

Transparency International EU

The global coalition against corruption

The spill-over effects of corruption in Azerbaijan

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This text is based on the speech given by the Director of Transparency International EU Carl Dolan in the PANA committee hearing of the European Parliament on the 28th of November

Azerbaijan ranks 30 out of 100 on Transparency International's Corruption Perception Index, which indicates rampant corruption. All this is well known and has been documented by anti-corruption activists, international organisations and independent journalists. The devastating consequences for the Azerbaijani people, particularly the loss of basic political freedoms, is very clear.

What is less well known is the spill-over effects of corruption in Azerbaijan. The [Azerbaijan Laundromat](#) revelations show how corruption is systematically exported from Azerbaijan and undermines democratic institutions in the West, such as the Council of Europe, but also undermines the integrity of financial and other markets. In addition to this spill-over, the Azerbaijan Laundromat has a direct bearing on how the EU financial system facilitates money-laundering.

The role of shell companies

In the [Azerbaijani Laundromat](#) case, four UK based shell companies had bank accounts in Estonia. Because of this, the 2.5 billion EUR or 160,00 transactions of the Azerbaijani Laundromat could be secretly processed within the European Union without facing any obstacle. No one asked any question concerning the owners or managers of the shell companies, nor about the 16,000 transactions on the accounts of the shell companies. Organised crime or corrupt officials don't have to bother with setting up shell companies on distant Caribbean or Pacific islands. They can enjoy these privileges from the comfort of the European Union.

The Laundromat could also happen again. Firstly, it is extremely easy to set up a shell company in a Member State such as the UK, for example, or as we learned from the Paradise Papers, in the Netherlands. The Azerbaijani laundromat is not an isolated case. Our colleagues in TI UK recently published a report entitled "[Hiding in Plain Sight](#)" which shows how the UK is home to a thriving company formation industry that gives money launderers access to UK firms and legal system. That report identified 52 global corruption and money laundering cases involving 766 UK companies. There are a number of factors that make the UK particularly attractive: the low-cost of starting a business, the ease and speed of starting a new firm and the UK's respectable business reputation, which lends legitimacy to shell companies. Formation of UK

companies is amongst the cheapest and fastest in the world, costing as little as £12 and taking a matter of minutes to complete the forms. In contrast, it costs around £1,009 and takes a number of days to set up a company in the BVI.

Secondly, there are few controls and checks done by responsible authorities. Although the UK has beneficial ownership register, there is no verification of the registered data. Any owner or manager of any company can freely register any false information. The UK Companies House explicitly says they don't verify or investigate cases.

The role of the banks and financial oversight

The Estonian branch of Danske Bank already had a track record of being involved in a major tax fraud that the Russian whistleblower, the late Sergei Magnitsky uncovered in 2008. It was used also in the [Russian Laundromat](#), an earlier money laundering scandal exposed by the OCCRP, that showed at least \$20 billion was siphoned out of Russia via corrupt courts and banks in Moldova and Latvia. Once in Latvia, the laundered money could be moved anywhere in the world without difficulty. More than one billion dollars were transferred to the Danish bank in the years 2011 through 2014 by way of over 1,500 transfers.

There is no sign that Estonian or Danish authorities or the European Central Bank cared as [OCCRP summarises](#) the situation based on leaked e-mails: “The e-mail discloses that both the Estonian and the Danish financial supervisory authorities were concerned about “Russian customers” at the Estonian branch. Furthermore, the e-mail states that the Estonian Financial Supervisory Authority allegedly approached Danske Bank about the topic and was disturbed that it didn't take the problem “very seriously.”

International law, EU law and domestic laws have rather strict measures to sanction legal persons, but they are hardly applied. Financial supervisory and criminal justice authorities should take strong action against banks complicit in money laundering. This can be done by, for example, criminal penalties, withdrawal of the banking license, or ultimately shutting down of the legal entity.

Latvia is a [banking hot spot](#) for money-laundering. Alone in the case uncovered by Magnitsky, there was [six banks](#) in Latvia that were involved. One of the banks, Trasta Komerbanka, was also key in the Russian Laundromat and its licence was [withdrawn](#) in March 2016 by the relevant national authorities and the European Central Bank for “serious and sustained breaches of the anti-money laundering and counter-terrorist financing regulations”.

What we find is that sometimes entire banks are bought for money-laundering purposes. It is lot more practical to own a bank when bribery and money-laundering is part of a company's standard business model. This was particularly apparent in the bribery and corruption cases uncovered as part of the Lava Jato/ Petrobras scandal in Brazil, when Meinl Bank from Austrian sold 51% of its Antigua branch to Odebrecht, the construction company at the heart of the scandal.

The Lava Jato/Petrobras scandal raises many questions on regarding the roles of the bank and authorities, in the case that was described as [a corruption machine like no other](#) by Bloomberg:

Did the bank have any due diligence of its contractual partner before signing the contract? Did they follow what's going on in the bank of which they still owned 49%? Did the Austrian

financial supervisory authority care? Has it opened any investigation into this matter since?

Key recommendations:

- The Azerbaijani Laundromat shows again the need for greater beneficial ownership transparency through the establishment of public registers assorted with strong verification and control mechanisms
- It also highlights the need for greater controls and sanctions applied to banks and other professional intermediaries in case of failure to carry out proper CDD checks
- Financial supervisory and criminal justice authorities should investigate and prosecute banks as legal persons and their managers, as well as their parent banks in case a subsidiary launders money.
- Banks should face not only administrative/civil but also criminal penalties in case of complicit behaviour in money laundering (e.g. ING currently facing **criminal investigation** by Dutch authorities for its role in the Uzbek grand corruption case).
- Financial supervisory and criminal justice authorities should publish information on their enforcement actions as soon as possible
- European Commission and European Parliament should request all member states and the ECB to provide detailed statistics and case descriptions about anti-money laundering enforcement efforts and publish these annually

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