

THE FUTURE OF THE UK'S OVERSEAS TERRITORIES

Joint submission from Transparency International UK and Global Witness to the Foreign Affairs Committee

The future relationship between the UK and its Overseas Territories is of interest to anti-corruption groups including Transparency International UK (TI-UK) and Global Witness due to the role corporate secrecy in these jurisdictions has played in facilitating high-end corruption and money laundering schemes.

This relationship is affected by the recent passing of the Sanctions and Anti-Money Laundering Act 2018, which places a legal obligation on the Foreign Secretary to provide all reasonable assistance to the governments of the Overseas Territories to enable them to set up publicly accessible beneficial ownership registers for the purposes of preventing money laundering.

KEY RECOMMENDATION

The Foreign Secretary should immediately set out his plans for assisting the governments of the Overseas Territories to enable them to introduce publicly accessible beneficial ownership registers, as set out in Section 51 of the Sanctions and Anti-Money Laundering Act 2018.

Recommendation: in detail

Corrupt individuals can easily hide their financial activities behind anonymous shell companies, making it difficult for law enforcement agencies and others to detect the origins of their illicit wealth. They often use complex webs of opaque corporate structures to launder their stolen money. **There is a clear correlation between corruption cases and the use of the secretive corporate vehicles based in the UK's Overseas Territories¹.**

Transparency about the beneficial owners of these companies has been identified as an important part of the solution to tackling the laundering of corrupt and illicit funds.

Section 51 of the Sanctions and Anti-Money Laundering Act 2018 seeks to address the role of corporate secrecy in the Overseas Territories in facilitating high-end corruption and money laundering schemes. It does this by placing a legal obligation on the Foreign Secretary to assist the governments of these jurisdictions to enable them to introduce publicly accessible beneficial ownership registers, as is currently the case in the UK. Section 51 further requires the Foreign Secretary to draft Orders in Council by 31 December 2020 for the Overseas Territories which have not met this standard of corporate transparency.²

The Foreign Secretary should immediately set out his plans for assisting the Overseas Territories to introduce publicly accessible beneficial ownership registers. Transparency International UK recommends the following as a starting point.

- The UK could provide funding for the company data these jurisdictions hold to be **published on the [OpenOwnership platform](#)**, which is funded by the Department for International Development and supports the publication of “high quality, highly usable beneficial ownership data” that complies with [the beneficial ownership data standard](#).
- The Government could provide policy experts from the Department for Business, Energy and Industrial Strategy (BEIS) on secondment to these jurisdictions to provide **technical expertise and support**.
- The Government could second technical experts from Companies House to provide **advice and assistance on implementation**.³

¹See also

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/655198/National_risk_assessment_of_money_laundering_and_terrorist_financing_2017_pdf_web.pdf and <http://www.nationalcrimeagency.gov.uk/publications/807-national-strategic-assessment-of-serious-and-organised-crime-2017/file>

² <http://www.legislation.gov.uk/ukpga/2018/13/section/51/enacted>

³ Companies House is well-placed to advise these jurisdictions on the implementation of public beneficial ownership registers, however both the UK persons of significant control (PSC) register and the corresponding registers in the Overseas Territories should contain verified and accurate data. The UK Government should provide Companies House with the resources and authority to ensure the integrity of the UK register. More information

BACKGROUND: ABUSE OF FINANCIAL SECRECY IN THE UK'S OVERSEAS TERRITORIES

There is a growing body of evidence showing a pattern of abuse of financial secrecy in the UK's Overseas Territories:

Key statistics

- TI-UK has identified 176 UK properties worth £4.4 billion that have been bought with suspicious wealth in the UK⁴. Of the 108 of these that are owned by companies with an identifiable jurisdiction of incorporation, **90% are owned by companies incorporated in the British Virgin Islands**.
- In the UK, over 75 per cent of corruption cases involving property investigated by the Metropolitan Police's Proceeds of Corruption Unit (POCU) between 2004 and 2015 involved anonymous companies registered in 'secrecy jurisdictions'.⁵ Of these, **78 per cent of the companies involved were registered in either the UK's Overseas Territories or Crown Dependencies**.
- A World Bank study, which reviewed over 200 instances of large-scale corruption between 1980 and 2010, found that anonymously-owned companies were used in 70 per cent of these cases⁶. **The UK's Overseas Territories and Crown Dependencies topped the list of places to set up these companies**. Broken down by jurisdiction, the British Virgin Islands was second-most popular and the Cayman Islands the ninth.
- Polling consistently shows **strong public support for ensuring transparency in UK's Overseas Territories**. Recent YouGov polling shows that over two thirds of people think the UK Government should take this action⁷, with high levels of support across the political spectrum.

Case Study: Expanding Pyongyang's nuclear weapons programme

The Panama Papers showed that a **company linked to North Korea's main arms dealer**, the Korea Mining Development, was **registered in the British Virgin Islands**.

According to The Guardian newspaper, DCB Finance Limited was registered in the British Virgin Islands in the summer of 2006 by British banker, Nigel Cowie, with North Korean official Kin Chol-sam. In 2013, the US imposed sanctions on DCB Finance Limited as well as Kim Chol-sam. The US alleged that Daedong Credit Bank, which DCB Finance Limited was an offshoot of, provided financial services to North Korea's main arms dealer, the Korea Mining Development Corporation and its main financial arm, Tanchon Commercial Bank. Tanchon Commercial Bank was also subject to US sanctions for the "central role they play supporting North Korea's illicit nuclear and ballistic missile programs." As the Guardian (2016) outlines⁸, the US Treasury claimed that since "at least 2006 Daedong Credit Bank has **used its front company, DCB Limited, to carry out international financial transactions as a means to avoid scrutiny by financial institutions avoiding business with North Korea.**"

Case Study: Mahmoud Azwai

Mahmoud Azwai served Muammar Gaddafi from the time he gained power in Libya in 1969. His most prominent position saw him hold control of the regime's long-range missile stockpile. It is thought that he escaped to the UK at some point after the fall of Gaddafi. In the process he is said to have helped launder millions of pounds of stolen wealth through offshore companies into properties around the South East of the UK.

Buzzfeed were able to track Azwai to one of these properties in Surrey. The house was surrounded by luxury cars and had hedges over 8ft tall for privacy. Other houses he is believed to own in the area were bought for over **a combined sum of over £1 million through a British Virgin Islands company** called ATT Universal Holdings.⁹

is available at: <http://www.transparency.org.uk/publications/hiding-in-plain-sight/#.W36jq-hKjIU> and

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

⁴ Based on open source information like the International Consortium of Investigative Journalists' Panama Papers, articles written by investigative journalists and Land Registry data, TI identified that there are at least 160 properties across the UK – worth around £4.4 billion – that have been bought by high corruption risk individuals, including those who have been charged and convicted with corruption offences. Read more in TI-UK: Faulty Towers: Understanding The Impact Of Overseas Corruption On The London Property Market

<http://www.transparency.org.uk/publications/faulty-towers-understanding-the-impact-of-overseas-corruption-on-the-london-property-market>

⁵ TI looked at investigations over a recent 10 year period. The POCU is no longer operational – it has since been subsumed into the International Corruption Unit in the National Crime Agency. Read more: Corruption on your Doorstep (2015):

<http://www.transparency.org.uk/publications/corruption-on-your-doorstep>

⁶ See the World Bank report "Puppet Masters" 2011, Appendix B, <http://star.worldbank.org/star/sites/star/files/puppetmastersv1.pdf>

⁷ https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/gai9julrov/OxfamResults_160926_Businesses_Tax_Website.pdf

⁸ <https://www.theguardian.com/news/2016/apr/04/panama-papers-briton-set-up-firm-allegedly-used-by-north-korea-weapons-sales>

⁹ Spring Cleaning: How Unexplained Wealth Orders could have helped address the UK's role in laundering corrupt wealth from Arab Spring states (TI-UK, 2015)

Case Study: North Korean 'Flags of Convenience'

According to the Royal United Services Institute (RUSI), ships that are registered in shell companies in offshore locations, including the British Virgin Islands, are or have been involved in **illicit activities on behalf of North Korea** in order to avoid UN sanctions.¹⁰

Since 2016, UN sanctions have demanded that member states strike off vessels 'crewed, owned, or operated' by North Korea from their national ship register to stem the flow of maritime trade and illicit transactions to and from North Korea.

However, "**North Korea continues to use front companies incorporated in offshore locations to register its ships** in third countries that offer such services, hence concealing any links with Pyongyang."¹¹ These companies are registered in the Marshall Islands and the British Virgin Islands.

ABOUT TRANSPARENCY INTERNATIONAL UK

Transparency International (TI) is the world's leading non-governmental anti-corruption organisation. With more than 100 chapters worldwide, TI has extensive global expertise and understanding of corruption.

Transparency International UK (TI-UK) is the UK chapter of TI. We raise awareness about corruption; advocate legal and regulatory reform at national and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anticorruption expertise in the UK.

We are independent, non-political, and base our advocacy on robust research.

ABOUT GLOBAL WITNESS

Global Witness campaigns to end environmental and human rights abuses driven by the exploitation of natural resources and corruption in the global political and economic system.

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¹⁰ <https://rusi.org/commentary/flagging-down-north-korea-high-seas>

¹¹ Ibid