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East European criminals and corrupt politicians have found in offshore havens a tool so perfect that it has permanently changed how business is done in the region. By using offshore laws that stress secrecy over everything else including crime prevention, they have been able to set up networks of offshore companies where they can hide their assets from police, launder their money and evade taxes all at the same time.

They have learned the arcane business art of forming offshore companies – firms registered in another county by a non-resident – then hiding behind proxies and complicated nested business structures that stretch across continents.

Criminals in the Balkans have used offshore companies as fronts for drug trafficking, money laundering, weapon smuggling, monopolizing industries, privatization fraud and corrupting politicians and government officials. Worldwide, they are used by Mexican drug lords to launder money, terrorism groups to wage war, Iran and North Korea to evade sanctions and run guns and a host of other criminal acts yet undiscovered.

According to the Tax Justice Network, more than \$250 billion is lost each year in tax revenues from wealthy individuals and criminals who hide their money in offshore accounts. That is money that by rights should be going toward better education, health care and infrastructure. On top of that, around \$1 trillion -- often money that corrupt leaders have stolen -- flows out of developing countries into offshore accounts and wealthy banking centers.

“Whether it was logging, or diamonds, or oil, we realized it was a missing link – in every single dirty deal we ever looked at, there was a bank and a front company in a secrecy jurisdiction, or more than one,” said Anthea Lawson, head of the Kleptocracy Team at London-based watchdog Global Witness.

Law enforcement does not do well in catching and charging those who use offshore havens to commit crime. Their hands, they say, are tied by business-friendly laws in offshore havens that guarantee secrecy and are seemingly designed to evade taxes.

### **The Criminal Services Industry**

“I don’t know a single big business in Ukraine, which is owned transparently, without using non-resident companies,” said Yaroslav Lomakin, who started Honest & Bright a Moscow consulting firm. Lomakin himself has been in the business of registering offshore companies.

According to the Ukraine’s State Tax Administration, trade with offshore locations grew 54 percent to \$1.6 billion in the first half of 2010. Three quarters of that trade was with the British Virgin Islands which accounted for almost 5 percent of all Ukraine’s exports.

Ukraine is typical of countries in Eastern Europe and the Balkans where a team of six reporters from the Organized Crime and Corruption Project (OCCRP) found hundreds of large companies registered in offshore locations. Each country has a robust industry that sells offshore services to businesses and individuals. ( [See Sides Story on Ukraine Offshore Sales Meeting](#) ). It is a mundane industry filled with accountants, company formation agents and lawyers who spend their time devising complex schemes for hiding the real ownership of companies or assets.

The real product of this industry is a sinister secrecy. The workers of this offshore registry business arrange for the proxies or the bearer shares used to hide the real owners. ( [See Story on How to Hide Assets](#)

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They care little who they are working for and are careful not to ask.

### **Law enforcement experts call it the Criminal Services Industry.**

“A company is basically an alternative identity. If you form a company for one or two thousand dollars, ... it can’t be linked back to



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