

Offshore tax havens

Secrets of the rich who hide cash offshore

Millions of records reveal thousands of anonymous account holders

Estimates suggest up to \$32tn may be stashed in overseas tax havens

Millions of internal records have leaked from Britain's offshore financial industry, exposing for the first time the identities of thousands of holders of anonymous wealth from around the world, from presidents to plutocrats, the daughter of a notorious dictator and a British millionaire accused of concealing assets from his ex-wife.

The leak of 2 million emails and other documents, mainly from the offshore haven of the British Virgin Islands (BVI), has the potential to cause a seismic shock worldwide to the booming offshore trade, with a former chief economist at McKinsey estimating that wealthy individuals may have as much as \$32 trillion stashed overseas.

In France, Jean-Jacques Augier, president Francois Hollande's campaign co-treasurer and close friend, has been forced to publicly identify his Chinese business partner. It emerges as Hollande is mired in financial scandal because his former budget minister concealed a Swiss bank account for 20 years and repeatedly lied about it.

Political resignation

In Mongolia, the country's former finance minister and deputy speaker of its parliament says he may have to resign from politics as a result of this investigation.

But the two can now be named for the first time because of their use of companies in offshore havens, particularly



■ The British Virgin Islands in the Caribbean, an offshore tax haven. PHOTOGRAPH: PAUL THOMPSON/GETTY IMAGES

in the British Virgin Islands, where owners' identities normally remain secret.

The names have been unearthed in a novel project by the Washington-based International Consortium of Investigative Journalists (ICIJ), in collaboration with the London-based *Guardian* and other international media, who are jointly publishing their research results this week.

The naming project may be

extremely damaging for officials and rich families across the world are identified, from Canada, the US, India, Pakistan, Indonesia, Iran, China, Thailand and former communist states. The data shows that their secret companies are based mainly in the British Virgin Islands.

Sample offshore owners named in the files include: ■ The president of Azerbaijan and his family. A local construction magnate, Hassan Gozal, controls entities set up in the names of President Ilham Aliyev's two daughters.

■ The wife of Russia's deputy prime minister, Olga Shuvalova's husband, businessman and politician Igor Shuvalov, has denied allegations of wrongdoing about her offshore interests.

■ A dictator's child in the Philippines. Maria Imelda Marcos Manotoc, a provincial governor, is the eldest daughter of former president Ferdinand Marcos, notorious for corruption.

■ Spain's wealthiest art collector, Baroness Carmen Thyssen-Bornemisza, a former beauty queen and widow of a Thyssen steel billionaire, who uses offshore entities to buy pictures.

The UK-controlled BVI has been the most successful

from a lucrative trade as intermediaries. They claim the tax-free offshore companies provide legitimate privacy.

The *Guardian* and ICIJ's "Offshore Secrets" series last year exposed how UK property empires have been built up by Russian oligarchs, fraudsters and tax avoiders, using BVI companies behind a screen of sham directors.

Such so-called "nominees", Britons giving far-flung addresses on Nevis in the Caribbean, Dubai or the Seychelles, are simply renting out their names for the real owners to hide behind.

– *Guardian service*

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Leading figures across the globe

MONGOLIA

Name: Bayartsogt Sangajav
Offshore company: Legend Plus Capital Limited
One of Mongolia's most senior politicians says he is considering resigning from office after being confronted with evidence of his offshore entity and secret Swiss bank account.

"I shouldn't have opened that account. I should have included the company in my declarations," Bayartsogt Sangajav told the International Consortium of Investigative Journalists (ICIJ).

"I don't worry about my reputation. I worry about my family. I probably should consider resigning from my position."

Bayartsogt, who says his account at one point contained more than \$1 million, became his country's finance minister in September 2008, a position he held until a cabinet reshuffle in August 2012. He is now the deputy speaker of parliament.

During those years he attended international meetings and served as governor of the Asian Development Bank and the European Bank of Reconstruction.

CANADA

Name: Tony Merchant
Offshore Company: Merchant (2000) US Inc Trust
A colourful lawyer and former politician, married to Liberal party senator Pana Merchant. Known for challenges to the Canadian revenue agency over his tax payments. He has also been disciplined by the Law Society for "conduct unbecoming".

In 1998, launched Cook Islands trust with deposit of more than \$800,000 as settlor and initially as beneficiary. Sent fee payments in cash envelopes; the agents noted "All communications regarding this trust is to be kept to a minimum - Do not ever send faxes cos he will have a stroke about it."

FRANCE

Name: Jean-Jacques Augier
Offshore company: International Bookstores Ltd (IBL)
Publisher and Sinologist. Campaign treasurer of Francois Hollande for the 2012 presidential elections. They studied together at the prestigious National School of Management (ENA).

Chief executive of Eurane SA. Made large publishing investment in China 2005. Caymans-registered entity IBL, set up with 25 per cent shareholding granted to BVI company Sinolinks Transworld Investment Consultancy, and 2.5 per cent shareholding to a Hong Kong entity Capital Concord Developments Ltd.

Comment: He says his partner in the offshore firm was Xi Shu, a member of the Chinese People's Political Consultative Conference, a political advisory body.

RUSSIA

Name: Olga Shuvalova
Offshore companies: Plato Management & other BVI companies owned by Severin Enterprises Inc
Wife of Igor Shuvalov, a businessman and politician close to President Putin, first deputy prime minister since 2008. In 2007, she owned Severin Enterprises, set up via Moscow agency Amond & Smith.

The dealings of another of its subsidiaries, Bahamas-registered Sevenkey Ltd, were detailed in a 2011 investigative article in *Baron's*, which tied the company to her husband, who has denied wrongdoing.

UNITED STATES

Name: Denise Rich
Offshore company: The Dry Trust
Among nearly 4,000 American names is Denise Rich, a songwriter whose ex-husband, the oil trader Marc Rich, was pardoned by Clinton as he left office in 2001, over tax evasion and racketeering charges.

A Congressional investigation found that Rich, who raised millions of dollars for Democratic politicians, helped promote the pardon. She had \$144 million in the Cook Islands plus a yacht called the *Lady Joy*, where Rich often entertained celebrities and raised money for charity. **Comment:** Rich, who gave up her US citizenship in 2011 and now maintains citizenship in Austria, did not reply to questions about her offshore trust.

– *Guardian service*

Records represent treasure trove of inside information

GERARD RYLE

The secret records obtained by ICIJ lay bare an extraordinary range of people using offshore hideaways.

They include US dentists and middle-class Greek villagers as well as families of despots, Wall Street swindlers, eastern European and Indonesian billionaires, Russian executives, arms dealers and a company alleged to be a front for Iran's nuclear-development programme.

The leaks illustrate how offshore financial secrecy has aggressively spread around the globe. The records detail offshore holdings in more than 170 territories; this represents the biggest stockpile of inside information about the offshore system ever obtained by a media organisation.

To analyse it, ICIJ collaborated with reporters from the *Guardian* and the BBC in the UK, *Le Monde* in France, *Süddeutsche Zeitung* and Nord-

deutscher Rundfunk in Germany, the *Washington Post*, the *Ca-*



■ Gerard Ryle: director of the ICIJ, an independent network of reporters

nadian Broadcasting Corporation (CBC) and 31 other international media partners.

Eighty-six journalists from 46 countries used both hi-tech data crunching and traditional reporting to sift through emails and account ledgers covering nearly 30 years.

"I've never seen anything like this. This secret world has finally been revealed," said Arthur Cockfield, a law professor at Queen's University in Canada, during a CBC interview.

Offshore's defenders say that most users are legitimate.

Offshore centres, they say, allow people to diversify investments, create international ventures and do business in entrepreneur-friendly zones without red tape.

"Everything is much more geared toward business," David Marchant, publisher of *OffshoreAlert*, an online journal, said. "If you're dishonest, you can take advantage of that in a bad way. But if you're honest you can take advantage of that in a good way."

The vast tide of offshore money can disrupt economies. Greece's fiscal disaster was exacerbated by offshore tax cheating and in the Cyprus crisis, local banks' assets were inflated by waves of cash from Russia.

ICIJ's 15-month investigation found that, alongside perfectly legal transactions, the secrecy and lax oversight offered by the offshore world appears to allow fraud, tax-dodging and political corruption to thrive.

Anti-corruption campaign-

ers argue that offshore secrecy forces citizens to pay higher taxes to make up for vanishing revenues, while anonymity makes it difficult to track the money.

A study by James S Henry, former chief economist at McKinsey & Company, estimates that wealthy individuals have \$21-\$32 trillion tucked away in offshore havens—roughly equivalent to the size of the US and Japanese economies combined.

– *Guardian service*

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BNY MELLON

AT WXN WE INSPIRE SMART WOMEN TO LEAD

Hard drive packed with corporate data threw light on world of high finance

The International Consortium of Investigative Journalists' exploration of offshore secrets began when a computer hard drive packed with corporate data arrived in the post. Gerard Ryle, ICIJ's director, obtained the small black box as a result of his three-year investigation of Australia's Firepower scandal, a case involving offshore havens and corporate fraud.

The hard drive contained more than 260 gigabytes, the equivalent of half a million books. Its files included two million emails, four large databases. There were details of more than 122,000 offshore companies or trusts, and nearly 12,000 intermediaries.

Unlike the smaller cache of US cables and war logs passed in 2010 to WikiLeaks, the offshore data was not structured or clean, but an unsorted collection of memos and instructions, official documents, emails, large and small databases and spreadsheets, scanned passports and accounting ledgers.

Text retrieval

Analysing the immense quantity of information required "free text retrieval" software, which can work with huge volumes of unsorted data. Such high-end systems have been sold for more than a decade to intelligence agencies, law firms and commercial corporations. Journalism is just catching up. The named people who administered offshore companies included shareholders, directors, secretaries, lawyers, accountants, nominees and trustees. But many such structures were simply legal devices designed to conceal.

The real beneficial owners proved often to be the so-called "settlers" or "protectors" of off-



shore trusts, and those holding powers of attorney to exert secret control over the accounts.

China, Hong Kong, Taiwan, the Russian Federation and former Soviet republics appeared to provide the majority of secret offshore owners. The British Virgin Islands are the second-largest source of capital investment in China – on paper at least. Cyprus, an offshore island currently in financial crisis as a result, is also identified in

122,000

Number of offshore companies or trusts revealed in the leaked data

the data as a huge source of Russian investment.

ICIJ's collaborating journalists from 46 countries constituted one of the largest groups ever to have worked together on a data project. Marina Walker Guevara, Michael Hudson, Nicky Hager and Stefan Can-

dea worked from the US, New Zealand and Romania.

Others who contributed included Mar Cabra, Kimberley Porteous, Frederic Zalac, Alex Shprintzen, Prangtip Daorung, Roel Landingin, Francois Pilet, Emilia Diaz-Struck, Roman Shelynov, Harry Karanikas, Sebastian Mondial and Emily Menkes.

Interestingly, the team's attempts to use encrypted email systems such as PGP ("Pretty Good Privacy") were abandoned because of complexity and unreliability that slowed them down.

Data mining

Meanwhile, programmers in Germany, the UK and Costa Rica also designed sophisticated data mining and cleaning software for ICIJ. Manual analysis in New Zealand proved crucial decisions on what countries ICIJ needed reporters.

ICIJ's own search system – named Interdata – was developed by a British programmer as dozens of new journalists

■ The hard drive contained more than 260 gigabytes, the equivalent of half a million books, with details of more than 122,000 offshore trusts.

joined the expanding project. Interdata allowed them to download copies of those of the 2.5 million offshore documents relevant to their countries.

ICIJ rebuilt some of the databases in an effort to run them in their original format. There were surprises. The databases were formatted to record who really lay behind each entity, as required by international regulations on money laundering and "due diligence". Journalists hoped the truth was just a click away.

Entries for "beneficial owners" were often empty. The offshore agencies had frequently passed off their supposed legal responsibility to intermediaries in other countries. The empty fields were not an accident; it was the design.

– *Guardian service*