

# Secret Files Expose Offshore's Global Impact

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Graphic: Tim Meko

## **Dozens of journalists sifted through millions of leaked records and thousands of names to produce ICIJ's investigation into offshore secrecy**

A cache of 2.5 million files has cracked open the secrets of more than 120,000 offshore companies and trusts, exposing hidden dealings of politicians, con men and the mega-rich the world over.

The secret records obtained by the [International Consortium of Investigative Journalists](#) lay bare the names behind covert companies and private trusts in the British Virgin Islands, the Cook Islands and other offshore hideaways.

They include American doctors and dentists and middle-class Greek villagers as well as families and associates of long-time despots, Wall Street swindlers, Eastern European and Indonesian billionaires, Russian corporate executives, international arms dealers and a sham-director-fronted company that the European Union has labeled as a cog in Iran's nuclear-development program.

The leaked files provide facts and figures — cash transfers, incorporation dates, links between companies and individuals — that illustrate how offshore financial secrecy has spread aggressively around the globe, allowing the wealthy and the well-connected to dodge taxes and fueling corruption and economic woes in rich and poor nations alike.

The records detail the offshore holdings of people and companies in more than 170 countries and territories.

The hoard of documents represents the biggest stockpile of inside information about the offshore system ever obtained by a media organization. The total size of the files, measured in gigabytes, is more than 160 times larger than the leak of U.S. State Department documents by Wikileaks in 2010.

To analyze the documents, ICIJ collaborated with reporters from *The Guardian* and the BBC in the U.K., *Le Monde* in France, *Süddeutsche Zeitung* and *Norddeutscher Rundfunk* in Germany, *The Washington Post*, the Canadian Broadcasting Corporation (CBC) and 31 other media partners around the world.

Eighty-six journalists from 46 countries used high-tech data crunching and shoe-leather reporting to sift through emails, account ledgers and other files covering nearly 30 years.

“I’ve never seen anything like this. This secret world has finally been revealed,” said [Arthur Cockfield](#), a law professor and tax expert at Queen’s University in Canada, who reviewed some of the documents during an interview with the CBC. He said the documents remind him of the scene in the movie classic *The Wizard of Oz* in which “they pull back the curtain and you see the wizard operating this secret machine.”

## Mobsters and Oligarchs

The vast flow of offshore money — legal and illegal, personal and corporate — can roil economies and pit nations against each other. Europe’s continuing financial crisis has been fueled by a Greek fiscal disaster exacerbated by offshore tax cheating and by a banking meltdown in the tiny tax haven of Cyprus, where local banks’ assets have been inflated by waves of cash from Russia.

Anti-corruption campaigners argue that offshore secrecy undermines law and order and forces average citizens to pay higher taxes to make up for revenues that vanish offshore. Studies have estimated that cross-border flows of global proceeds of financial crimes total between \$1 trillion and \$1.6 trillion a year.

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

### Offshore patrons identified in the documents include:

- Individuals and companies linked to Russia’s Magnitsky Affair, a tax fraud scandal that has strained U.S.-Russia relations and led to a ban on Americans adopting Russian orphans.
- A Venezuelan deal maker accused of using offshore entities to bankroll a U.S.-based Ponzi scheme and funneling millions of dollars in bribes to a Venezuelan government official.
- A corporate mogul who won billions of dollars in contracts amid Azerbaijani President Ilham Aliyev’s massive construction boom even as he served as a director of secrecy-shrouded offshore companies owned by the president’s daughters.
- Indonesian billionaires with ties to the late dictator Suharto, who enriched a circle of elites during his decades in power.

The documents also provide possible new clues to crimes and money trails that have gone cold.

After learning ICIJ had identified the eldest daughter of the late dictator Ferdinand Marcos, Maria Imelda Marcos Manotoc, as a [beneficiary](#) of a British Virgin Islands (BVI) trust, Philippine officials said they were eager to find out whether any assets in the trust are part of the estimated \$5 billion her father amassed through corruption.

Manotoc, a provincial governor in the Philippines, declined to answer a series of questions about the trust.

## Politically connected wealth

The files obtained by ICIJ shine a light on the day-to-day tactics that offshore services firms and their clients use to keep offshore companies, trusts and their owners under cover.

Tony Merchant, one of Canada's top class-action lawyers, took extra steps to maintain the privacy of a [Cook Islands trust](#) that he'd stocked with more than \$1 million in 1998, the documents show.

In a filing to Canadian tax authorities, Merchant checked "no" when asked if he had foreign assets of more than \$100,000 in 1999, court records show.

Between 2002 and 2009, he often paid his fees to maintain the trust by sending thousands of dollars in cash and traveler's checks stuffed into envelopes rather than using easier-to-trace bank checks or wire transfers, according to documents from the offshore services firm that oversaw the trust for him.

One [file note](#) warned the firm's staffers that Merchant would "have a st[r]oke" if they tried to communicate with him by fax.

It is unclear whether his wife, Pana Merchant, a Canadian senator, declared her personal interest in the trust on annual financial disclosure forms.

Under legislative rules, she had to disclose every year to the Senate's ethics commissioner that she was a beneficiary of the trust, but the information was confidential.

The Merchants declined requests for comment.

Other high profile names identified in the offshore data include the wife of Russia's deputy prime minister, Igor Shuvalov, and two top executives with Gazprom, the Russian government-owned corporate behemoth that is the world's largest extractor of natural gas.

Shuvalov's wife and the Gazprom officials had stakes in BVI companies, documents show. All three declined comment.

In a neighboring land, the deputy speaker of Mongolia's Parliament said he was considering resigning from office after ICIJ questioned him about records showing he has an offshore company and a secret Swiss bank account.

"I shouldn't have opened that account," Bayartsogt Sangajav, who has also served as his country's finance minister, said. "I probably should consider resigning from my position."

Bayartsogt said his Swiss account at one point contained more than \$1 million, but most of the money belonged to what he described as "business friends" he had joined in investing in international stocks.

He acknowledged that he hasn't officially declared his BVI company or the Swiss account in Mongolia, but he said he didn't avoid taxes because the investments didn't produce income.

"I should have included the company in my declarations," he said.



## Wealthy Clients

The documents also show how the mega-rich use complex offshore structures to own mansions, art and other assets, gaining tax advantages and anonymity not available to average people.

Spanish names include a baroness and famed art patron, Carmen Thyssen-Bornemisza, who is identified in the documents using [a company](#) in the Cook Islands to buy artwork through auction houses such as Sotheby's and Christie's, including Van Gogh's *Water Mill at Gennep*.

Her attorney acknowledged that she gains tax benefits by holding ownership of her art offshore, but stressed that she uses tax havens primarily because they give her "maximum flexibility" when she moves art from country to country.

Among nearly 4,000 American names is Denise Rich, a Grammy-nominated songwriter whose ex-husband was at the center of an [American pardon scandal](#) that erupted as President Bill Clinton left office.



A Congressional investigation found that Rich, who raised millions of dollars for Democratic politicians, played a key role in the campaign that persuaded Clinton to pardon her ex-spouse, Marc Rich, an oil trader who had been wanted in the U.S. on tax evasion and racketeering charges.

Records obtained by ICIJ show she had [\\$144 million](#) in April 2006 in a trust in the Cook Islands, a chain of coral atolls and volcanic outcroppings nearly 7,000 miles from her home at the time in Manhattan.

The trust's holdings included a yacht called the *Lady Joy*, where Rich often entertained celebrities and raised money for charity.

Rich, who gave up her U.S. citizenship in 2011 and now maintains citizenship in Austria, did not reply to questions about her offshore trust.

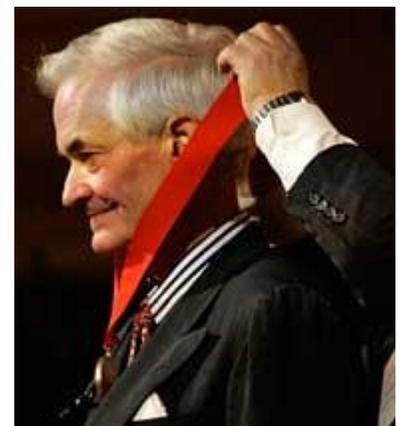


Another prominent American in the files who gave up his citizenship is a member of the Mellon dynasty, which started landmark companies such as Gulf Oil and Mellon Bank. James R. Mellon – an author of books about Abraham Lincoln and his family's founding patriarch, Thomas Mellon – used four companies in the BVI and Lichtenstein [to trade securities](#) and transfer tens of millions of dollars among [offshore bank accounts](#) he controlled.

Like many offshore players, Mellon appears to have taken steps to distance himself from his offshore interests, the documents show. He often used third parties' names as directors and shareholders of his companies rather than his own, a legal tool that owners of offshore entities often use to preserve anonymity.

Reached in Italy where lives part of the year, Mellon told ICIJ that, in fact, he used to own "a whole bunch" of offshore companies but has disposed of all of them. He said he set up the firms for "tax advantage" and liability reasons, as advised by his lawyer. "But I have never broken the tax law."

Of the use of nominees, Mellon said that "that's the way these firms are set up," and added that it's useful for people like him who travel a lot to have somebody else in charge of his businesses. "I just heard of a presidential candidate who had a lot of money in the Cayman Islands," Mellon, now a British national, said, alluding to former U.S. presidential candidate Mitt Romney.



“Not everyone who owns offshore is a crook.”

## Offshore growth

The anonymity of the offshore world makes it difficult to track the flow of money. A [study](#) by James S. Henry, former chief economist at McKinsey & Company, estimates that wealthy individuals have \$21 trillion to \$32 trillion in private financial wealth tucked away in offshore havens — roughly equivalent to the size of the U.S. and Japanese economies combined.

Even as the world economy has stumbled, the offshore world has continued to grow, said Henry, who is a board member of the [Tax Justice Network](#), an international research and advocacy group that is critical of offshore havens. His research shows, for example, that assets managed by the world’s 50 largest “private banks” — which often use offshore havens to serve their “high net worth” customers — grew from \$5.4 trillion in 2005 to more than \$12 trillion in 2010.

Henry and other critics argue that offshore secrecy has a corrosive effect on governments and legal systems, allowing crooked officials to loot national treasuries and providing cover to human smugglers, mobsters, animal poachers and other exploiters.

Offshore’s defenders counter that most offshore patrons are engaged in legitimate transactions. Offshore centers, they say, allow companies and individuals to diversify their investments, forge commercial alliances across national borders and do business in entrepreneur-friendly zones that eschew the heavy rules and red tape of the onshore world.

“Everything is much more geared toward business,” David Marchant, publisher of [OffshoreAlert](#), an online news 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.”

Much of ICIJ’s reporting focused on the work of two offshore firms, Singapore-based Portcullis TrustNet and BVI-based Commonwealth Trust Limited (CTL), which have helped tens of thousands of people set up offshore companies and trusts and hard-to-trace bank accounts.

Regulators in the BVI found that CTL repeatedly violated the islands’ anti-money-laundering laws between 2003 and 2008 by failing to verify and record its clients’ identities and backgrounds. “This particular firm had systemic money laundering issues within their organization,” an official with the BVI’s Financial Services Commission said last year.

The documents show, for example, that CTL set up 31 companies in 2006 and 2007 for an individual later identified in U.K. court claims as a front man for Mukhtar Ablyazov, a Kazakh banking tycoon who has been accused of stealing \$5 billion from one of the former Russian republic’s largest banks. Ablyazov denies wrongdoing.

Thomas Ward, a Canadian who co-founded CTL in 1994 and continues to work as a consultant to the firm, said CTL’s client-vetting procedures have been consistent with industry standards in the BVI, but that no amount of screening can ensure that firms such as CTL won’t be “duped by dishonest clients” or sign on “someone who appears, to all historical examination, to be honest” but “later turns to something dishonest.”

“It is wrong, though perhaps convenient, to demonize CTL as by far the major problem area,” Ward said in a written response to questions. “Rather I believe that CTL’s problems were, by and large, directly proportional to its market share.”

ICIJ’s review of TrustNet documents identified 30 American clients accused in lawsuits or criminal cases of fraud, money laundering or other serious financial misconduct. They include ex-Wall Street titans Paul Bilzerian, a corporate raider who was convicted of tax fraud and securities violations in 1989, and Raj Rajaratnam, a billionaire hedge fund manager who was sent to prison in 2011 in one of the biggest insider trading scandals in U.S. history.

TrustNet declined to answer a series of questions for this article.

## Blacklisted

The records obtained by ICIJ expose how offshore operatives help their customers weave elaborate financial structures that span countries, continents and hemispheres.

A Thai government official with links to an infamous African dictator used Singapore-based TrustNet to set up a secret company for herself in the BVI, the records show.

The Thai official, Nalinee “Joy” Taveesin, is currently Thailand’s international trade representative. She served as a cabinet minister for Prime Minister Yingluck Shinawatra before stepping down last year.

Taveesin acquired her BVI company in August 2008. That was seven months after she’d been appointed an advisor to Thailand’s commerce minister — and three months before the U.S. Department of Treasury blacklisted her as a “crony” of Zimbabwean dictator Robert Mugabe.

The Treasury Department froze her U.S. assets, [accusing her](#) of “secretly supporting the kleptocratic practices of one of Africa’s most corrupt regimes” through gem trafficking and other deals made on behalf of Mugabe’s wife, Grace, and other powerful Zimbabweans.

Taveesin has said her relationship with the Mugabes is “strictly social” and that the U.S. blacklisting is a case of guilt by association. Through her secretary, Taveesin flatly denied that she owns the BVI company. ICIJ verified her ownership using [TrustNet records](#) that listed her and her brother as shareholders of the company and included the main address in Bangkok for her onshore business ventures.



Records obtained by ICIJ also reveal a secret company belonging to Muller Conrad “Billy” Rautenbach, a Zimbabwean businessman who was blacklisted by the U.S. for his ties to the Mugabe regime at the same time as Taveesin. The Treasury Department said Rautenbach has helped organize huge mining projects in Zimbabwe that “benefit a small number of corrupt senior officials.”

When CTL set Rautenbach up with a [BVI company](#) in 2006 he was a fugitive, fleeing fraud allegations in South Africa. The charges lodged personally against him were dismissed, but a South African company he controlled pleaded guilty to criminal charges and paid a fine of roughly \$4 million.

Rautenbach denies U.S. authorities’ allegations, contending that they made “significant factual and legal errors” in their blacklisting decision, his attorney, Ian Small Smith, said. Smith said Rautenbach’s BVI company was set up as “special purpose vehicle for investment in Moscow” and that it complied with all disclosure regulations. The company is no longer active.

## ‘One Stop Shop’



Offshore’s customers are served by a well-paid industry of middlemen, accountants, lawyers and banks that provide cover, set up financial structures and shuffle assets on their clients’ behalf.

Documents obtained by ICIJ show how two top Swiss banks, UBS and Clariden, worked with TrustNet to provide their customers with secrecy-shielded companies in the BVI and other offshore centers.

Clariden, owned by Credit Suisse, sought such high levels of confidentiality for some clients, the records show, that a TrustNet official [described](#) the bank’s request as “the Holy Grail” of offshore entities — a company so anonymous that police and regulators would be “met with a blank wall” if they tried to discover the owners’ identities.

Clariden declined to answer questions about its relationship with TrustNet.

“Because of Swiss banking secrecy laws, we are not allowed to provide any information about existing or supposed accountholders,” the bank said. “As a general rule, Credit Suisse and its related companies respect all the laws and regulations in the countries in which they are involved.”

A spokesperson for UBS said the bank applies “the highest international standards” to fight money laundering, and that TrustNet “is one of over 800 service providers globally which UBS clients choose to work with to provide for their wealth and succession planning needs. These service providers are also used by clients of other banks.”

TrustNet describes itself as a “[one-stop shop](#)” — its staff includes lawyers, accountants and other experts who can shape secrecy packages to fit the needs and net worths of its clients. These packages can be simple and cheap, such as a company chartered in the BVI. Or they can be sophisticated structures that weave together multiple layers of trusts, companies, foundations, insurance products and so-called “nominee” directors and shareholders.

When they create companies for their clients, offshore services firms often appoint faux directors and shareholders — proxies who serve as stand-ins when the real owners of companies [don’t want their identities known](#). Thanks to the proliferation of proxy directors and shareholders, investigators tracking money laundering and other crimes often hit dead ends when they try to uncover who is really behind offshore companies.

[An analysis](#) by ICIJ, the BBC and *The Guardian* identified a cluster of 28 “sham directors” who served as the on-paper representatives of more than 21,000 companies between them, with individual directors representing as many 4,000 companies each.

Among the front men identified in the documents obtained by ICIJ is a U.K.-based operative who served as a director for a BVI company, [Tamalaris Consolidated Limited](#), which the European Union has labeled as a front company for the [Islamic Republic of Iran Shipping Line](#). The E.U., the U.N. and the U.S. have accused IRISL of aiding Iran’s [nuclear-development program](#).



## ‘Zone of Impunity’

International groups have been working for decades to limit tax cheating and corruption in the offshore world.

In the 1990s, the Organization for Economic Cooperation and Development began pushing offshore centers to reduce secrecy and get tougher on money laundering, but the effort ebbed in the 2000s. Another push against tax havens began when U.S. authorities took on UBS, forcing the Swiss bank to pay \$780 million in 2009 to settle allegations that it had helped Americans dodge taxes. U.S. and German authorities have pressured banks and governments to share information about offshore clients and accounts and UK Prime Minister David Cameron has vowed to use his leadership of the G8, a forum of the world’s richest nations, to help crack down on tax evasion and money laundering.

Promises like those have been met with skepticism, given the role played by key G8 members — the U.S., the U.K. and Russia — as sources and destinations of dirty money. Despite the new efforts, offshore remains a “zone of impunity” for anyone determined to commit financial crimes, said Jack Blum, a former U.S. Senate investigator who is now a lawyer specializing in money laundering and tax fraud cases.

“Periodically, the stench gets so bad somebody has to get out there and clap the lid on the garbage can and sit on it for a while,” Blum said. “There’s been some progress, but there’s a bloody long way to go.”

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