...there's brass plates

How UK ghost companies made Britain the capital of global corporate crime

A Special Report by RICHARD BROOKS and ANDREW BOUSFIELD

SETTING OUT PLANS for the UK's presidency of the G8 at Davos in January, David Cameron presented "a vision of proper companies, proper taxes, proper rules". A light would be shone on corruption around the world with "more transparency on how governments and, yes, companies operate". Days later he was in Tripoli, lecturing Libyans on the need to "uphold the law and fight corruption". But as a Private Eye *investigation reveals, the world's most corrupt, least transparent companies are not located in fragile states or faraway tax havens. They are to be found here, in offices across the UK from Clapham to Cardiff, facilitating the most serious international crimes while the government ignores one of Britain's few growth industries: corporate corruption services…*

It doesn't take long on Europe's fastest motorways to get from the Munich offices of EADS, the European defence company, to the Austrian defence ministry in Vienna. But when in 2004 EADS employed a renowned Italian fraudster to facilitate side deals on the Austrian air force's €1.5bn purchase of a fleet of Eurofighter jets, the fixer set up in neither of these convenient locations, nor at his longstanding base in Rome. Instead, he set up shop at 31 Dover Street in Mayfair.

From here and his Grosvenor Square apartment, Gianfranco Lande would manage an outfit that remained unknown until, four years later, suspicious Austrian MPs started to ask questions. By then Vector Aerospace Limited Liability Partnership, as the Mayfair firm was known, had paid out more than €80m to companies controlled offshore by Lande, his Maltese bagman David Marinelli, and other unknown parties. Much of the money was paid through RBS Bank in the Isle of Man; but where it ended up is still not clear. Among the outcomes believed to be linked to the scandal was the melting away of domestic opposition to the fighter contract in Austria: in 2004 the country had no discernible need for €1.5bn worth of fighter jets.

It wasn't just Vector's dubious payments that were impossible to trace: so too was the firm's ownership. Records pieced together by the *Eye* show two British companies, Hopewell Investments Ltd and Provan Trading Ltd, as "members", ie owners, of the "limited liability partnership". The control of these could be tracked back only as far as a chain of Belgian, British Virgin Islands and Maltese companies, behind which sat a mysterious Isle of Man trust. So even after Vector Aerospace LLP received an €18m pay-off when the whole set-up was dismantled following awkward questions in the Viennese parliament, where the cash went remained a mystery that is still furrowing the brows of Munich police officers who raided EADS-Deutschland over the matter last year.

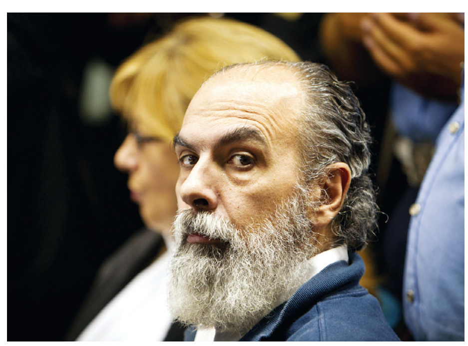
The same could be said for the puzzling question of why a spider's web of companies channeling dubious payments on business entirely unrelated to the UK, for beneficiaries who had nothing to do with Britain, was spun from Mayfair. The answer lies in the historic relaxation of British company law, and almost non-existent regulation and financial policing, that has turned Britain into a capital of international organised crime.

"Limited liability partnerships", of which Vector Aerospace LLP was one, joined the lexicon of British corporate law only in 2000 as a result of heavy lobbying from Britain's big accountancy partnerships, which wanted to limit their liability for carrying out dodgy audits without becoming limited companies and so incurring extra taxes. The new corporate vehicle allowed them to have it both ways by stipulating that an LLP would have limited liability but would not be a taxable entity itself (see *Partnerships in crime*).

The new hybrid had great appeal: not just to respectable accountants, but also to those who were up to no good. For if an LLP's members can also claim that they are not taxable in the UK, there is nothing to trouble the taxman and no inconvenient questions will be asked by the authorities about what the LLP is up to.

In Vector Aerospace LLP's case, while the firm turned over millions and made handsome profits, its members, Hopewell Investments and Provan Trading, showed no sign of this activity or any resulting tax bill. They too had evidently stayed off the taxman's radar and gave little away to prying eyes because, as UK-incorporated companies, they were allowed to file "abbreviated" accounts giving next to no financial information. What figures they did produce, signed by offshore directors at various times in Belgium and the Isle of Man, bore no relation to those included in Vector's accounts (multi-million pound balances between the two, for example, evaporated) and appeared to be no more than works of fiction. As with other cases the *Eye* has examined, there was no sign of intervention by the UK authorities.

The reason Lande had chosen London for this web was now clear. British companies and other legal structures provided all the obfuscation a man running such an operation could



MADE IN MAYFAIR: Gianfranco Lande, who directed €80m of dodgy payments from London's Dover Street

want. At the same time, an address in Dover Street, Mayfair, and the imprimatur of a thoroughly respectable legal and fiscal jurisdiction like the United Kingdom, gave assurances that would satisfy the bankers who would be called on to move the funds without asking too many questions.

As one senior money-laundering compliance officer told the *Eye*: "The UK has the appearance of credibility. If you send your money through UK companies in and out of London, you have clean money." In reality the money was anything but clean; but no one was going to ask any questions.

WEAPONS SHELLS

Britain's ill-founded reputation for corporate respectability went a long way to explaining what MPs from a Westminster parliamentary committee on arms export control discovered when they visited Kiev in 2009 to hear about the UK's role in selling weapons from Ukraine, the old Soviet arms manufacturing heartland. They were given a list of British shell companies supplying countries, including Sri Lanka, Syria, Libya and Rwanda, in breach of international sanctions.

The companies went under such unlikely names as Espace Soft Trading Ltd, which the *Eye* has established is directed – at least nominally – from Cyprus and owned by dormant companies themselves held by Bahamas companies operating out of one of the world's thousands of tax haven company service addresses – just the set-up, obviously, to ship arms from Ukraine to Rwanda and Uganda.

Last year the company, located on Tooley Street around the corner from London Bridge, was reported by *Business New Europe*'s reporter Graham Stack, to be providing military aviation technology to the Eritrean regime, a supporter of murderous Islamist groups in neighbouring Somalia and firmly under UN sanctions.

Another company, Hazel UK Ltd, manages to trade arms from eastern Europe to the Sri Lankan and Syrian regimes while registered at an address in Tiverton, Devon, under the sole directorship of a man giving a Seychelles address and listing his occupation on company filings as "caterer". The company, meanwhile, is said to be owned by an Isle of Man company which, filings there show, was struck off more than four years ago.

Neither Hazel nor Espace is required to publish full or audited accounts declaring their ultimate ownership, putting them well under the official radar. One senior official at HM Revenue & Customs, the body that is meant to police arms exports, told a recent BBC *File on 4* programme on the arms trade: "The fact that it is clandestine and involves a series of perhaps shell companies and shadowy individuals all make this a very difficult area to investigate." What he didn't admit was that in this game, the shell companies are very much Made in Britain.

DEATH AND TAXES

However dubious their trade, these companies were, nominally at least, shifting real goods. But unaccountable British limited liability companies have many other uses.

When Russian lawyer Sergei Magnitsky perished in a Moscow prison in 2009 after reporting a tax fraud apparently carried out by senior Moscow officials using his London-based client Hermitage Capital, investigators from the Baltic and Russian-based Organised Crime and Corruption Reporting Project (OCCRP) sought to follow the money. The financial route out of eastern Europe, they found, was through an office in Birmingham, home to Nomirex Trading Ltd, a company incorporated in 2006 and wholly owned by Voilent Trade Ltd, a company registered in the Russian crime world's favourite outpost of Limassol, Cyprus, and itself owned by a company in Belize.

In fact Birmingham's Nomirex, directed at first by a couple of British shell companies and then by a 48-year-old yoga instructor with 52 current or past UK company directorships to her name, appeared to be the conduit for money laundering on a far larger scale than just the alleged tax fraud.

DEAD RECKONING: Sergei Magnitsky, who first revealed the Hermitage fraud

It had been in business since 2006, a couple of years before the fraud on the Russian taxpayer, and bank records obtained by the OCCRP showed that in total the company had paid and received $365m, largely on hundreds of invoices for "equipment" of various sorts, but also on luxury items such as property in Dubai and at least one upmarket car from a US Mercedes-Benz dealership. It sprayed money to front companies around the world, including Chinese operations and other UK companies registered in Greenwich, south-east London. Despite its frenetic financial activity, however, Nomirex's accounts filed at Companies House, abbreviated and unaudited, showed that throughout this period of several years it was "dormant" and had a steady

PARTNERSHIPS IN CRIME

LLPs – the gift that keeps on giving

IT IS EASIER to set up what is now the international criminal's corruption vehicle of choice than it is to open a bank account or rent a DVD. Fill in a form with some basic details of two or more "members" in the LLP and send it off with a cheque for £40 to Companies House: no checks; no ID; you're in (dodgy) business right away.

The LLP has an ugly pedigree. In the mid-1990s, corporate scandals were rife. Robert Maxwell had plundered his companies' pension funds; Asil Nadir had pillaged Polly Peck; and any number of crooks had brought down the Bank of Credit and Commerce International, all under the noses of supposedly top-flight auditors from the then "Big 6" firms of Price Waterhouse, KPMG, Ernst & Young, Deloitte, Coopers & Lybrand and Arthur Andersen.

The accountants worried that should they be sued for negligent auditing of such firms, as partnerships with unlimited liability their own money and big houses would be on the line. Most, however, didn't want to become limited companies, since the "partners" would have to become directors who pay more tax and national insurance on their salaries, and that would never do.

Heavy lobbying for a cap on liabilities from any single legal dispute was resisted by the Law Society; so the beancounters hatched a cunning plan, chronicled in 2004 by Essex University accountancy professor Prem Sikka[1]. Ernst & Young and Price Waterhouse paid the magic circle law firm Slaughter & May £1m to draft a law creating limited liability partnerships for the States of Jersey. This would allow them to remain partnerships but with the amount for which they could be sued limited to the capital put in by the partners. By the end of 1996, despite tenacious but limited opposition in Jersey and the British parliament which would have to approve the law, the new LLP had been fast-tracked on to the island's statute book.

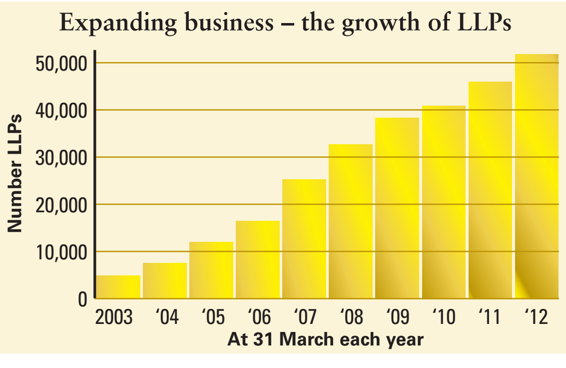
This was just the set-up to the big con. The sting was achieved by repeated but empty threats from the big accountancy firms to set up as LLPs in Jersey. These found a friendly ear in New Labour and an incoming government committed to doing whatever the banks and beancounters wanted. Within a year, a Tory "consultation" on the new legal form was followed by an LLP bill from Labour's trade secretary Margaret Beckett, piloted through parliament by her successors Peter Mandelson and Stephen Byers to become the 2000 Limited Liability Act. The LLP was, suggested the chairman of a committee of MPs looking at the bill, "an accountants' ramp".

The big firms took full advantage when LLP status became available in 2002. All had converted by January 2003 and thus limited their liabilities for dodgy audits (which contributed to their complacency in signing off accounts of the banks that would go bust in 2008).

The new law also came with no safeguard against exploitation by the unscrupulous. One major flaw was that an LLP with offshore members and no UK business would not be taxable in the UK but, as a UK-incorporated body, would also generally not be tax resident anywhere else and thus of little interest to any country's tax authorities. This probably explains the big gap between the number of LLPs and those that file tax returns.

By March 2011 there were 45,932 LLPs registered at Companies House, of which 43,241 were active. Yet for 2011/12, just 35,400 returns were submitted to HM Revenue & Customs, indicating that nearly 8,000 LLPs didn't bother. There are also likely to be many suspect LLPs that did submit but showed no taxable income as they have no UK business.

The precise number of illicit LLPs is hard to know. By March 2012, there were more than 52,348 LLPs in total, 49,005 of them active. This is up from fewer than 12,000 in 2005, a mushrooming that coincides with the use of LLPs by the likes of Philip Burwell's IOS group. Since the professionals for which the LLP was invented (accountants and lawyers) have set up around 4,000 of these and the vehicle doesn't often suit small businesses, the number of dodgy LLPs looks likely to be well into five figures.



1. Race to the Bottom, the Case of the Accountancy Firms, University of Essex 2004

IT'S A FRONT: The Birmingham home of 'dormant' Nomirex Ltd

cash balance of, er, £2. Still, the Britishness of the company almost certainly helped convince banks in countries from Russia and Latvia to Germany and Austria to accept that the payments were in good faith and transfer the loot.

Nomirex was just the largest company used in connection with the Hermitage fraud. Another, First Leader Trading Ltd, lasted around three years without even filing accounts. But these companies were merely the tip of a very large proverbial iceberg of dodgy UK companies, each almost certainly at least playing a role in money laundering.

Searches for the UK directorships of characters like the Seychellois caterer or the Cypriot yoga teacher produce scores or in some cases hundreds of results, often with vaguely commercial sounding names: Seaport International Container Services Ltd, anyone? According to their Companies House records, however, rarely are these companies actually doing anything. Moreover, these are just the ones that emerge from the shadows because, exceptionally, the scandal they are fronting – whether a tax fraud leading to a lawyer's death in custody, or sanctions-breaking arms deals reported to parliament – is so big it becomes public. That it does so is only ever through the actions of whistleblowers and journalists, never due to action by the UK authorities.

DRUG MONEY

Since the scams generally involve well-connected businessmen and corrupt high ranking officials (the insider in the Hermitage fraud case, for example, was a senior director in the Russian tax office), the victims – or rather their governments – rarely speak out and economically ruinous or lethal crime goes unmentioned. Not always, though.

Eighteen months ago the Ukrainian state drugs company, Ukrvaktsina, sued an American company, Olden Group LLC, over a fraud in which Olden had issued fake invoices to another company, Interfarm, for vaccines that the latter had bought for far less from the supplier. The state drugs company was then billed for the higher amount, with the stolen millions laundered through Olden's accounts.

Ukraine – struggling with vaccine shortages and epidemics of preventable diseases like measles – won't get its money back, of course. The crooks behind Olden didn't show up in court for the $60m judgment and nobody knows who they really are. All that is known is that Olden LLC (LLC being a US corporate entity similar to a UK LLP) is owned by two shell companies: Worldwide Management Corporation from Belize and International United Holding AG from the Pacific island of Niue.

BEYOND SATIRE: Company abuses caught the eye and ear of Gilbert & Sullivan as long ago as 1893

And – surprise, surprise – these companies are behind a string of companies in the UK, too, the former owning 185 active or dissolved British companies registered at a terraced house round the corner from Clapham Junction, all with no sign of any real business and filing accounts showing no activity (see *They Sell Dodgy Shells*).

Surveying the British shell company corruption network is mind-boggling. As soon as one suspect director or offshore corporate shareholder is identified and their other interests checked out, hundreds more dubious vehicles crawl out of the woodwork.

Since only a tiny number of leads are ever picked up, the scale of UK shell company scamming is difficult to gauge. In 2011/12, 455,000 companies were formed in the UK and 288,000 dissolved, representing 11 percent of the entire UK companies register and around 60,000 more than the number of closures of real businesses in 2011 (most of which will not have been incorporated companies anyway).

Although many unused companies are innocently created and dissolved, the turnover suggests a huge volume of companies set up for illicit purposes. In 2009/10, a study by campaigning accountant Richard Murphy found that of the 2.6m companies on the UK companies register, just 69 percent were even asked for a tax return by the authorities and only 45 percent actually submitted one. While it is impossible to measure precisely how many of Britain's ghost companies are part of international criminal networks, it is in these helpfully crowded and murky waters that some of the world's most serious organised crooks swim undetected.

Britain's USP in the market for shady companies – apparent financial probity allied with the means to hide shadowy transactions – is the product of 200 years of British corporate history

LIMITED APPEAL

Britain's unique selling point in the market for shady companies – apparent financial probity allied with the means to hide shadowy transactions – is the product of 200 years of British corporate history. Incorporated companies had been banned at the time of the early 18th century South Sea Bubble scandal (unless they had a royal charter or their own act of parliament); but pressure from a new breed of industrialists led to their reinstatement in Gladstone's Joint Stock Companies Act of 1844.

They originally came with the requirement to draw up audited annual accounts; but this was relaxed in the same 1856 act that brought in "limited liability" companies, reflecting the laissez-faire economics of the time and foreshadowing several late 19th century scandals exploiting a system that was wide open to abuse. As the aptly-named company promoter "Mr Goldbury" explained in Gilbert and Sullivan's 1893 satirical opera *Utopia Ltd*, once businessmen invested a small amount of capital in a company:

They then proceed to trade with
all who trust 'em
Quite irrespective of their Capital
It's shady but it's sanctified by custom.

By 1900 the audit requirement was reintroduced. If you were going to enjoy the privilege of offloading financial risks on to others, you were going to have to account for it. Late 20th century financial liberalisation would, however, end the consensus that the price for limited liability should at least be reliable numbers. Just as Victorian Britain had led the world in the creation of limited liability companies, so the UK would be in the vanguard of the global "race to the bottom" to strip away controls over them.

In 1981, Margaret Thatcher's first Companies Act removed the requirement for smaller companies to publish full accounts, including such details as a profit and loss account showing where the money had gone. By 1994 there was no need for companies with small turnovers – less than £90,000 – to have even these accounts audited, as successive Tory ministers sought to encourage the formation of armies of corporations. As with other deregulatory initiatives, New Labour then hit the accelerator hard, multiplying the thresholds at which accounts and audits were required so that, by 2006, 97 percent of companies benefited from the "small" companies relaxations and a further 2 percent from "medium-sized" concessions.

Whatever this achieved for the British economy – and the explosion in small companies was more related to their tax advantages for small traders than a surge in entrepreneurial spirit – it certainly made concealing nefarious business, whether domestic or international, far easier.

PARTNERSHIPS IN CRIME

Alongside one of these tried and tested British limited companies, in this case Nomirex Trading Ltd, the 2007 Hermitage tax fraud proceeds were also laundered through a couple of the limited liability partnerships that were by now becoming increasingly popular among launderers (partly because the Companies Act 2006 required companies to have at least one "natural person" as a director, whereas LLPs could continue with entirely shell company directors).

The LLPs in this case, Armut Services LLP and Dexterson LLP, filed either no accounts or figures way out of line with their multi-million pound activities. As with Nomirex, their ultimate ownership would be impossible to trace

THEY SELL DODGY SHELLS

Meet the Mr Goldburys of the 21st century

WHEN *Eye* hacks visited "Enterprise House" in Cardiff – the address of Company Formations Ltd, which has housed more than 750 LLPs and thousands of companies – there was no sign of the name or the slick office block it might evoke. It was plain 82 Whitchurch Road – a vacant kitchen interiors shop at the end of a terrace that had seen better days.

The corporate vehicles within are more exotic. Here resides Highways Investment Processing LLP, for example, owner of a contract with the Ukrainian government for $400m worth of oil drilling equipment. As does Trentmile LLP, which was either dormant or earned £1.7m, or maybe it was £2.3m, from oil trading, depending on which re-filed accounts you believe. They both share the empty shop with Cliffberg LLP, which paid $16m worth of invoices through Wachovia bank while showing no such expenses in its accounts.

The man behind Company Formations Ltd is Phil Williams, said by Whitchurch Road neighbours to have made a packet and to now spend much of his time on holiday or playing golf. When the *Eye* phoned him he sounded confused about his role.

"Did you set [the LLPs] up?" asked our hack.

"No, it's unlikely," he replied before admitting: "I do set them up, yep, it is part of the business that we do."

"Do you know who is ultimately behind them?" we asked.

"Not ultimately, no… I know who my contacts are… I deal with another agent outside the UK. They themselves have [anti-money laundering] requirements… They are in Ireland." In a later email Williams insisted his work only "involves very simply the forwarding of mail unopened to a company based in Dublin with whom we have conducted business for many years and have never had reason to doubt their credentials."

The *Eye*'s next stop was 19 Kathleen Road, SW11, less than 50 yards from Lavender Hill magistrates' court in south London and home to hundreds of companies and LLPs owned by, among other offshore outfits, Worldwide Management Corporation from Belize and International United Holding AG from the Polynesian island of Niue (pop: 1,400). Many of the shells, the *Eye*'s sampling of some less discreet early filings suggests, front for Bulgarian and Russian interests. The terraced house has the name IGC Corporate on a buzzer and an oversized letter box accepting correspondence for the mysterious firms within, plus a sign telling couriers that all necessary signatures are back at their offices.

Both the house and IGC Corporate Ltd are owned by 43-year-old accountant Paul Harvey; but he isn't to be found there. On pressing the buzzer, the *Eye* was told: "I'm not available. I'm not actually err… [*long pause*], I can't discuss it… I'm not in at the moment. This is a phone conversation for me."

When asked if he could say where he was, he replied: "I'd rather not." Did he know who asked him to set up and run these companies and LLPs? "I'm not going to discuss it with you." Asked why the shells were at his address, Harvey said it was "for trading purposes". In the UK or abroad? "I wouldn't know."

Nor did Harvey know who was behind companies like Worldwide Management Corporation, despite setting up hundreds of shells for it, many still active despite the exposure of the companies behind them, including Worldwide, in the Ukrainian vaccines fraud. He was unaware of the case. Based on what they had to say to us, both Williams and Harvey showed remarkably little interest in what use is made of the companies with which they are involved and being unwittingly used as tools in highly dubious activities.

All this suggests that the due diligence work required for "ongoing relationships" simply doesn't happen. In a later call Harvey refused to say what due diligence checks he does perform.

Asked about compliance with money laundering regulations, he claimed it was "not something that would concern us because we're not dealing with money" (which is in fact not the criterion) although his firm was, he said, registered under the regulations. Nor would Harvey discuss inconsistencies in IGC Corporate Ltd's own accounts and another company, Tiggles Ltd, owned by his three children, all aged under 10 and listed on returns as "company secretary" numbers 1, 2 and 3. They start 'em young in the shell company game…

● *Doorstepping from Cardiff to Clapham:* See Brooks and Bousfield on eyePlayer at: www.private-eye.co.uk

– but a look at their background hinted at the scale of the LLP money-laundering scam running through London.

Armut was owned by a couple of Belize-based companies, Advance Developments Ltd and Corporate Solutions Ltd, operating from the central American address that was home to Trade Invest System Ltd, the same company that owned Nomirex. These Belize companies were or had been members of more than 500 LLPs each – all, so far as a sample survey can establish, with no genuine business. Trade Invest Ltd, for its part, had been involved in another 245.

Remarkably, however, this was nowhere near the full output rolling off the great British production line of dodgy LLPs. Dexterson's "members", companies called Milltown Corporate Services Ltd and Ireland & Overseas Acquisitions Ltd, were used even more prolifically as the components in the great LLP contraption.

Companies House records show that these two companies were joint-members of more than 1,600 LLPs formed in Britain since 2005. This vast network was the creation of a company formation business called International Overseas Services (IOS), which investigators led by Graham Stack had tracked to a couple of Irish businessmen, Philip Burwell and Desmond Kearney. The latter day Mr Goldburys had been alive to the opportunities in the post-Soviet world and soon became intimately connected with leading figures in a number of amenable Latvian banks. By the late 1990s, IOS had incorporated Irish companies linked to arms sanctions-breaching deals with such reputable partners as, er, Burundi, North Korea and Saddam Hussein's Iraq, before the Irishmen identified the UK as a more attractive corporate launching point.

BUSY B: Philip Burwell, whose company formation outfit is behind a vast web of LLPs

IOS had used companies called Milltown Corporate Services Ltd and Ireland & Overseas Acquisitions Ltd in Dublin since 1996; but by 2002 the companies carrying these names, which were to become members in thousands of LLPs, were in the British Virgin Islands. More recently the companies "moved" to Belize, before relinquishing their roles to a new series of companies created by the men even further off the beaten path in the Seychelles and the Marshall Islands.

At this point location becomes almost irrelevant: no authorities, anywhere, are going to see the full picture and even if they look at one offshore money-laundering edifice, it can be swiftly knocked down and reconstructed by any number of willing bagmen and stooge directors. (Where other legs of the money-laundering spider had Cypriot caterers and yoga teachers, for example, the Milltown and Ireland & Overseas set-up had a 73-year-old Latvian wino and a small-time insurance broker signing their companies' papers).

No matter how often the shell companies, tax havens and frontmen changed, one thing remained constant: the dependency on the respectable jurisdiction of the United Kingdom to translate serious crime into serious wealth. With any number of dubious jurisdictions available, why else were British corporate vehicles used for the big money transfers?

The answer was that they are recognised across the world as well-regulated and above board, when in reality they are anything but. What Burwell and Kearney rumbled early on was that the New Labour innovation of limited liability partnerships offered the world's bankers just as much reassurance as conventional companies of the sort created by Gladstone's Joint Stock Companies Act, but with even less chance of scrutiny.

OUT OF LATVIA

The preferred escape route for dodgy former Soviet funds became clear when the *Eye* obtained reports from inside the London branch of US bank Wachovia, already under investigation in the US over Mexican drugs money laundering.

They showed a small selection of what are understood to be far greater volumes of money transfers from accounts, first in Riga, then to Raffeisen Zentralbank in Vienna before onward transfer to Wachovia, all operated by a string of British LLPs. Finally, the money would pass under an array of spurious transactions to "traders" in far flung destinations such as Hong Kong or Shanghai, where the trail would go cold even for an assiduous money-laundering officer (a rare bird in the British Isles) and enable the crooks behind the money eventually to get their hands on it.

Typical was an outfit called Wontep LLP, registered in Birmingham and owned by companies in Belize called Advance Developments Ltd and Corporate Solutions Ltd (each, incidentally, members in more than 500 other LLPs). Between 2006 and 2008, Wontep wired 134 separate payments totalling $5.7m to Chinese recipients following their receipt from Latvia's Baltic International Bank, via Raffeisen Bank, into accounts at Wachovia. When the latter bank's London compliance officer made inquiries, he was told that the man behind the company was well known to the Latvian bank and traded in electrical devices, auto spare parts and textiles and furniture from an address in Odessa, Ukraine. The address cannot be traced; and nor can any link be found between the man in question and Wontep or the Belize companies behind it.

FISHY BUSINESS: Properties in Cardiff (l) and Clapham that are home to hundreds of offshore-owned entities

Wontep's accounts, such as they are, show that in the period covered by the payments it was supposedly "dormant".

This was just one of several similar cases picked up at Wachovia in London through the examination of a small sample of transactions where the money flows bore no relation to the reported results and went unchallenged by the authorities and the bank (*see table below*).

LONDON CALLING

These details exposed British banking and British shell companies and LLPs as primary tools of international crime and money laundering. Their 21st century pre-eminence could, according to one money-laundering expert, be ascribed largely to developments in the UK and the US that would turn this country into the international crook's shell company playground.

Over in New York, prosecutors were nailing banks and money launderers, notably when at the end of the 1990s they began investigating Riggs Bank over laundering money for Chilean dictator Augusto Pinochet, Saudi royals and the corrupt president of Equatorial Guinea, among other charming clients, and Bank of New York for its lucrative line in shipping billions of pounds of ill-gotten gains out of post-Soviet Russia. Enormous fines for the banks and successful prosecutions of a number of individuals were some of the outcomes. Another was a strong message to the big criminal networks to find a new washing machine.

Luckily for them, here in the United Kingdom, New Labour's chancellor Gordon Brown was midwifing the Financial Services Authority and its now infamous "light touch" regulation. In practice this meant a near total absence of policing of financial crime in general and money laundering in particular.

It wasn't just the new FSA that would go along with the political tolerance of financial wrongdoing; so too would the government department charged with monitoring the corporate service industry, HM Revenue & Customs. Those looting their home countries, laundering drugs money, flogging weapons to murderous regimes and much else needed the corporate vehicles and banks that could handle their money – and the UK would now provide the best of both. Even better, its regulators and law enforcers had just agreed to look the other way.

Gordon Brown's infamous "light touch" regulation… meant a near-total absence of policing of financial crime… and money laundering

SUDAN IMPACT

Nobody will ever know what thousands, possibly tens of thousands, of inelegantly named LLPs like Wontep Invest LPP or Cromex Trade LLP actually do – and that's the point. Most, like a drug dealer's pay-as-you-go mobile phone, almost certainly exist for one deal before they are discarded. Those deals, however, can be extremely valuable to the perpetrators – while devastating their victims and sustaining corrupt regimes.

Only leaks or deep investigation into some major scams have attributed real life consequences to any of these names. Wikileaks cables showed how, in 2008, a ship called the MV Faina was hijacked by Somali pirates off the Horn of Africa, leading to the loss of the skipper's life. Probably even more lethally, however, after a multi-million dollar ransom payment was made, the boat eventually made its destination of Mombassa, Kenya, and its cargo of Soviet era tanks, rocket launchers, rocket-propelled grenades and much else emerged. Their ultimate destination was South Sudan, where, the cables recorded, satellite images showed the weapons arriving.

Even more remarkably, although the ship was owned by a Panamanian company, it was chartered by Marine Energy Trading Company LLP, itself owned by the Milltown Corporate Services Ltd and Ireland and Overseas Ltd team put together by Burwell and Kearney. In other words it was a front for dubious post-Soviet operations but, housed in another company service office on a Hampshire trading estate, it was British and thus perfect for routing the unknown fortunes paid for the illicit cargo. Its accounts, however, would show a mere £24,000 commission for its considerable trouble.

LLPs' uses are not limited to corruption emanating from Ukraine. Grave Secrecy, a 2012 investigation by the NGO, Global Witness, tracked the pillaging of the Kyrgyz state using its largest bank, AsiaUniversalBank, and a string of UK LLPs and shell companies, one under the directorship of a dead Russian. Once again, the route out of eastern Europe was the British shell and the Latvian-Austrian-British banking rat run. Four such British shells handled $1.2bn over two years, while filing either no accounts at Companies House or claiming to be "dormant".

One LLP that does show a decent income goes by the name of Highways Investment Processing LLP, which in 2011 won a Ukrainian government contract worth $400m to supply oil drilling equipment to the state gas company. Its only competitor in the tender was a New Zealand company from the same company formations stable and its last accounts declared commission income of £300,000. Operating from the same Cardiff address, it transpires, is a company called Arsenal Trading LLP, which supplies helicopters and planes from Ukraine and was recently discovered by the Geneva-based Small Arms Survey group to have arranged a deal contravening UN sanctions for forces in the Puntland area of Somalia. Unusually, Arsenal Trading LLP has a website touting for business and has clearly been operating in the suspect aviation business for some time. The documents it submits to Companies House, however, declare commission of just £2,000.

A BIT FISHY

It seems £2,000 is about the annual running cost for these companies. Both Highway Investment Processing LLP and Arsenal Trading LLP pay office costs, directors' fees and "professional fees" running to £1,500 a year. For those doing the limited paperwork that hides their dodgy dealings, when multiplied over hundreds or maybe thousands of shell companies and LLPs, this can provide a decent income.

ARSENAL TRADING LLP
Giving your business the wings

When *Eye* hacks paid a visit to the home of Arsenal and Highway, an office known as Enterprise House on Whitchurch Road, Cardiff, set up a stone's throw from Companies House itself in the days when paperwork had to be physically filed at the registry, there was little sign of life (*see They Sell Dodgy Shells* previous page).

When the postman dropped a bundle of letters through the letterbox, however, one was visible on the doormat. It was from the Kiev branch of ING bank, addressed to a firm called Datlux Contracts LLP, which turned out, its accounts reported, to be earning around

BRITAIN'S INTERNATIONAL FUNNY MONEY-GO-ROUND

Dodgy UK vehicle	UK Location	LLP members / company shareholders located in…	Number of money transfers	Dates	Value ($)	Financial activity shown in accounts (£)	Evidence of action from authorities
Wontep Invest LLP	Birmingham	Belize	134	9/06 – 5/08	5.7m	Nil	Nil
Cliffberg LLP	Fareham, Hampshire	British Virgin Islands	n/k	7/07 – 12/07	16m	Income 8.9k	Nil
Cromex Trade LLP	Aldermaston, Berks	Belize	115	3/07 – 4/08	9.4m	Nil	Nil
Higan Ltd	Aldermaston, Berks	Panama	39	11/07 – 2/08	24.1m	Nil	Nil
Bosfort (UK) Ltd	Birmingham	Seychelles	340	6/06 – 4/08	17.4m	Nil	Nil

£18,000 a year acting as an "agent for frozen fish and seafood".

The *Eye* tracked evidence of one fish shipment in the LLP's name, indicating a trading address in Oregon, USA, and a cargo of frozen salmon steaks travelling from Vancouver to California which may or may not have been real. The LLP's £18,000 turnover and regular £1,500 costs every year didn't look like the results of an international fishing transporter – and the commercial need for an address in Cardiff is not easy to discern.

Business News Europe's Graham Stack picked up where the *Eye*'s gumshoes had left off, reporting a paper trail "pointing to the umbilical cord between the Cardiff corner shop and Kiev's gilded elite". Datlux had been advanced $250,000 by another Ukrainian company located at the same office as a bank "believed controlled by shadowy oligarch banker Leonid Yurushev" and the arrangement had all the hallmarks of a classic scam. There was no sign of any such financing in its accounts.

"Fictive import contracts that are paid but never delivered are a classic Ukrainian scam for moving money tax-free out of the country, and British LLPs that are secretly controlled by Ukrainian 'importers' are a beloved counterparty for such tax dodges," says Stack. "As a first-world jurisdiction, UK companies do not ring tax inspectors' alarm bells as do black-listed Caribbean offshores."

A VERY BRITISH HAVEN

Enterprise House was one of several preferred addresses for the network of money-laundering vehicles in anonymous office blocks in Cardiff, London, Hampshire, Birmingham and elsewhere, the homes of company service providers recruited either by Burwell's International Overseas Services operation or figures linked to it.

Most service providers see just a decent cheque in return for their efforts, not the harm that might be inflicted in some distant land by the corporate vehicle they have created, and consider that they are not responsible for the activities of these companies; and British law allows them to think that way. Eminent lawyers will advise that setting up a new company requires no anti-money laundering "due diligence" even if the world's anti-money laundering rules body, the Financial Action Task Force (of which the UK is a member), says it should. What definitely ought to prompt checks, once a company has been formed, is an "ongoing relationship" even if that amounts to no more than acting as a forwarding address. But this is where the UK's "light touch" comes into its own, in failing to police even the limited laws that are on the statute book (see *Loose Cable*).

HOME TRUTH: 'We must break through the walls of corporate secrecy,' says the PM. But nowhere are the walls thicker than in Britain.

Epic levels of money laundering, illicit arms dealing, frauds, counterfeiting and government corruption… thriving on emasculated British company law and political indifference

It was no surprise last year when researchers from Australia's Griffiths University posing as businessmen found it three times easier, based on the number of approaches required, to get company formation agents in the UK to set up untraceable shell companies than it was to persuade those in tax havens to do so. The rigmarole is straightforward, whether the shell is wanted for routine tax evasion or some major league arms dealing: the formation agent establishes the UK front shell company or LLP while his counterparts in more remote tax havens set up the offshore ownership chains behind it. The latter can claim to be simply acting for reputable UK agents who comply with British money-laundering regulations so they themselves must be clean. The British company service providers then shepherd the creations for as long as they are needed, concealing eye-watering levels of criminality because nobody stops them.

Not only are the corporate service providers who open the machine doors for those with bags of dirty washing tolerated, they are encouraged.

New Labour's light touch meant simply watching from the sidelines as tens of thousands of British corporate vehicles laundered billions of pounds while submitting patently false accounts to a Companies House that has no power to investigate them. The coalition government has already relaxed corporate law further, for example by expanding the numbers of companies entitled to file unaudited accounts in the name of beating "red tape". At the same time, the budgets of those bodies responsible for chasing down corporate crime are being slashed. One money-laundering specialist told the Eye: "The chancellor says he wants Britain to be open for business. Fair enough, but we're open for some very dirty business."

Private Eye's investigation shows that when it comes to facilitating international crime the offshore world is not the core problem. The trouble lies far closer to home. Last month David Cameron said that as part of his G8 presidency: "We must break through the walls of corporate secrecy [which is] fuelling corruption across the world". Nowhere are those walls thicker than in Britain. Epic levels of money laundering, illicit arms dealing, frauds, counterfeiting and government corruption are the result, all thriving on emasculated British company law and political and official indifference. A clean-up is indeed badly needed. Right here and right now. ■

LOOSE CABLE

How the British government looks the other way

THE use of Britain's banking and corporate networks for international scams and to funnel the world's dirty money is one of the less well policed areas of financial crime, which is saying something. But even less well known is the country's other great regulatory attraction: the near absence of controls on Britain's wild west company service industry that provides the shells through which the billions flow and in which corrupt contracts, bribes and much else are held.

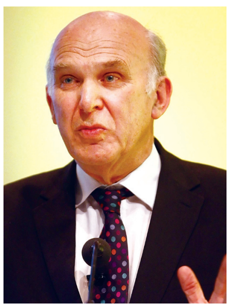
Since 2007 Britain's anti-money laundering regulations have covered the purveyors of these vehicles. The rules are administered by HM Revenue & Customs, which has 50 staff to monitor 20,000 businesses that are not regulated by professional bodies (such as the chartered accountants' institutes and the Law Society). These include 3,600 "money service businesses" such as bureaux de change and cheque-cashing services. Another 13,000 are "accountancy service providers", while 2,300 or so are "trust and company service providers".

Unsurprisingly, there's not much to show for this skeleton government presence. In almost three years to this January, the *Eye* has learnt, HMRC levied 643 penalties for a total value of £218,778. These covered failures to perform due diligence, failing to perform "ongoing monitoring" and not training staff. But at an average fine of £340 – less than the annual income from housing one dodgy shell company – the cost-effective option for unscrupulous firms is to carry on and pay the odd penalty from petty cash.

Only 34 individuals out of many tens of thousands in the business had their "fit and proper" status revoked between last April and January, which itself was well up on the 11 per year before then. For some reason, company service providers get off very lightly, less than half as likely as accountancy businesses to cop a fine.

HMRC does have the power to prosecute under money-laundering regulations, but it isn't keen to use it. In 2009/10 and 2011/12, not a single prosecution was launched, and there were just three in the latest financial year to January. None has yet secured a conviction. When one *Eye* reader raised concerns about LLPs with the Treasury, he was told that company service providers have to find out about their clients' business and report suspicions to the Serious Organised Crime Agency, while "HMRC treats any breaches very seriously". But it doesn't.

Nor has there been any prosecution over the thousands of false accounts filed at Companies House by companies and LLPs of the sort looked at by the *Eye*, either by the government department responsible, Vince Cable's Business Innovation and Skills (BIS), or by HMRC.



BRASS FRONT: Vince Cable, who resists action on brass-plate companies

Official indifference might be excused by ignorance of the dangers posed by shell companies, were it not for evidence of what happens, or doesn't happen, even when their activities are shown to the government.

When parliament's arms export control committee found arms sanctions-breaching shell companies like Hazel (UK) Ltd in 2009, it was fobbed off time and again by Cable. When he eventually responded, the business secretary said: "I know that there has been a continuing debate with the committee, who want us to push further on 'brass plate' companies than we have… We have resisted the approach that you have put to us in the past of outlawing 'brass plate' companies, or having some general action on them, because we think that most of these are completely innocuous."

This is as naïve and complacent as it gets: the whole point of shell LLPs and companies is that their secrecy conceals their "nefarious" activities in the first place. Cable's view also contradicts David Cameron's commitment to "transparency". If this were the attitude of some tinpot tax haven, Davos Dave would give it a stern dressing down.