

Manhattan's D.A. Morgenthau covered up the drug and terror ties of American Bank & Trust

by David Goldman and Kathy Burdman

Federal and state investigators have renewed examination of New York District Attorney Robert Morgenthau's role in covering up New York City's most spectacular case of dirty banking, the crash of American Bank and Trust Co. in 1976. Morgenthau took a case of blatant criminal fraud out of the hands of federal law enforcement agencies, and prosecuted two minor officers of the failed bank for minor regulatory violations. Morgenthau protected top officers in the bank, including future Carter administration Commerce Secretary Phillip Klutznick, the bank's president, and—incredibly—refused to touch the man who had arranged the final looting of the bankrupt institution, New York financier John Samuels. Samuels had been the biggest contributor and chief fundraiser for Morgenthau's 1974 election campaign for the District Attorney's office in the first place.

The implications of the American Bank and Trust case, however, go beyond Morgenthau's personal conflict-of-interest, the subject of a series of *Barron's* weekly magazine articles by reporter Richard Karp. Renewed interest in the affair, which brought together top operators of illegal arms traffic from Argentina to the Eastern Mediterranean, has emerged at the same time that the Italian authorities have shut down an arms-and-narcotics network that controlled the entire heroin flow out of the Eastern Mediterranean, according to Italian magistrates.

The beneficiaries of Morgenthau's alleged coverup, still the subject of several civil lawsuits in New York City, include a set of bankers and arms traffickers now under intense investigation in the Eastern Mediterranean arms-and-dope case:

- Lebanese financier **Edmond Safra**, whose Republic National Bank in New York City helped Argentine under-

world figure David Graiver purchase American Bank and Trust in 1975;

- Israeli arms merchant **Shaul Eisenberg**, a close associate of Israeli Defense Minister Ariel Sharon, and the controller of illegal sales of Israeli-produced weapons to Libya, Central America, and Khomeini's Iran; and

- The **Recanati** financial group of Israeli Discount Bank, the financiers of Shaul Eisenberg, whose American frontman **John Samuels** helped David Graiver loot American Bank and Trust of \$3 million of depositors' money.

The central role of **John Samuels** in the American Bank and Trust case puts the spotlight on Morgenthau's coverup: Samuels, a fly-by-night coal financier and erstwhile big spender on the New York cultural scene, was the **principal financier of Morgenthau's 1974 election campaign as New York District Attorney!** According to an exhaustive dossier on the bank scam assembled by *EIR*, Samuels funded the Morgenthau campaign at the same time he was obtaining loans illegally from **American Bank and Trust!** Yet Samuels, who helped Argentine financier Graiver loot American Bank and Trust, signing his name to checks Graiver used to funnel funds out of the bank, was never prosecuted by Morgenthau. Instead, Samuels, whose borrowings from American Bank and Trust ran above the legal limit established by New York State law, became a prosecution witness in the Morgenthau investigation, and went scot-free.

At the time of its collapse in 1976, American Bank and Trust was the property of **David Graiver**, the Argentine banker subsequently exposed as the financier of both the Argentine terrorist organization, the Montoneros, and the right-wing generals controlled by the Italian Propaganda-2

Freemasonic lodge. Propaganda-2, Graiver's secret organization, was the gathering point for ex-Mussolini fascists and Italian high nobility involved in illegal money flows and narcotics traffic out of Italy. Its chief banker, **Roberto Calvi** of the Banco Ambrosiano, went bankrupt in May 1982, a year after the Italian authorities raided P-2's headquarters and forced its chief, Italo-Argentine underworld figure **Licio Gelli**, into hiding until his recent capture by Swiss authorities. Calvi, found hanged under Blackfriars Bridge in London, was a central figure in illegal arms and narcotics traffic; the Italian arms-and-dope network shut down at the end of the last month, **Stipam**, had its office in a Banco Ambrosiano executive suite in Milan.

But when David Graiver showed up in New York in 1975 to take over American Bank and Trust, the \$500 million bank was already a political time bomb. New York State Superintendent of Banks **John Heimann**, a former Warburg bank officer who later went on to become Comptroller of the Currency under Jimmy Carter, had already sent a "cease and desist" order to American Bank and Trust in September 1975, ordering the bank to stop funding Morgenthau's political crony John Samuels. During the 1971-75 period, American Bank and Trust had made loans totaling \$12 million to Samuels, whose small empire in West Virginia coal became one of the 'rags to riches' stories of the early 1970s. In fact, every penny Samuels invested in his coal mines, or gave to Morgenthau's 1974 campaign, was borrowed from American Bank and Trust and its affiliates. Moreover, it was borrowed illegally: under New York State law, a bank may lend no more than 10 percent of its shareholders' capital to any single customer. Legally, Samuels's limit would have been only \$2.5 million, 10 percent of the bank's \$25 million capital; American Bank and Trust lent him ten times that amount.

American Bank and Trust's largesse to Morgenthau's moneyman was sufficient to bankrupt the bank. Richard Kapp reported in *Barron's* weekly magazine on Sept. 28, 1981:

While the press was ballyhooing John Samuels "leap to riches," the price of coal was sliding back. . . . Samuels' cash flow was fast drying to a trickle. If his income was dropping precipitously, his obligations weren't and Samuels had secured that debt with virtually all his assets. The most tangible of the latter was a cluster of coal mines in Pennsylvania and West Virginia. But those properties on the market would fetch only a small fraction of what ABT believed. . . .

By the end of the summer of 1975, the New York Banking Department was wise to Samuels' true condition as well as to ABT's illiquidity. On Sept. 25, the Banking Superintendent issued ABT's directors a "cease and desist" order, the strongest action the state could take short of closing the bank. . . .

Department's order threw ABT's board into a state of panic; whatever it did, the bank's shaky condition would surface and the impact on its equity was bound

to be severe. ABT did not have sufficient assets against which to write off Samuels's \$12 million. . . .

At this point, Argentine terrorist financier David Graiver walked into New York, on the arm of the chairman of the Republic National Bank, Theodore Kheel, who brought Graiver to meet David Rockefeller, Henry Kissinger, Lane Kirkland, among others. Graiver bought the bank, looted it blind, and disappeared in a reputed plane crash in Mexico in August 1976—although well-placed Israeli sources report that Graiver is alive and living in Spain. But Graiver's role shows the American Bank and Trust to have been a two-dimensional stage set, behind which were found the world's most notorious operators of illegal money, covert arms traffic, and narcotics.

The strange history of ABT

The ABT of the mid-1970s had its origin in the network of banks spun out by the predecessor organization of Israel's secret service branch Mossad, during the 1945-48 arms procurement program. Israel's first finance minister, Pinhas Sapir, set up the "Centrade Group," a network of banks with headquarters in Switzerland at the **Swiss-Israel Trade Bank** in Geneva. Future ABT president Phillip Klutznick, then a leading figure in the "Sonnenborn Institute" group in New York which shipped illegal arms to the Israeli Haganah, helped found the bank and later became chairman. Another American founder was **General Julius Klein**, who first sponsored Henry Kissinger's World War II career in military intelligence. Swiss-Israel Trade Bank's first president of U.S. subsidiaries was a "Sonnenborn Institute" veteran named **Saul Kagan**, who had served under Klein in the U.S. military government in Germany 1945-48; Kagan's job had been the collection and distribution of reparations payments to Jewish victims of the Nazis. Kagan, later the chairman of American Bank and Trust, was one of two ABT officers who ultimately was indicted by Morgenthau for minor crimes.

Swiss-Israel Trade Bank's sister organization in Switzerland was the **Banque de la Credit Internationale**, headed by the director of the Mossad's logistics and arms-procurement program, Hungarian refugee **Tibor Rosenbaum**. Rosenbaum maintained a seat on the board of directors of the Swiss-Israel Trade Bank; but his other activities brought him into the circuit of American mafia financier **Meyer Lansky** and elements of the shattered Nazi movement. According to a 1967 *Life* magazine exposé, Rosenbaum's bank became the chief Swiss laundromat for the Lansky syndicate. *Life* reported that Rosenbaum's Banque de la Credit Internationale was on the receiving end of \$10 million in illegal funds, laundered through the World Commerce Bank of Nassau, Grand Bahamas. The Nassau Bank was a joint venture of Lansky and several of his gambling-syndicate business partners. The World Commerce Bank's president was Lansky's accountant **Alvin Malnick**; another official of the bank was a Swiss national and Lansky courier, Sylvain Ferdman.

Ferdman was simultaneously listed in BCI's directory as "Chief Operations Officer" for the Rosenbaum bank.

Rosenbaum was meanwhile the Mossad station chief in Geneva, collaborating closely with **Shaul Eisenberg**, concurrently the Mossad station chief in Vienna, according to the *Washington Post*. Eisenberg ran a vast, quasi-legal arms trading operation between Japan, Taiwan, Hong Kong, Israel, and the Caribbean, finding time to run arms into Idi Amin's Uganda and Qaddafi's Libya, while surveilling both of them on behalf of several intelligence agencies, according to the London *New Statesman* of Oct. 13, 1978.

Rosenbaum's bank, brought down for unknown reasons in 1974, was the core of the dirtiest money-laundering operations in the 1970s, according to French journalist Jacques Derogy's 1980 book on the Israeli mafia. Bernie Cornfield of Investors Overseas Services, the most celebrated flight-capital scam of the decade, nominally ran an international mutual fund; in fact, Derogy demonstrates, IOS was a branch of the Banque de la Credit Internationale, the money-laundering operation for IOS funds. The *L'Express* journalist reported that illegal revenues in a diamonds-for-narcotics traffic based in South Africa ran its money through the Israeli director of Investors Overseas Services, Zwy Peer, who brought his illegal funds to Rosenbaum's bank for washing—rubbing shoulders with Meyer Lansky's couriers, who frequently doubled as Investors Overseas Services salesmen. Behind diamond-dealer Peer, Derogy documented, stood another board member of Rosenbaum's BCI—the chairman of Bank Leumi, Ernst Japhet, the current head of a family that had made its fortune during the 19th century Far East opium traffic. Leumi, the principal financier of the Israeli diamonds traffic and a major facility for laundering narcotics money, in Derogy's account, had the last word in the American Bank and Trust story: after the bank's failure, it cleaned up the shards by purchasing the bank's remaining branches.

According the 1978 Jeffrey Steinberg-David Goldman bestseller **Dope, Inc.**, the Rosenbaum financial network were also the financiers for **Permindex**, the corporate entity which New Orleans District Attorney Jim Garrison charged was a front for the John F. Kennedy assassination, and to which Italian authorities ascribed responsibility for the Aldo Moro assassination in 1978. French intelligence established that Permindex laundered \$200,000 through Rosenbaum's BCI, paid out to Guy Bannister in New Orleans and other known associates of Lee Harvey Oswald; all died shortly after Garrison began his inquiry in 1966.

American Bank and Trust tumbled into this network in 1960, when Swiss-Israel Trade Bank of Geneva began looking for a New York outlet. The American Trust, a small New York bank, had been founded in 1914 by Mexico's Swiss-owned Banamex and taken over by then-Governor Averell Harriman's campaign manager, John J. Reynolds, during the 1950s. The Israeli Centrade group bought it the day after the Kennedy assassination, Nov. 23, 1963. Klutznick, Rosenbaum's partner in the Swiss-Israel Trade Bank, became

chairman; Abraham Feinberg, another "Sonnenborn" veteran, became a director, and Saul Kagan, Julius Klein's old lieutenant, was named president. An additional board member was the New York representative of German financier Erich Warburg: Henry Simon Bloch.

ABT grew fast in two directions. Feinberg, a power in Brooklyn politics, brought future New York mayor Abe Beame, and Brooklyn Democratic leader Meade Esposito onto the board. There is no evidence that they were aware of the wrong-doing. Arlen Realty became a major customer, and Stanley Kreitman of Arlen joined the board, later becoming president. New York City and state funds went into interest-free deposits at ABT, as well as the Carter campaign's 1976 treasury.

More important for the bank's growth, however, was the worldwide network of Sapir's and Rosenbaum's Centrade group in Switzerland. The Swiss parent of the New York bank opened offices in Mexico City, Uruguay, Panama, Colombia, Peru, and Brazil, soliciting flight capital for deposit in New York. Centrade called this "vacuuming deposits"; it had been the model for Rosenbaum's direction of the world network of Investors Overseas Services salesmen, and ABT applied it fresh to Ibero-America.

Centrade officially relinquished control of the bank to one of their associates in Ibero-America, Chilean financier **José Klein**. Klein, who owned Chilean iron mines, was the principal financier of Chilean President Allende's predecessor, Eduardo Frei. In 1969 Klein sold out and moved to Geneva, purchasing American Bank and Trust from Centrade the following year. Despite the sale, ABT did not miss a beat; Klein maintained the same vacuuming operations, and the same management. Rosenbaum's partner Klutznick remained chairman for several years after the sale and a board member until the bitter end, yielding the chairmanship en route to another member of the old Centrade crowd, Abe Feinberg.

Klein, for reasons that have never been adequately explained, picked up the unknown Texan John Samuels and financed his brief rise to prominence. But the Samuels case shows clearly that nothing had changed after Swiss-Israel Trade Bank sold ABT to Klein. Samuel's major financier was the London metals trader Leonard Cohen, whose offices were at Swiss-Israel Trade Bank in Geneva. Samuels' biggest investment with the proceeds of his coal sales was his 1976 purchase, for \$60 million, of **Exchange National Bank** in Chicago—from the Recanati family of Israel Discount Bank. Shipowners and financiers whose origin dates back to Spain in the 14th century and Venice in the 16th, the Recanati own the Israel Discount Bank, and are the principal financiers of Israel's foreign arms sales. The Recanati also control, through nominees, New York's Sterling National Bank, the official bank of the Anti-Defamation League of B'nai B'rith, and the subject of a February 1982 lawsuit by the Italian government, charging that Sterling National Bank conspired with jailed financier Michele Sindona to loot the Banca Privata Italiana.

Their principal client is **Shaul Eisenberg** of **Israel Aircraft Corporation**.

Enter Propaganda-2

David Graiver's arrival in New York City merely folded additional strands of the international money laundry back into American Bank and Trust.

The 35-year-old Argentine banker was the son of real estate operator Juan Graiver, who according to one report arrived in Argentina on the same tramp steamer that brought José Klein, then the owner of American Bank and Trust, as well as Juan Peron's economy minister of the 1970s, José Gelbard. The trio of Klein-Graiver-Gelbard maintained close connections which were passed to David Graiver after Juan's death. Gelbard brought the elder Graiver into the pre-Peron government as Undersecretary for Social Welfare in 1971, and Graiver directed government deposits into a series of small banks he had acquired—the beginning of the short-lived Graiver banking empire. The Peron movement's slush fund, the "Crusade of Justicialist Solidarity," was also deposited in the Graiver banks. Graiver became majority owner of the Peron newspaper *La Opinion*, then edited by Israeli Mossad agent Jacobo Timmerman. At the same time, Argentine mystic López Rega, a close associate of Licio Gelli of the Propaganda-2 freemasonic lodge, became the dominant figure in the Peronist movement. Argentina became a center for Italian tax evasion and revenues from Sicilian narcotics traffic, according to sources close to the Italian government prosecutors in the P-2 scandal, through Gelli's intermediation with López Rega. When Peron's P-2 widow Isabelita Peron could no longer maintain control over Argentina, Graiver, according to sources close to his family, financed the coup that overthrew her in early 1976. His principal beneficiaries were the subsequently-exposed leadership of the P-2 cabal inside the Argentine military, including **Admiral Massera**. This cabal conducted at least some of their meetings to plan the coup against Isabelita at American Bank and Trust's offices in New York, after Graiver had bought it.

At the same time, Graiver became banker to the Argentine terrorist organization, the Montoneros, who were subsequently wiped out by the same P-2 right-wingers whom Graiver worked with on the other side off the political street. While Graiver was building his banking empire out of the cash flow of the Peronist movement, according to the version given out by family sources, his brother Isidoro was kidnapped by the Montoneros. While negotiating Isidoro's \$2 million ransom, Graiver proposed that they place their funds—the Montonero treasury then totalled \$18 million—in the Graiver banks. The story only came out when the Montonero's money man, "Dr. Paz," was arrested by a provincial military governor; the latter, unsympathetic to the junta, released the entire story of Graiver's double-agent role between the terrorists and the P-2 junta.

Graiver also played a special sort of role for Israeli intelligence. In 1975, Argentina ordered its first nuclear reactor

under conditions of fierce competition between Westinghouse and the Canadian nuclear industry. The Canadians hired the founder of the Israel Aircraft Corporation **Shaul Eisenberg**, as their representative. Eisenberg won the contract for the "CANDU" reactor through the payment of a \$5 million bribe to several Argentine military officers; his conduit was David Graiver.

Not surprisingly, in the 1975-76 period David Graiver decided that Argentina had become too hot, and moved to greener pastures, establishing a small bank in Belgium, Banque pour L'Amérique du Sud. Graiver's own finances, shaky after the 1976 coup, had been bailed out after the failure of his Uruguayan bank, Banque pour le Commerce Continentale in Montevideo; Israel's Bank Leumi, controlled by Tibor Rosenbaum's business partner Ernst Japhet, took the failed Uruguayan institution off Graiver's hands.

But as *Barron's* reporter Richard Karp described it in the cited review of ABT court papers:

BAS in Belgium was not a bank at all, but merely a conduit for laundering and stealing any funds deposited in it. To get money into BAS, Graiver conducted a credit raid on ABT; as a result, after 10 months, some \$18 million of the New York bank's assets and credit were spirited to Belgium. To get additional funds into BAS, he also diverted to Belgium, by means of a complicated subterfuge, upwards of \$20 million belonging to ABT's depositors. When Graiver vanished in August 1976—supposedly in the crash of a private plane in Mexico—at least \$40 million disappeared with him. A month later, when investigators found no trace of the money, authorities in Belgium and the U.S. seized and closed both ABT and BAS.

As Karp documents the case in the cited article, the looting process had brought ABT to the brink of collapse by the end of May 1976. Morgenthau's friend John Samuels helped Graiver keep the bank afloat between May and August by "kiting" Graiver's checks: Samuels issued checks in million-dollar denomination to Graiver's shell, Banque pour l'Amérique du Sud, to Graiver, drawn on accounts at Bankers Trust and Irving Trust which had little or no money in them. Graiver "duly credited" the checks "to the BAS account at ABT." The next day, Graiver remitted the same amount from the BAS account at ABT back into Samuels's accounts. ABT was surviving day by day on the time delay, or "float," between the payment on and collection against Samuels's checks at major banks, which made the BAS account at ABT appear to have several million dollars more than it really did. This lasted until Aug. 2, when Graiver failed to put \$3.3 million back into Samuels's accounts. Samuels's checks bounced on Aug. 8, but Graiver had already disappeared in what Israeli sources believe was a phony airplane crash between Acapulco and Mexico City.

By August 1976, an extraordinary state of affairs prevailed in New York banking. Franklin National Bank, bought

in 1971 by convicted P-2 moneymen Michele Sindona, had failed in September 1974. It turned out that Sindona had spent the period between May 1974, when Franklin was known to be on the brink of collapse, and September, when the Comptroller of the Currency took it over, looting remaining Franklin assets through the aid of Banca Privata Italiana and Sterling National Bank.

Morgenthau covers up

It happened that Sterling National Bank was owned by the Recanati family of Israel Discount Bank. It happened that John Samuels, co-beneficiary with Graiver in the ABT scam, bought the Exchange National Bank of Chicago from the Recanati in 1976 for \$60 million, making himself chairman of the board.

It happened that Franklin National Bank's President, Paul Luftig, had a wife named Ida Luftig, who was head of the international department of American Bank and Trust during the entire period of Graiver's looting operation via Belgium.

It happened that when Franklin National Bank failed, Edmond Safra's Republic National Bank—whose Chairman Theodore Kheel had arranged Graiver's purchase of American Bank and Trust—purchased the international department of ABT, the American-Swiss Banking Corporation.

The entire apparatus of dirty-money laundering had moved heavily into American banking, implicating the cited institutions, in the original Lansky-Rosenbaum-Cornfeld scam. For the first time, U.S. law enforcement had cases of documented fraud sufficient to shut down the entire apparatus.

What D.A. Morgenthau did then remains a source of wonderment to everyone connected with the case.

First, Morgenthau, the former U.S. Attorney for the Southern District of New York, used all his political pull to force the federal authorities to leave the prosecution to him, although bank fraud is a federal crime. (Under similar circumstances, Michele Sindona was sentenced to 20-30 years in federal prison.) This pull apparently included help from Henry Kissinger's National Security Council, since Morgenthau was able to enlist the aid of the U.S. Secret Service—which operates on direct White House orders—to pick up the "black box" recording device from the aircraft in which Graiver supposedly died.

Second, Morgenthau set up a secret grand jury, whose minutes remain sealed, indicting only four lower-level officers of the bank, namely Saul Kagan and three virtual clerks: Jean Louis Wolf of the international department, Torleaf Benestad, and Edmund Fleckenstein, ABT's Treasurer. Only Kagan and Wolf went to trial. Klutznick, Feinberg, Samuels, Kheel, and the others who had run the looting operation in common with the conveniently-absent David Graiver, were never indicted. Morgenthau called them all as witnesses, and gave them immunity from prosecution! Morgenthau suppressed the massive evidence of criminal bank fraud and merely charged the two fall-guys with a minor regulatory violation, i.e., loaning more than 10 percent of American

Bank and Trust's capital to BAS, along with minor related criminal offenses. Of course, the fall guys, who left the courtroom with \$20,000 fines, never had a motive to commit such a crime; the motives were entirely on the side of the prosecution witnesses.

For reasons that he never explained, Morgenthau ignored massive documentation to his grand jury showing criminal fraud on the part of ABT's top management. The quality of evidence ignored by Morgenthau's grand jury is illustrated by a legal brief presented by lawyer Steven Lowey in a separate case filed in Federal Court in 1977, "Adato vs. Kagan," on behalf of Mexican depositors whose "vacuumed deposits" had never been recorded on ABT's books. Although witnesses came forward to present evidence of criminal fraud, Morgenthau refused to hear their testimony before his grand jury; he refused even to take depositions. The 1977 brief even traced the transactions within ABT itself, showing how the Mexican depositors' money was laundered into the Graiver BAS account, and spirited away to Belgium. The money, it showed, was dumped into a shell account of the "New Loring Co." at ABT, and ended up at BAS.

Most inexplicable to lawyers and law enforcement officers associated with the prosecution of the ABT case was Morgenthau's refusal to trace the estimated \$45 million that Graiver looted out of ABT to Belgium, and thence to Switzerland—a trail that might have led back to the dirty-money networks that created Graiver, ABT, and John Samuels.

Ironically, Morgenthau had made his reputation as "Mr. Clean," in a series of dirty money investigations, and took credit for the passage of the 1972 Bank Secrecy Act, which forced accounting for large cash deposits and other conveniences of organized crime. In Congressional testimony in 1969, just before the Nixon administration fired him, Morgenthau railed against foreign bankers enabling U.S. citizens to evade taxes. Handed the biggest bank fraud case of the 1970s—interlinked with every other bank fraud case of the 1970s—Morgenthau covered his political contributors and political friends.

It happens that Morgenthau, a member of the National Committee of the Anti-Defamation League of B'nai Brith, was a colleague of Swiss-Israeli Bank founder and ABT board member Philip Klutznick, a fellow national-committee member, and Chairman of the ADL's Executive Committee at the time the case was prosecuted. It also happens that Sindona's collaborators at Sterling National Bank are the bankers to the ADL, holding all its accounts and investing all its money.

It also happens that *Barron's* reporter Richard Karp, the journalist who brought the ABT court papers to light, was sitting at the bar at Sardi's restaurant in New York not long ago, when he was approached by a stranger. "You don't know me," the stranger told Karp, "but I have just been engaged as the public relations director for the Anti-Defamation League. I want to inform you that you are on their watch list."

(Second installment: Morgenthau's personal finances.)