



# THE COST OF SECRECY

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The role played by companies registered in the UK's Overseas Territories in money laundering and corruption

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# INTRODUCTION

For decades, the Overseas Territories have represented a weakness in the UK's approach to tackling the flow of corrupt wealth around the world. The corporate secrecy afforded by these jurisdictions has made them destinations of choice for corrupt individuals seeking to hide criminal acts and enjoy the proceeds of their crimes with impunity.

Businesses, journalists and the public face an almost impossible task finding out who really owns companies registered in these jurisdictions. Even UK law enforcement agencies have encountered similar challenges despite holding privileged rights to request these details under information sharing agreements between the British Government and these territories.<sup>1</sup> As it currently stands, the main way in which the beneficiaries of companies in the Overseas Territories are exposed remains data leaks like the Panama and Paradise papers.

In contrast, corporate registries across Europe are opening-up to public scrutiny,<sup>2</sup> with the UK leading the way by providing the first central, open source of information about the ultimate beneficiaries of companies within the G20.<sup>3</sup> However, the continuing role of Britain's offshore jurisdictions in corruption cases undermines the UK's claim to be a global leader in the fight against corruption and money laundering.

In May 2018, the UK Parliament passed legislation that requires the Government to provide all reasonable assistance to the Overseas Territories in meeting this new global standard for corporate transparency by the end of 2020. If however any of these territories choose to keep their registers locked behind closed doors, the UK Parliament has required the use of Orders in Council to open them up to public scrutiny.<sup>4</sup>

## Overview

Using evidence from 237 corruption cases from the last 30 years, this briefing shows how 1,201 different companies registered in the UK's Overseas Territories have aided gross abuses of entrusted power for private gain around the world.

Our sample of cases covers allegations at a range of stages, from prima facie evidence of corruption through to successful prosecution. We have collected the details of companies involved in these cases based on what is publicly available from court documents, public records, media articles and other open source material.

Given detection and prosecution rates of corruption are widely accepted to be low, the figures contained in this briefing are likely to be the tip of the iceberg. Despite this, the cases we have found amount to over £250 billion worth of funds diverted by rigged procurement, bribery, embezzlement and the unlawful acquisition of state assets across 79 different countries. To put this in perspective, the scale of the damage caused by the companies we have identified is greater than the whole of the UK's foreign aid budget over the past 20 years.<sup>5</sup>

<sup>1</sup> <https://www.bbc.co.uk/news/uk-45525976> [Accessed 5 November 2018]

<sup>2</sup> Under the EU's fifth money laundering directive (5MLD) all member states are required to maintain adequate, accurate, current and public information on company beneficial owners.

<sup>3</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-05-01/HCWS660/> [Accessed 13 November 2018]

<sup>4</sup> Sanctions and Anti-Money Laundering Act 2018, Part 2, Section 51 <http://www.legislation.gov.uk/ukpga/2018/13/section/51/enacted>

<sup>5</sup> <https://fullfact.org/economy/uk-spending-foreign-aid/> [Accessed 19 November 2018]

## Involvement by territory

According to the data we collected, 1,201 companies from six of the UK's 14 Overseas Territories featured in cases of grand corruption and associated high-end money laundering. The British Virgin Islands was the destination of choice for corrupt individuals looking for secrecy. Out of the 1,201 companies from the Overseas Territories we identified, 1,107 (92 per cent) were incorporated in the British Virgin Islands. Companies registered in this jurisdiction featured in 213 (90 per cent) of the 237 corruption and money laundering cases we analysed.

Overseas Territory	No. of companies identified	Cases associated
British Virgin Islands	1,107	213
Cayman Islands	47	32
Bermuda	20	10
Gibraltar	18	14
Turks and Caicos Islands	6	5
Anguilla	3	2

Table 1: Jurisdictional breakdown

## Jurisdictions of origin

Based on our analysis of cases where there is publicly available information, we have been able to identify countries of origin – jurisdictions where the suspected or proven predicate offence was committed. These are the countries where public money has been stolen, the procurement has been rigged or the public official or businessman has been bribed. They are also where the victims of these crimes – ordinary citizens – reside.

Table 2 below provides a summary of the countries most commonly found to be the jurisdiction of origin for the cases in our sample.

Jurisdiction of origin	Cases associated	% cases
Russia	36	15
Ukraine	21	9
Kazakhstan	15	6
Nigeria	14	6
Azerbaijan	12	5

Table 2: Five most common jurisdictions of origin

# HOW COMPANIES IN THE UK'S OVERSEAS TERRITORIES CONTRIBUTE TO CORRUPTION GLOBALLY

Money launderers choose companies registered in the UK's Overseas Territories because they are not required to reveal who owns them to the public. This secrecy assists a range of activity through the 'lifecycle' of corruption, including the:

- **Extraction** of resources by hiding conflicts of interest, enabling embezzlement and channelling bribes.
- **Movement** of corrupt wealth, often through complex networks of companies, trusts and nominees.
- **Investment** of corrupt wealth into luxury property, yachts, jets and art.

Below we provide real life case studies showing how these activities work in practice, and three key recommendations to help end these territories' reputations as havens for illicit finance.

## Extraction

Anonymous shell companies registered in the UK's Overseas Territories are used globally to hide conflicts of interest held by those in high office, mask the embezzlement of public funds, and channel secretive bribes to secure contracts and influence big decisions.

### Case Study: Bribes for mining licenses via the Turks and Caicos Islands

Countries across Africa have lost billions of pounds in potential revenue from concessions on mining licenses obtained by businesses through bribery.

In 2016, the US-based hedge fund Och-Ziff paid £336 million to settle bribery probes into their African mining operations.<sup>6</sup> The US Department of Justice found that Och-Ziff had formed a joint venture with an entity believed to be Palladino Holdings – a company registered in the Turks and Caicos Islands.<sup>7</sup> Through this joint venture, a Gabonese individual, Samuel Mebiame, bribed officials in Niger, Chad and Guinea in order to gain lucrative mining concessions in these countries.<sup>8</sup>

Turks and Caicos companies are highly secretive with no information published about their owners, directors or financial activity. It is a criminal offence to disclose or threaten to disclose "confidential" information about companies registered here, including their true beneficiaries.<sup>9</sup> This aggressive secrecy may indicate why more corruption schemes involving Turks and Caicos companies have not come to light.

### Case Study: Embezzled Congolese Oil Funds via Anguilla

In the Republic of the Congo, the first family have used oil deals to enrich themselves at the cost of the country, which is now £6.5 billion in debt.<sup>10</sup> During efforts to recover this debt, undertaken by a private investment firm, numerous secretive offshore companies were found to have obscured the beneficiaries of a series of oil deals, which are estimated to have cost the country at least £500 million.<sup>11</sup>

Legal documents obtained by anti-corruption campaigners Global Witness show that two Congolese officials at the state oil company, Cotrade – Blaise Elenga, then its deputy head, and Denis Christel Sassou-Nguesso, the President's son and then head of Cotrade – benefitted from these deals using companies incorporated in Anguilla.<sup>12</sup> Credit cards held by these two officials were paid off using funds

<sup>6</sup> <https://www.sec.gov/news/pressrelease/2016-203.html> [Accessed 9 November 2018]

<sup>7</sup> USA against Samuel Mebiame (2017) p. 1, para 3 <https://www.justice.gov/criminal-fraud/file/943121/download>

<sup>8</sup> *Ibid* p. 3 para 16

<sup>9</sup> <http://online.fliphtml5.com/fizd/bnyp/#p=6> [Accessed 08 November 2018]

<sup>10</sup> <https://www.bloomberg.com/news/articles/2018-03-01/congo-state-oil-company-names-new-head-amid-debt-relief-plans> [Accessed 9 November 2018]

<sup>11</sup> Kensington International v. BNP Paribas (2007) <https://caselaw.findlaw.com/us-2nd-circuit/1238025.html> [Accessed 27 November 2018]

<sup>12</sup> <https://www.globalwitness.org/fr/press-releases/republic-congo-presidents-son-paying-designer-shopping-sprees-countrys-oil-money/> [Accessed 14 November 2018]

from the Anguillan companies Long Beach Limited and Elenga Investment Limited. In turn, these companies appear to have received, via other shell companies, money related to Congo's oil sales.<sup>13</sup>

## Movement

The secrecy offered by legal entities incorporated in the UK's Overseas Territories makes them attractive for use in complex webs of companies and transactions that "layer" corrupt funds to provide distance between the predicate crime and the destination of the funds.

### Case Study: Corruption on an industrial scale via Gibraltar

In October 2018, the UK's Serious Fraud Office joined US and Dutch law enforcement agencies in investigating Gulnara Karimova, the eldest daughter of the former President of Uzbekistan.<sup>14</sup>

Court cases have already revealed Karimova received £606 million worth of shares and payments – representing bribes – from mobile phone companies in exchange for deals in Uzbekistan.<sup>15</sup>

Financial documents show the majority of these payments were sent by two British Virgin Islands-registered firms, Merkony Investment Group Limited and Watertrail Industries Inc., to a company in Gibraltar, Takilant Limited, which held numerous Latvian bank accounts.<sup>16</sup>

Takilant was the gateway to a complex transnational network of shell companies – including more legal entities incorporated in the British Virgin Islands – which allowed Karimova and her associates to purchase high-end property and luxury goods around the world. To help further distance Karimova from the source of the illicit wealth, Takilant was nominally controlled by one of her associates.<sup>17</sup>

## Investment

Companies in the UK's Overseas Territories are also used to anonymously invest corrupt wealth in assets, hiding both the beneficiaries and the source of this wealth in the process.

### Property

In 2017, Transparency International UK identified 176 properties bought across Britain using £4.4 billion worth of suspicious wealth; 111 (63 per cent) of these were owned through companies registered in the UK's Overseas Territories.<sup>18</sup> Since then, new corruption cases have exposed even more legal entities in these jurisdictions holding luxury properties in the UK.

For example, according to a recent court case, 12-14 Walton Street, Knightsbridge, London was bought by Vicksburg Global Inc. – a British Virgin Islands-registered company owned by the former Chairman of the International Bank of Azerbaijan.<sup>19</sup> This property was the subject of UK's first Unexplained Wealth Order, a new investigative power introduced by the Criminal Finances Act 2017, which can help law enforcement agencies determine whether luxury assets such as this are likely to have been bought with the proceeds of corruption.

Companies registered in the Overseas Territories own almost 28,000 properties in the UK. Since 2013, there have been increasingly onerous taxes applicable to residential properties held through offshore companies in these jurisdictions, which means there should be less incentive to own assets through such opaque structures.<sup>20</sup> However, despite these measures, the number of properties owned via offshore companies has remained relatively stable. This does not necessarily indicate that all of these properties have been bought with the proceeds of corruption, however there are now much fewer licit financial benefits in holding residential properties through companies incorporated in the Overseas Territories.

<sup>13</sup> [2007] EWHC 1980 (QB) <https://www.bailii.org/cgi-bin/format.cgi?doc=/ew/cases/EWHC/QB/2007/1980.html> [Accessed 27 November 2018]

<sup>14</sup> <https://www.sfo.gov.uk/2018/10/03/sfo-begins-action-to-recover-proceeds-of-alleged-corrupt-telecoms-deals-in-uzbekistan/> [Accessed 9 November 2018]

<sup>15</sup> <https://www.occrp.org/en/corruptistan/uzbekistan/gulnarakarimova/payoff.html> [Accessed 9 November 2018]

<sup>16</sup> <https://www.occrp.org/en/corruptistan/uzbekistan/gulnarakarimova/payoff.html> [Accessed 27 November 2018]

<sup>17</sup> Complaint. United States of America v. Any and all assets held in account numbers 102162418400, 102162418260, and 102162419780 at Bank of New York Mellon SA/NV, Brussels, Belgium, on behalf of First Global Investments SPC Limited AAA Rate, et al, Case No. 1:15-cv-05063, para. 18 (S.D.N.Y. June. 29, 2015).

<sup>18</sup> Transparency International UK, *Faulty Towers: Understanding the Impact of Overseas Corruption on the London Property Market* (March 2017) <https://www.transparency.org.uk/publications/faulty-towers-understanding-the-impact-of-overseas-corruption-on-the-london-property-market/>

<sup>19</sup> [2018] EWHC 2534 (Admin) <https://www.bailii.org/ew/cases/EWHC/Admin/2018/2534.html> [Accessed 29 November 2018]

<sup>20</sup> This includes the Annual Tax on Enveloped Dwellings (ATED), which was introduced by the Finance Act 2013 <https://www.gov.uk/guidance/annual-tax-on-enveloped-dwellings-the-basics> [Accessed 27 November 2018]

## 5 The Cost of Secrecy

### Artwork

Discretion and confidentiality have long been a defining feature of the fine-art market. This makes corporate vehicles in jurisdictions like the British Virgin Islands and Cayman Islands ideal for money launderers seeking to anonymise such transactions.

#### Case Study: Money laundering in the art market via the British Virgin Islands and Cayman Islands

A complaint filed in 2017 by the US Department of Justice against individuals and entities involved in the 1MDB corruption scheme – in which £3.48 billion of public funds was allegedly misappropriated by Malaysian officials – gives an insight into how companies from the UK's Overseas Territories have been used to launder stolen funds through artwork.<sup>21</sup>

The complaint alleges that between May and September 2013, a British Virgin Islands-registered company, Tanore Finance Corp, purchased £105 million worth of artwork from Christie's New York auction house. Amongst the numerous pieces of art purchased were works by Van Gogh and Basquiat.<sup>22</sup> Tanore Finance's beneficial owner was revealed to be Eric Tan, an associate of Jho Low, the Malaysian financier at the centre of the 1MDB scandal.<sup>23</sup>

In April 2014, Low used the artwork bought in 2013 to secure a £64 million loan from the financial arm of Sotheby's, the London auction house. The loan payment was paid to a company in the Cayman Islands, Triple Eight Ltd.<sup>24</sup> Internal email correspondence from Sotheby's shows employees keeping Low's involvement confidential.<sup>25</sup> Sotheby's went on to sell certain pieces involved in the loan agreement.<sup>26</sup> Low's legal team claim he is not guilty of bribery and money laundering.<sup>27</sup> Christie's has since claimed to have ended its association with Low, whilst Sotheby's stated "it always cooperates with government investigations".<sup>28</sup>

### Luxury Vehicles

Those seeking to hide their ownership of luxury vehicles often turn to companies in the UK's Overseas Territories in order to anonymously own and benefit from these assets.

#### Case Study: The Shuvalovs' private jet owned via Bermuda

Documents in the Paradise Papers show that Olga Shuvalov – the wife of the former deputy Russian Prime Minister, Igor Shuvalov – was the beneficial owner of a Bermudan company, Altitude X3 Ltd.<sup>29</sup> This company owned a private jet – a Bombardier BD-700-1A10 – which retails at around £36.7 million when fully equipped.<sup>30</sup>

Whilst it is unclear when Shuvalov owned this jet due to the lack of time-stamps on documentation that has been released into the public domain, this information corresponds with a 2016 investigation by Alexey Navalny who claimed the Shuvalovs used this jet for business and private use, including for flying Olga Shuvalov's prize-winning corgis around the world.<sup>31</sup>

It is unclear how Shuvalov could have afforded to buy this asset, because according to his official declarations he and his wife's combined wealth in 2014 was only £634,000.<sup>32</sup> Shuvalov failed to list the jet in these disclosures. It would have remained hidden had it not been for Navalny's initial investigation and the Paradise Papers providing supporting evidence. Shuvalov did not respond when questioned about the jet by the Organised Crime and Corruption Reporting Project.<sup>33</sup>

<sup>21</sup> USA v. Viceroy complaint <https://www.justice.gov/opa/press-release/file/973671/download> [Accessed 9 November 2018]

<sup>22</sup> TAN Kim Loong, aka Eric Tan *ibid.* p.101, para 350

<sup>23</sup> *ibid.* p 9, para 11

<sup>24</sup> *ibid.* p.173 para 622

<sup>25</sup> *ibid.* p.195 para 716

<sup>26</sup> *ibid.* p.174 para 624

<sup>27</sup> <https://www.bbc.co.uk/news/business-46062576> [Accessed 26 November 2011]

<sup>28</sup> <https://www.lexology.com/library/detail.aspx?g=a226abde-c9be-4124-bc24-5c4647c388d3> [Accessed 14 November 2018]

<sup>29</sup> <https://www.occrp.org/en/paradisepapers/profiles/igor-shuvalov> [Accessed 13 November 2018]

<sup>30</sup> <https://www.av8jet.com/aircrafts/global-express-xrs-bd-700-1a107325757> [Accessed 13 November 2018]

<sup>31</sup> <https://themoscowtimes.com/articles/navalny-russian-deputy-prime-minister-uses-undeclared-lavish-private-plane-54589>

<sup>32</sup> <http://declarator.org/person/528/> [Accessed 13 November 2018]

<sup>33</sup> <https://www.occrp.org/en/paradisepapers/profiles/igor-shuvalov> [November 13 November 2018]



# RECOMMENDATIONS

This new body of evidence shows why it is necessary to end the secrecy provided by the UK's Overseas Territories, which has been exploited by corrupt individuals to hide their criminal activities. The laws in these jurisdictions already require that information on companies' beneficial owners are collected. By subjecting this information to public scrutiny, as is the case in the UK, there will be fewer places to hide for those seeking impunity for grave abuses of entrusted power.

Both the UK Government and the Governments of the Overseas Territories have a role to play in ensuring public beneficial ownership registers in these jurisdictions are as accurate as possible in order to best tackle corruption and money laundering.

Public registers and verified registers are not mutually exclusive concepts. The UK Government should seek to lead the way in having an accurate public beneficial ownership register and ensure data submitted to it is verified.<sup>34</sup> It should also work with the Governments in the Overseas Territories to make their forthcoming public registries as accurate as possible.

We have provided three recommendations for ensuring this transition toward greater openness is a success and helps rehabilitate the reputations of these jurisdictions, which at times have become bywords for criminality.

## The UK Government

### Recommendation 1: Set out public and time-bound plans for providing assistance to the Overseas Territories to enable them to establish public registers of beneficial ownership

The UK Government is required by law to provide assistance to the Overseas Territories in making this transition to public registers of beneficial ownership. It should clearly set-out how it intends to provide this assistance which could include:

- Funding to help these jurisdictions comply with the Beneficial Ownership Data Standard, ensuring that the data is available in a high-quality structured format. Critically, it will also enable this data to be linked with data from other jurisdictions and made available on the Open Ownership Register, which is funded by the Department for International Development.

- Seconding policy experts from the Department for Business, Energy and Industrial Strategy to these jurisdictions to provide technical expertise and support.
- Seconding technical experts from Companies House to provide advice and assistance on implementation. Open Ownership should also be considered as a provider of technical assistance.

## The Overseas Territories

### Recommendation 2: Establish best-practice beneficial ownership registers

The Governments of the UK's Overseas Territories should seek to position themselves as reputable international financial centres by introducing corporate beneficial ownership registers where data is:

- Public
- Accurate and up to date
- Free to access

### Recommendation 3: Increase coordination efforts with UK and overseas law enforcement agencies

During the process of establishing public company registers, the Governments of each of the Overseas Territories should look to give law enforcement agencies in the UK open access to their company registries to assist with ongoing investigations.

Law enforcement agencies, regulators and the private sector operating in the Overseas Territories should also be vigilant for suspicious activity by companies and individuals seeking to dissolve legal entities in order to evade public scrutiny. If this activity is evident, it should be reported to law enforcement in that Overseas Territory, the police in the jurisdictions from which any funds related to that company originate, and relevant authorities where the funds may have been moved to as a destination.

<sup>34</sup> Transparency International, *Hiding in Plain Sight: How UK Companies are Used to Launder Corrupt Wealth* (November 2017) <https://www.transparency.org.uk/publications/hiding-in-plain-sight/>

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