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Fair Business Banking

APPG on **Anti-Corruption & Responsible Tax**

# ECONOMIC CRIME FACT FILE

Presented by the APPG on Anti-Corruption & Responsible Tax and the APPG on Fair Business Banking.

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# Introduction

This paper summarises the evidence base in support of the Economic Crime Manifesto published in May 2022 by the APPG on Fair Business Banking and the APPG on Anti-Corruption and Responsible Tax. Evidence has been selected from credible experts and academics, reputable journalists and - wherever possible - official sources. This paper does not include more lurid commentary (of which there is plenty) or unsubstantiated assertions.

The paper opens with a short section of case studies directly linked to Russia. The content that follows is structured in line with the manifesto's analysis:

- Economic crime causes immense harm at home and abroad.
- The scale of the UK's dirty money problem is unprecedented.
- Britain's defences have been over-run.
- Global allies are taking economic crime seriously.

The paper minimises repetition of material already presented in the Economic Crime Manifesto, and for this reason does not include a section on "Britain has a unique opportunity for global leadership".

## About the author:

Tom Mayne is a research fellow at the University of Exeter and a visiting fellow at the Royal Institute of International Affairs, Chatham House. He is an expert in corruption studies and Central Asian politics. For 12 years he worked as a senior campaigner for Global Witness, an anti-corruption NGO which works to end the exploitation of natural resources. He was responsible for Eurasian investigations, covering such diverse topics as the Russia-Ukraine gas crisis, the listing of Kazakh companies on the London Stock Exchange, money laundering in the Kyrgyz Republic, and the opaque practices of Azerbaijan's state oil company.

# Case Studies

## How Putin uses dirty money to cement his grip on power and fund his war machine

1. Roman Abramovich earned "billions after buying an oil company from the Russian government in a rigged auction", by his own admission making corrupt payments to get the deal done[1]. He is so closely associated with Putin and his grip on power that he was a Russian state governor for eight years and has played a significant role in recent Ukraine peace talks[2]. Abramovich purchased around 70 properties in the UK worth £250 million, alongside Chelsea football club[3]. He sued journalist Catherine Belton in the UK's High Court for her book, Putin's People, which cited sources who believed Putin had told Abramovich to acquire Chelsea FC (a claim denied by Abramovich)[4].

2. Yevgeny Prigozhin, dubbed "Putin's chef" as he made his fortune from state catering contracts, showed his loyalty to the regime by allegedly fronting a paramilitary organisation, the Wagner Group, that has been active in Ukraine[5] and elsewhere around the world[6]. Prigozhin is also accused of running the 'troll farms' that tried to influence the 2016 US presidential election by placing fake information on social networking sites[7].

3. In 2004, the Russian government awarded the strategic contract to sell gas to Ukraine to a company called RosUkrEnergo[8]. This should be state business. But an individual named Dmytro Firtash somehow owned half of the company and became unimaginably rich as a result[9]. Some of these funds are thought to have been diverted to Russian and Ukrainian state officials[10]. Firtash became a firm supporter of Putin, and, as a generous philanthropist, was embraced by the UK's establishment[11]. He bought a disused tube station for £53 million from the UK's Ministry of Defence, and advised the UK government on their Russia policy[12].

## Economic crime causes immense harm at home

4. The National Crime Agency (NCA) writes "Money laundering costs the UK more than £100 billion pounds a year. It is used by criminals and terrorists to move funds and pay for assets. High volumes of criminal money flowing through the UK results in a loss of confidence in UK economy which has far reaching consequences for us all[13]."

5. The NCA also estimates that in addition "The 2017 Annual Fraud Indicator estimates fraud losses to the UK at around £190 billion every year, with the private sector hit hardest losing around £140 billion. The public sector may be losing more than £40 billion and individuals around £7 billion[14]."

## Economic crime causes immense harm abroad

6. Ukraine's general prosecutor's office claimed that, during the period when the pro-Kremlin president of Ukraine, Viktor Yanukovych was in power, corrupt officials stole a fifth of the country's national output every year[15]. Tens of millions of dollars were siphoned out of the health care budget by corrupt intermediaries and hidden offshore for the benefit of powerful insiders[16].

7. The United Nations estimates that $2.3 trillion is stolen through corruption annually, with a further $1 trillion dollars paid in bribes[17]. Associated with this, the UN estimates that $89 billion leaves Africa every year, as 'illicit capital flight[18]' This is roughly the same as the amount of total official aid and foreign direct investment that Africa receives, combined.

8. For example, in September 2021, the Financial Times wrote on the coup in Guinea: "For years, foreign companies have participated in an unedifying scramble for Guinea's massive iron ore deposits, not an ounce of which has yet been exported. ... The world – led by western financial capitals need to devise a better system to police transactions that amount to near-robbery from some of the world's poorest people[19]."

9. In Angola, a third of the population, some 10 million people, live in extreme poverty. Isabel dos Santos, the daughter of José dos Santos, the former President of Angola[20], was reported to possess a personal fortune of $2 billion, roughly equivalent to the Angolan government's entire 2019 budget for education and health combined[21]. In January 2020, allegations emerged of incredible levels of corruption in her affairs, and how she had used western consultants, accountancy firms and law companies. She engaged British law firms and British PR firms to manage the reputational crisis that the leaks unleashed[22].

# The scale of the UK's dirty money problem is unprecedented

10. The 2020 UK National Risk Assessment of Money Laundering & Terrorist Finance states: "There is a realistic possibility that [the scale of the money laundering threat to the UK] remains in the hundreds of billions of pounds annually. It is likely that the majority of this is corrupt money from outside the UK[23]."

11. The Intelligence and Security Committee's 2020 report on Russia found that British lawyers, accountants, estate agents and PR professionals "have played a role wittingly or unwittingly, in the extension of Russian influence with is often linked to promoting the nefarious interests of the Russian state… the UK welcomed Russian money, and few questions – if any – were asked about the provenance of this considerable wealth[24]."

12. In 2021, the Ministry of Defence wrote that "the open nature of the UK's economy, our position as an island and the centrality of the City of London to global finance and the well-being of the UK economy leaves the nation vulnerable to economic warfare[25]."

13. Transparency International analysed more than 400 global corruption cases in which UK service providers were involved. They identified "at least £325 billion worth of funds diverted by rigged procurement, bribery, embezzlement and the unlawful acquisition of state assets, taking place in 116 countries across the world[26]".

14. Russian oligarchs with ties to Putin have been linked to over 80 pieces of real estate in London and south-east England, with properties worth more than half a billion dollars linked through companies, trusts or relatives to just four oligarchs[27].

15. The 2016 Panama Papers showed how Mossack Fonseca – then the world's fourth biggest provider of offshore services – helped senior politicians and others around the world hide their wealth. Governments recouped more than $1.3 billion in taxes, fines and penalties from resulting enquiries[28] . More than half of the companies registered by Mossack Fonseca were in British Overseas Territories and Crown Dependencies, as well as in the UK itself[29].

16. The 2021 Pandora Papers showed that the UK and our territories continued to play a central global role in helping corrupt leaders hide and use dirty money, enabling corruption and harm around the world. The papers had major political consequences in the Czech Republic, Kenya, Chile and many others[30].

17. $2.9 billion was found to have passed through four shell companies registered in the UK in a scandal known as "the Azerbaijani Laundromat"[31]. Some of this money was used to bribe European politicians[32]. It was revealed in 2021 that the family of the president of Azerbaijan and his associates own or owned a £429 million of property in London through a network of 84 offshore companies[33].

18. The US Treasury categorises the UK as a "higher risk jurisdiction" for economic crime alongside Cyprus[34]. A US congressman has recently called for six leading UK lawyers to be banned from the country as 'foreign enablers of Russian oligarchs[35]'.

# Britain's defences have been over-run

19. Overall "we are doing very badly" on the global fight against money laundering, according to David Lewis, until January 2022 the Executive Secretary of the Financial Action Task Force (FATF). FATF[36] sets the global standards for combatting money laundering.

20. In 2018, FATF evaluated the UK. It commended areas including the UK's powerful legal tools, global leadership in corporate transparency and aggressive pursuit of money laundering investigations. It concludes that the UK's system is effective in many respects. It also noted that the UK's financial intelligence unit needs a substantial increase in resources "which is a serious concern considering similar issues were raised over a decade ago in the UK's previous FATF evaluation".

21. Other conclusions include: "the SAR regime needs a significant overhaul ... there are concerns about the low level of SAR reporting in many sectors". It also noted that the UK was not yet able to demonstrate that its level of prosecutions and convictions in high-end money laundering cases was consistent with the threat it poses. Lack of verification of the information submitted to Companies House on company owners was identified as an issue, along with significant weaknesses among the UK's 25 anti-money laundering supervisory bodies in the legal, accountancy and other sectors[37].

22. The UK's Office for Professional Body Anti-Money Laundering Supervision[38] (OPBAS, created in 2018 within the Financial Conduct Authority) strongly reinforces this final point. Their 2020/21 report found that "The vast majority (just over 80%) of Professional Body Supervisors (PBSs) had not implemented an effective risk- based approach." In other words, the firms that face the greatest money laundering risks are not being supervised accordingly.

23. The OPBAS review continued "While some used their supervisory tools effectively to identify gaps in members' anti-money laundering controls, half of PBSs, particularly those in the accountancy sector, failed to ensure members took timely action to correct these identified gaps ... Around two thirds of PBSs didn't have effective enforcement frameworks. For example, some PBSs could not explain their criteria for taking enforcement action and which tools would be used.[39]"

24. Regulated professions including bankers, accountants, lawyers and estate agents are required to file Suspicious Activity Reports (SARs) if they suspect a transaction may involve money laundering. In 2019/20, over 570,000 SARs were filed, an increase of 20% on the year before. The vast majority, over 430,000, were filed by banks; 5,300 were filed by accountants and tax advisors; 3,000 were filed by lawyers; 861 were filed by estate agents; and just 31 were filed by trust or company service providers[40].

25. Research in 2021 found that financial institutions spend an average of £187 million each per year on anti-money laundering compliance, which totals to an estimate annual national spend by the private sector of £29 billion across the UK. The report describes "a culture of over-cautiousness that leads to over-reporting of suspicious activity [in banks], resulting in higher volumes of work[41]. UK Finance says that "the current [SARs] system drives too much resource towards low value compliance activity that does little to detect criminals or protect customers.[42]"

26. The House of Lords Industry and Regulators Committee discussed these figures in July 2021, with one expert witness commenting "only a very small number of those suspicious activity reports actually contribute to the disruption of organised crime[43]". Other experts are also of the view that too many SARs are filed for defensive purposes by banks and that outside the banking industry "there is widespread failure to file SARs[44]".

27. The NCA's Financial Intelligence Unit has 118 employees to scrutinize all SARs[45]. They rely on out-dated IT systems, requiring a high degree of manual checks[46]. By contrast, Australia's comparable unit, overseeing a much smaller financial and services sector, is currently increasing its staffing from 389 to 455[47].

28. It is a criminal offence to fail to report a suspicion of money laundering in specific regulated sectors. Since 2002, when the law came into force, there have only been three known convictions across all regulated professions[48]. Without the threat of enforcement there is no credible deterrent.

29. In 2019 the UK imposed regulatory fines on banks of £260 million. In the same year, the US imposed $3 billion in criminal fines against six banks, and nearly $6 billion in non-criminal fines against 31 banks. Some of these fines have been imposed on UK head-quartered institutions in a form of "out-sourcing of our criminal law responsibilities[49]".

30. Until 2020, the UK had never prosecuted a bank for money laundering or sanctions busting[50]. This changed last year when NatWest was fined £265m: "the first time a financial institution has faced criminal prosecution by the FCA under anti-money laundering laws in the UK.[51]"

31. In March 2022, the budget of the NCA's International Corruption Unit was cut by 13.5%, to £4.3 million, leaving corruption investigators "massively outgunned" by oligarchs. RUSI's Helena Wood commented that the government had "vastly underfunded" enforcement agencies: "law is completely ineffective if no one is around to enforce it.[52]" NCA officers are currently paid 14% less than local police forces and about a tenth of the NCA workforce leaves every year[53]. Money laundering prosecutions have dropped by 35% over the past five years in the UK[54].

32. A recent briefing by the House of Commons Library noted: "In December 2019 the Treasury Committee found various regulatory and legislative failings in the way in which these crimes are being tackled. It urged the Government to make improvements to the supervisory system and to introduce new powers to combat economic crime. A February 2022 Treasury Committee follow-up report concluded that the Government was still not prioritising economic crime sufficiently.[55]"

## Global allies are taking economic crime seriously

33. The United States has elevated the fight against dirty money and corruption to a core national security interest, as "a battleground in a great power competition[56]."

34. In 2021, President Biden issued a "Memorandum on Establishing the Fight Against Corruption as a Core United States National Security Interest[57]," which led to a ground breaking "US Strategy to Counter Corruption[58]". Its five pillars are:

a) Modernizing, coordinating, and resourcing U.S. Government efforts to fight corruption,
b) Curbing illicit finance,
c) Holding Corrupt Actors Accountable,
d) Preserving and strengthening the multilateral anti-corruption architecture, and
e) Improving diplomatic engagement and leveraging foreign assistance resources to achieve anti-corruption policy goals.

35. The US government is implementing this strategy with vigour and ambition. An interagency task force, named "KleptoCapture" was created in March 2022, "dedicated to enforcing the sweeping sanctions, export restrictions, and economic countermeasures that the United States has imposed, along with allies and partners, in response to Russia's unprovoked military invasion of Ukraine[59]."

36. This will be bolstered by the "Kleptocracy Asset Recovery Rewards Program", a joint initiative of the U.S. Treasury, the U.S. Department of Justice and the State Department to offer rewards for information leading to "the seizure, restraint, or forfeiture of assets linked to foreign government corruption[60]."

37. New laws are already being considered in the U.S. Congress, including the "Klepto Act", bipartisan legislation which aims to provide "law enforcement with the information required to track down kleptocrats' luxury assets in the U.S. financial system[51]," and the "Asset Seizure for Ukraine Reconstruction Act" which would "enable the seizure and sale of Russian oligarchs' assets to support humanitarian efforts in Ukraine[61]."

38. The Biden 2023 budget proposal includes a 30 percent increase in funding for FinCEN (the Financial Crimes Enforcement Network, their key financial intelligence unit) and increases by up to 50% in staffing[53]. The case is being made to increase this further, for instance to ensure small business owners are helped to meet their obligations[62].

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