



MISSING THE BIGGER PICTURE?

RUSSIAN MONEY AND THE UK'S TAX HAVENS

New analysis shows that the flow of Russian money into the British Overseas Territories dwarves that flowing into the UK itself, and that this money includes the proceeds of crime and suspected corruption.

MPs should back an amendment to the Sanctions & AML Bill which would remove the secrecy that allows companies registered in the Overseas Territories to be used to launder the proceeds of crime and corruption.

In the wake of the poisoning of the former Russian spy Sergei Skripal and his daughter in Salisbury in March 2018 there has been significant political focus on tackling the flow of suspected dirty money from Russia into the UK.

In her statement on Russian involvement in the incident, Prime Minister Theresa May stated that “all the capabilities of law enforcement” would be brought to bear on serious criminals and corrupt elites, saying, “there is no place for these people, or their money, in our country.”¹ The Shadow Chancellor John McDonnell went further, stating that a Labour government would “call time on global elites like the Russian oligarchs, who are essentially fleecing the Russian people and using our financial sector to hide their ill-gotten gains”.²

Yet new analysis by Global Witness shows that the flow of Russian money into the British Overseas Territories (OTs) dwarves that flowing into the UK itself, and that this money includes the proceeds of crime and suspected corruption.

According to the latest available data from the Russian Central Bank and the IMF, Global Witness’ analysis shows:³

- > Over the last ten years, more than 7 times more money has flowed from Russia to the OTs than has gone to the UK**
- > Over this period, £68 billion from Russia has been invested in the OTs**
- > The British Virgin Islands is the second most popular destination for money leaving Russia, second only to Cyprus**
- > £34 billion of Russian money is currently invested in the OTs, making it the third most popular place to store money, after Cyprus and the Netherlands**
- > Nearly five times as much Russian money is invested in the OTs as is held in the UK**
- > Money invested in the OTs accounts for 12% of all Russian money invested outside Russia**

Based on this analysis it is clear that in order to be effective, any efforts by the UK government to prevent criminal and corrupt cash from Russia entering the UK must also address the far larger sums of money flowing through the OTs.

To achieve this, the UK should require the OTs to introduce public registers of beneficial ownership, as all EU countries will do by the end of 2019. Public registers that reveal the true owners of companies registered in OTs would remove the veil of secrecy that allows them to be used to launder the proceeds of crime and corruption.

PROCEEDS OF CRIME AND SUSPECTED CORRUPTION

This flow of money from Russia to the OTs includes a wide range of business activities. Large amounts of this consists of large corporate deals structured through these offshore jurisdictions – for example, in 2013 the Russian state-owned energy company Rosneft purchased half of TNK-BP from a British Virgin Islands (BVI) investment vehicle for \$28 billion.⁴

Yet in amongst the billions of Russian cash flowing into and through the OTs are the proceeds of crime and suspected corruption.

Russian mobsters, Syria's chemical weapons programme, and the suspicious death of a Russian exile in London

A BVI company that U.S. authorities say is run by Russian mobsters and linked to the Russian government sent at least \$900,000 to another BVI company owned by a Russian businessman tied to Syria's chemical weapons programme.⁵

The BVI company that is said to be linked to the Russian mafia is called Quartell Trading Ltd and was one of the companies used to launder money in the scam uncovered by Sergei Magnitsky.⁶ It agreed to pay more than \$3 million to a BVI company called Balec Trading Ventures Ltd, supposedly for high-end furniture. Wire transaction records seen by CNN confirm that at least \$900,000 was transferred in late 2007 and early 2008.⁷

Balec Ventures is owned by Issa al-Zeydi, a Russian whom the U.S. Treasury Department sanctioned in 2014 for his connection to Syria's biological and chemical weapons programme, including its manufacture of Sarin and VX nerve agents and mustard gas.⁸

A Russian owner of Quartell Trading, Alexander Perepilichnyy, became a whistleblower and exposed the role of the company in the tax fraud and money laundering exposed by Magnitsky. He fled to the UK and died near his home in Surrey in 2012 in suspicious circumstances.

BuzzFeed reported that traces of a chemical found in a poisonous plant believed to be used by Russian assassins were found in his stomach and that a report by the US Office of the Director of National Intelligence stated with 'high confidence' that his murder was sanctioned by Putin.⁹ During the inquest into his death the Chief Medical Officer at the UK government's Defence Science and Technology Laboratory said that he "wouldn't rule out" the possibility that Perepilichnyy had been targeted with a nerve agent.¹⁰

The ‘Superusers’ of the Russian Laundromat

The Russian Laundromat was a scheme to launder at least \$20.8 billion out of Russia, which was exposed by the Organised Crime and Corruption Reporting Project (OCCRP).¹¹ Two of the three Russian businessmen referred to as the ‘Superusers’ of the scam used BVI companies to receive over \$100 million of laundered money.

The Panama Papers revealed that Georgy Gens owned the BVI company, Amerton Commercial Inc. Amerton Commercial owns another BVI company, Comptek International Overseas Ltd which received \$27 million into its Swiss bank account that ultimately came from the Laundromat, according to the OCCRP.¹² Gens denied involvement in the scheme stating that “this information does not correspond with reality” and that payments attributed to his company were not flagged as suspicious or problematic by its bank.¹³

The Panama Papers also revealed that Sergey Girdin is the beneficial owner of a BVI company called Zymbeline Trading that received almost \$96 million in its Swiss bank account that the OCCRP reported came from the Laundromat.¹⁴

Russia’s state-owned arms exporter and the son of the Azerbaijani Deputy Prime Minister

The Azerbaijan Laundromat was a secret £2.2 billion scheme to buy luxury goods and launder money through a network of opaque British companies, which was exposed by the OCCRP and The Guardian in 2017. While most of the money that went through the scheme came from Azerbaijan, some of the money came from Rosoboronexport,

Russia’s main state-owned arms exporter which was sanctioned by the US in April 2018.¹⁵

Rosoboronexport sent over \$29 million to one of the UK companies in the Laundromat, a significant portion of which went to the BVI company Velasco International.¹⁶ Velasco International belonged to one of the sons of the Deputy Prime Minister of Azerbaijan.¹⁷

Mirror trades move \$10 billion out of Russia

One of the biggest Russian money laundering schemes ever exposed used ‘mirror trades’ to secretly move more than \$10 billion out of Russia. Shares in blue-chip Russian stocks were bought in Russia using Rubles and moments later seemingly unconnected companies, registered in the UK or the British Virgin Islands, sold the same shares in London for US Dollars or Euros.¹⁸

The majority of these share transactions went through Deutsche Bank from 2012 to 2014. As a result, Deutsche Bank has been fined a total of \$630 million by the UK’s Financial Conduct Authority and the New York State Department of Financial Services for poor anti-money laundering practices.¹⁹

According to Bloomberg, who quote people familiar with the investigation, some of the laundered money benefited members of President Vladimir Putin’s inner circle.²⁰

Russian crime boss conned investors out of millions

The FBI has described Semion Mogilevich as “the most dangerous mobster in the world,” allegedly “involved in weapons trafficking, contract murders, extortion, drug trafficking, and prostitution on an international scale.”²¹

According to an indictment, that reputation did not stop the Russian from setting up a vast network of anonymous companies, including in the Cayman Islands, which allowed him to cheat the stock market and steal over \$150 million from investors in the United States and overseas.²² Many of the investors lost their pensions and retirement savings.²³

Using his web of anonymous companies, Mogilevich is said to have created the illusion of a successful international business,²⁴ supposedly trading in industrial magnets. This was complete with glossy annual reports and stock market listings.²⁵

The reality was apparently very different. By inflating the price of his companies through manipulating securities and false reporting, including reportedly lying to the Securities and Exchange Commission, Mogilevich allegedly convinced investors to purchase millions in stocks in a company that allegedly did no real business. Those involved lost millions.

Mogilevich denies these allegations. In an interview with the BBC in the late 1990s, he stated that he was but a wheat and grain trader and that it was for the FBI to prove that he had been involved in criminal activity.²⁶

PUBLIC REGISTERS OF BENEFICIAL OWNERSHIP

Many if not all of these schemes relied the fact that the true ownership of the companies involved was hidden from view. Anonymously owned companies can act as getaway cars for criminals and the corrupt,

facilitate fraud, terrorist financing and sanctions busting.²⁷

The most effective way to tackle this problem is through introducing robust public registers of the true owners - the beneficial owners - of companies. The UK led the world in legislating for a public central register of beneficial ownership in 2015, and since then many other countries have committed to introducing them too, including Kenya, Afghanistan, Nigeria, the Netherlands, Norway and South Africa. All EU Member States will also be required to introduce public registers in 2019 because of the recent revision of the Anti-Money Laundering Directive.

All the OTs should be required to introduce public registers of beneficial ownership. The UK is ultimately responsible for the OTs and any attempt by the UK government to address potentially criminal or corrupt money from Russia must also include requiring them to introduce such registers.

SANCTIONS AND ANTI-MONEY LAUNDERING BILL

MPs should back an amendment tabled to the Sanctions and Anti-Money Laundering Bill that would require the UK government to support the Overseas Territories to create public registers of beneficial ownership, and mandate them to have to introduce registers by the end of 2019.

This amendment is vital to ensure that the UK's Overseas Territories are no longer at the heart of these cases of corruption and criminality.

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APPENDIX

Top 10 countries for outward foreign direct investment flows by Russian residents, total 2007-2016 - British Overseas Territories combined ²⁸		
Rank	Country	GBP million
1	Cyprus	94,222
2	Overseas Territories (combined)	68,470
3	Netherlands	23,365
4	Switzerland	12,950
5	United States	10,285
6	United Kingdom	9,015
7	Turkey	7,527
8	Germany	7,077
9	Austria	6,805
10	Belarus	6,375

Top 10 countries for outward foreign direct investment flows by Russian residents, total 2007-2016 – British Overseas Territories individually ²⁹		
Rank	Country	GBP million
1	Cyprus	94,222
2	British Virgin Islands	56,292
3	Netherlands	23,365
4	Switzerland	12,950
5	United States	10,285
6	United Kingdom	9,015
7	Bermuda	7,064
8	Turkey	7,527
9	Germany	7,077
10	Austria	6,805

Total outward foreign direct investment flows by Russian residents to the British Overseas Territories, total 2007-2016³⁰	
Country	GBP millions
Anguilla	28
Bermuda	7,064
British Virgin Islands	56,292
Cayman Islands	1,698
Gibraltar	3,388
Overseas Territories - Total	68,470

Top 10 countries - Russian outward direct investment position as of end-2016³¹			
Rank	Country	GBP millions	% of total Russian investments outside Russia
1	Cyprus	114,748	42.3
2	Netherlands	43,632	16.1
3	Overseas Territories (combined)	33,724	12.4
4	Austria	17,588	6.5
5	Switzerland	14,439	5.3
6	Turkey	7,218	2.7
7	United Kingdom	7,044	2.6
8	Germany	6,123	2.3
9	United States	5,854	2.2
10	Bahamas	5,420	2.0
<i>World</i>		<i>271,061</i>	<i>100</i>

¹ Hansard <https://hansard.parliament.uk/commons/2018-03-14/debates/071C37BB-DF8F-4836-88CA-66AB74369BC1/SalisburyIncidentFurtherUpdate>

² The Guardian,

Russian elite must reveal how they paid for UK property, say MPs, 17 March 2018 <https://www.theguardian.com/uk-news/2018/mar/17/russian-elite-must-reveal-how-they-paid-for-uk-property-say-mps>

³ Central Bank of the Russian Federation (2018) *Russian Direct Investment Abroad: Flows Broken by Instrument and Country*. Published 21 February 2018. Available at <https://www.cbr.ru/Eng/statistics/?PrtlId=svs> Data used for the full years 2007-2016.

International Monetary Fund (2018) *Coordinated Direct Investment Survey*. Available at <http://data.imf.org/regular.aspx?key=61227424> Data for FDI stock as of end-2016.

⁴ <https://www.reuters.com/article/us-rosneft-aar/rosneft-finalizes-deal-to-buy-tnk-bp-stake-from-aar-idUSBRE8BB0EY20121212>

⁵ CNN, Money stolen by Russian mob linked to man sanctioned for supporting Syria's chemical weapons program, 20 June 2017, <https://edition.cnn.com/2017/06/16/politics/russian-mob-syria-chemical-weapons/index.html>

⁶ CNN, Money stolen by Russian mob linked to man sanctioned for supporting Syria's chemical weapons program, 20 June 2017, <https://edition.cnn.com/2017/06/16/politics/russian-mob-syria-chemical-weapons/index.html>

⁷ CNN, Money stolen by Russian mob linked to man sanctioned for supporting Syria's chemical weapons program, 20 June 2017, <https://edition.cnn.com/2017/06/16/politics/russian-mob-syria-chemical-weapons/index.html>

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⁹ https://www.buzzfeed.com/heidiblake/poison-in-the-system?utm_term=.npAr7mDEe#.cbVX2ojAG

¹⁰ <https://www.thetimes.co.uk/article/skripal-poisoning-fresh-suspicion-over-death-of-whistleblower-alexander-perepilichnyy-9hqf9wg7l>

¹¹ Organised Crime and Corruption Reporting Project, The Russian Laundromat Superusers Revealed, 20 March 2017, <https://www.occrp.org/en/laundromat/the-russian-laundromat-superusers-revealed/>; <https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed/>

¹² Organised Crime and Corruption Reporting Project, The Russian Laundromat Superusers Revealed, 20 March 2017, <https://www.occrp.org/en/laundromat/the-russian-laundromat-superusers-revealed/>

¹³ Organised Crime and Corruption Reporting Project, The Russian Laundromat Superusers Revealed, 20 March 2017, <https://www.occrp.org/en/laundromat/the-russian-laundromat-superusers-revealed/>

¹⁴ Organised Crime and Corruption Reporting Project, The Russian Laundromat Superusers Revealed, 20 March 2017, <https://www.occrp.org/en/laundromat/the-russian-laundromat-superusers-revealed/>

¹⁵ Organised Crime and Corruption Reporting Project, The Azerbaijani Landromat, <https://www.occrp.org/en/azerbaijanilaundromat/> <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20180406.aspx>

¹⁶ Global Investigative Journalism Network, How They Did It: The Azerbaijani Laundromat, 8 November 2017, <https://gijn.org/2017/11/08/how-they-did-it-the-azerbaijani-laundromat/> <https://www.occrp.org/en/azerbaijanilaundromat/the-origin-of-the-money> <https://www.occrp.org/en/azerbaijanilaundromat/profiles/jsc-rosoboronexport>

¹⁷ OCCRP, Velasco International Inc. <https://www.occrp.org/en/azerbaijanilaundromat/profiles/velasco-international-inc>

¹⁸ Bloomberg, The Russian Banker Who Knew Too Much, 20 November 2017, <https://www.bloomberg.com/news/features/2017-11-20/the-russian-banker-who-knew-too-much>

¹⁹ Bloomberg, The Russian Banker Who Knew Too Much, 20 November 2017, <https://www.bloomberg.com/news/features/2017-11-20/the-russian-banker-who-knew-too-much>

²⁰ Bloomberg, The Russian Banker Who Knew Too Much, 20 November 2017, <https://www.bloomberg.com/news/features/2017-11-20/the-russian-banker-who-knew-too-much>

²¹ FBI, Top ten fugitives, http://www.fbi.gov/news/stories/2009/october/mogilevich_102109

²² US District Court for the Eastern District of Pennsylvania, USA vs Semion Mogilevich, Superseding Indictment, <https://www.documentcloud.org/documents/1278690-indictment-mogilevich.html#annotation/a175320>

²³ Today News Gazette, Semion Mogilvich fraud case cost investors \$150 million, <http://todaynewsgazette.com/semion-mogilevich-fraud-cost-investors-150-million/>

²⁴ US District Court for the Eastern District of Pennsylvania, USA vs Semion Mogilevich, Superseding Indictment, pages 14-15, <https://www.documentcloud.org/documents/1278690-indictment-mogilevich.html#document/p14/a175321>

²⁵ Today News Gazette, Semion Mogilvich fraud case cost investors \$150 million, <http://todaynewsgazette.com/semion-mogilevich-fraud-cost-investors-150-million/>

²⁶ BBC, Transcript - Panorama "The Billion Dollar Don", http://news.bbc.co.uk/1/hi/english/static/events/panorama/transcripts/transcript_06_12_99.txt

²⁷ <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/anonymous-company-owners/poverty-corruption-and-anonymous-companies/>

²⁸ Central Bank of the Russian Federation (2018) *Russian Direct Investment Abroad: Flows Broken by Instrument and Country*. Published 21 February 2018. Available at <https://www.cbr.ru/Eng/statistics/?PrtlId=svs> GBP conversion based on annualised averages.

²⁹ Central Bank of the Russian Federation (2018) *Russian Direct Investment Abroad: Flows Broken by Instrument and Country*. Published 21 February 2018. Available at <https://www.cbr.ru/Eng/statistics/?PrtlId=svs> GBP conversion based on annualised averages.

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³¹ International Monetary Fund (2018) *Coordinated Direct Investment Survey*. Available at <http://data.imf.org/regular.aspx?key=61227424> Data for FDI stock as of end-2016. GBP conversion as of 31/12/2016.