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Investigations Subcommittee Holds Hearing on Keeping Foreign Corruption Out of the United States: Four Case Histories

WASHINGTON – Corrupt foreign officials and their relatives have used gaps in U.S. law and the assistance of U.S. professionals to funnel millions of dollars in illicit money into the United States, **an investigation by the Senate's Permanent Subcommittee on Investigations** has found. [PDF]

"For the United States, which has so much riding on global stability, corruption is a direct threat to our national interest," said Sen. Carl Levin, D-Mich., subcommittee chairman. "That's why the United States is engaged in a relentless, worldwide battle to stop the flow of illegal money into and within places like Iraq and Afghanistan. Laundered money is used to train and provide support for terrorists and terrorism. If we want to credibly lead efforts to stop illegal money abroad, we've got to stop it here at home as well."

A 330-page bipartisan report to be released by Levin and subcommittee ranking member Sen. Tom Coburn, R-Okla., at today's hearing shows that politically powerful foreign officials, and those close to them, have found ways to use the U.S. financial system to protect and enhance their ill-gotten gains. The report exposes how those powerful individuals – known internationally as "politically exposed persons" or PEPs – have used the services of U.S. lawyers, lobbyists, real estate and escrow agents, and other professionals who currently have no obligation under U.S. regulations to establish anti-money laundering ("AML") programs, know their customers, or evaluate the source of funds transferred into the United States. Banks, in contrast, are subject to AML obligations and for the most part have honored them. But glaring gaps have undermined the overall effectiveness of U.S. AML laws.

Four Case Histories. The report presents four case histories, each with multiple stories exposing the tactics being used by PEPs to use our financial system to protect and enhance their illicit funds. They include the following:

- **\$110 Million.** Teodoro Obiang, the 40- year old son of the President of Equatorial Guinea, is currently under investigation by the Justice Department for corruption and other misconduct. Between 2004 and 2008, Mr. Obiang used U.S. lawyers, bankers, and real estate and escrow agents to move more than \$110 million in suspect funds through U.S. bank accounts, including \$30 million to purchase a residence in Malibu and \$38.5 million to purchase an aircraft.

- **Third Party Accounts.** Mr. Obiang used shell company, attorney-client, and law office accounts controlled by his attorneys to bring suspect funds into the United States and conduct transactions through U.S. banks without their knowing of his activity, including at banks that had made it clear they did not want his business.
- **Lost Escrow Business.** An escrow agent who refused to complete the purchase of a \$38.5 million Gulfstream jet without information on the source of the funds being supplied by Mr. Obiang, lost out to a competitor willing to complete the transaction with no questions asked.
- **\$18 Million Through Lobbyist Account.** Omar Bongo, President of Gabon for 41 years until his death last year, and his eldest son, Ali Bongo, Minister of Defense until he took his father's place as President of the country, amassed substantial wealth while in office, amid the extreme poverty of its citizens. In 2006, \$18 million in funds from Gabon were wired to the U.S. corporate bank accounts of a U.S. lobbyist who then distributed the funds within the United States and across the globe as directed by President Bongo in connection with two projects to support his regime, buying U.S.-made armored cars and C-130 military cargo planes. Among the funds the lobbyist distributed was \$9.2 million which he wire transferred to an account for President Omar Bongo – not in Gabon – but in the country of Malta.
- **\$1 Million Shrink Wrapped.** In 2007, President Omar Bongo brought \$1 million in shrink- wrapped \$100 bills into the United States under cover of diplomatic immunity without declaring the cash to U.S. authorities as required by law. His daughter, who told her bank that she was an unemployed student, deposited the cash in a U.S. safe deposit box and later into her bank account.
- **U.S. Trust Accounts.** President Ali Bongo's wife formed a U.S. trust under her maiden name, and used the trust to open U.S. bank and securities accounts in California.
- **Offshore Wire Transfers.** Jennifer Douglas, a U.S. citizen and the fourth wife of Atiku Abubakar, former Vice President and former presidential candidate in Nigeria, helped her husband bring more than \$40 million in suspect funds into the United States from 2000 to 2008, through wire transfers from offshore corporations. The Securities and Exchange Commission has alleged in a 2008 civil complaint that Ms. Douglas received \$2.8 million in bribe payments from a German conglomerate, Siemens AG, which has acknowledged making the payments.
- **Arms Dealer.** Pierre Falcone, a notorious Angolan arms dealer with a history of run-ins with the law and who is currently serving a 6-year prison sentence, had open access to more than 30 U.S. bank accounts in Arizona for 18 years.
- **Central Banker.** Aguinaldo Jaime, former head of the Central Bank of Angola, tried twice to transfer \$50 million in Angolan government funds to a private account in the United States, only to have the transfers reversed by U.S. financial institutions who became suspicious. The corruption concerns raised by his actions caused Citibank to

close all accounts for Angolan government agencies and to close down its office in Angola.

- **Private Angolan Bank.** Banco Africano Investimentos ("BAI"), a \$7 billion private Angolan bank which caters to PEPs, gained access to the U.S. financial system through HSBC in New York, despite troubling information about its ownership and failure to provide a copy of its anti-money laundering policies and procedures.

Recommendations. To combat the abuses, the report makes several recommendations, including:

- **World Bank PEP Controls.** Implementing stronger controls on PEP accounts as laid out in a recent World Bank report, including by requiring banks to use reliable databases to screen clients for PEPs, requiring beneficial ownership forms for bank accounts so hidden PEPs are exposed, and conducting annual reviews of PEP accounts to detect suspicious activity.
- **Beneficial Owners.** Requiring U.S. corporations to identify their beneficial owners, in order to thwart the use of shell companies with hidden PEP owners.
- **Ending Exemptions.** Ending the exemptions Treasury granted in 2002 to the Patriot Act's anti-money laundering requirements, so that real estate and escrow agents will have to know their customers, evaluate the source of their funds, and turn away suspect clients. Also requiring Treasury to instruct banks to subject attorney-client and law office accounts to greater oversight and stop their use to shield PEPs from scrutiny.
- **Immigration and Visa Criteria.** Toughening immigration and visa rules to make foreign corruption a legal basis for barring entry into the United States and for removing PEPs already here. Increasing law enforcement support for Presidential Proclamation 7750 to identify corrupt foreign officials who should be barred from the United States.
- **Stronger FATF Recommendations.** Encouraging U.S. professional organizations to issue anti-money laundering and anti-corruption guidance to their members.

"Stopping the flow of illegal money is critical, because foreign corruption damages civil society, undermines the rule of law, and threatens our security," said Levin.