after Cyprus started EU accession talks in 1998.

Mr Torkildsen's report details many transfers made after the UN re-imposed an arms embargo on Belgrade in March 1998 because of the worsening conflict in Kosovo.

Dragomir Stojkovic, a courier with the National Bank of Yugoslavia, flew to Cyprus on a private aircraft almost every week between March 1998 and March 1999. The cash he accompanied was stuffed into reinforced paper sacks used for packaging cement and handed over to Popular Bank officials at Larnaca airport.

Mr Stojkovic declared a total of DM453m to customs officials at Larnaca airport, filling out the forms required under banking regulations on cash imports. The entire amount was deposited in a D-Mark account at Popular Bank belonging to Browncourt Enterprises, one of the Cyprus-based front companies.

The central bank gave special approval for the money brought by Mr Stojkovic to enter Cyprus, because the amounts exceeded the \$100,000 ceiling then permitted for a single cash transfer. Browncourt Enterprises and another seven front companies were registered as Cyprus-based offshore companies by the law office headed by Mr Papadopoulos, legal adviser both to Popular Bank and Beogradska Banka.

Mr Afxentiu retired earlier this year and was not available for an interview. But Andreas Philippou, the

long-serving head of supervision at the central bank, said in an FT interview that senior officials at the bank were aware the front companies were set up as a means of avoiding UN sanctions.

He said: "Through these companies, the Yugoslav state was able to survive and feed its people in spite of the sanctions."

Popular Bank played an important role in a drive by the Cyprus government to reduce dependence on tourism, its main source of revenue, by boosting the offshore banking industry. The bank, which is listed on the small Nicosia stock exchange, also expanded outside Cyprus, to Greece and London. Its biggest single shareholder is HSBC, the UK-based financial group, with a 22 per cent stake.

In an interview with the FT in his marble and wood-

panelled office, Mr Lazarides said: "We always acted in accordance with central bank regulations. Because the amounts of cash arriving from Yugoslavia were quite large, we always checked with the central bank to get their permission on a case-by-case before we accepted them."

Asked whether Popular Bank had acted prudently in maintaining a banking relationship with the Yugoslav government during sanctions, he said: "Our books were checked on by international institutions, for example by the US Treasury and by HSBC, our biggest shareholder. They found nothing wrong."

HSBC said: "We went and talked to a few senior people and got assurances."

But it added: "We are a minority shareholder and don't have any management

control or responsibility for Popular."

Mrs Vukic, a veteran banker who headed Beogradska's offshore branch between 1990 and 1996, set up the front companies at Popular with the help of Mr Papadopoulos's law firm.

In the case of two companies, Antexol and Browncourt, Mrs Vukic and Mr Papadopoulos's firm are accused of colluding to violate Cyprus central bank regulations on setting up offshore businesses by failing to provide documents required to prove beneficial ownership.

In both cases the named beneficial owners had never heard of the companies in question, were astonished to be contacted by UN investigators, and have threatened legal actions of their own.

During the Kosovo war, President Glafcos Clerides' government made an effort to distance itself from Belgrade amid belated concern that Cyprus's links with Mr Milosevic could damage its prospects for EU accession.

The central bank withdrew Beogradska Banka's offshore banking licence in June 2000 because of insolvency - a decision contested on procedural grounds by Mr Papadopoulos's law office.

Mr Afxentiu and Mr Lazarides last year promised full co-operation with the UN tribunal in tracing the Milosevic funds. Officials from the supervision department of the central bank of Cyprus spent several weeks at Popular Bank collecting documents for possible use at the UN war crimes tribunal.

The government has also promised full co-operation with the UN tribunal. But it has stopped short of ordering an investigation into whether the central bank and the commercial banks violated international rules against money-laundering in the case of the Milosevic funds.

Michalis Papapetrou, the government spokesman said: "In the past two years, we have tightened up on regulations to combat illegal financial dealings, and the international organisations have approved the measures we've taken. We've done whatever was required."

Earlier this month, Mr Papadopoulos was the only Cyprus political party leader not to be invited to the US ambassador's July 4 reception. A US embassy spokesman said: "We don't make comments about our guest lists."

When Ljiljana Radenkovic, an employee of Anglo Yugoslav Bank, Beogradska's UK subsidiary, complained last year that Mr Papadopoulos's firm had made her the beneficial owner of Antexol (a Yugoslav front company) without her knowledge, Mr Markides decided against launching an investigation.

Instead he referred Mrs Radenkovic's complaint to the disciplinary board of the Cyprus lawyers' association. The association, which is headed by a partner in Mr Papadopoulos's firm, cleared him of any wrongdoing. Mrs Radenkovic said she would open legal proceedings if

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Cypriot caught in Milosevic's tangled financial web

By Kerin Hope

As Cyprus's most prominent lawyer and leader of the centre-right Democratic party, Tassos Papadopoulos belongs to a group of Greek Cypriots nicknamed "the untouchables" because of their longstanding hold on power.

Their ability to shape policy behind the scenes is based on ties forged in the struggle for independence against British colonial rule in the late 1950s, and on a network of personal and family connections that cuts across party political boundaries.

Mr Papadopoulos, 67, who studied law in the UK, started his political career as a "freedom fighter" with Eoka, a guerrilla organisation that staged bomb attacks and kidnappings of UK soldiers. After independence in 1960, he became the fledgling republic's youngest cabinet minister at the age of 24. Four other cabinet posts included a successful stint as labour minister when he set up Cyprus's social security system, thereby laying the foundations of his popularity with leftwingers.

At present Mr Papadopoulos is negotiating to win for-

mal backing from Akel, the unreconstructed Cyprus communist party, for his candidacy in next February's presidential election. With Akel - the island's biggest party - behind him, Mr Papadopoulos would be the overwhelming favourite to succeed 83-year-old President Glafcos Clerides, who is due to retire.

From the moment Cyprus launched itself as an offshore centre in the early 1980s, Mr Papadopoulos's law firm became active in registering offshore companies according to central bank regulations.

As the legal adviser in

Cyprus to Beogradska Banka, the Yugoslav state-owned bank, Mr Papadopoulos developed a close working relationship with Borka Vukic, who headed the bank's offshore branch in Nicosia from 1990 to 1996.

Yugoslav officials have told international war crimes investigators that Mrs Vukic, one of former Yugoslav President Slobodan Milosevic's closest associates, masterminded the massive cash transfers in the 1990s from Belgrade to Cyprus.

At that time Mr Papadopoulos's firm had a reputation among Greek and Yugo-

slav businessmen for being able to set up an offshore company within three working days. It would suggest the companies should open accounts at Popular Bank of Cyprus. Mr Papadopoulos is also Popular's legal adviser.

Although Mr Papadopoulos maintained contact with the Milosevic government throughout the 1990s, he says he met Mr Milosevic only once, while visiting Belgrade at the start of the Kosovo war in 1999.

As well as his relationship with Mrs Vukic, he was in close touch with the Yugoslav ambassador and embassy officials in Nicosia,

and would meet high-ranking Yugoslav officials whenever they came to Cyprus.

In an interview last month with the independent Nicosia daily Politis, Mr Papadopoulos defended the activities of the front companies he set up. He said: "We're not talking about the laundering of dirty money. It was the money of the Yugoslav state, which they [the companies] were transferring to break the US embargo."

In spite of his support for Mr Milosevic's sanctions-busting, Mr Papadopoulos still has the backing of Alexis Markides, the Cyprus attorney general.

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