



FOR IMMEDIATE RELEASE

February 4, 2010

Contact: Tara Andringa 202-228-3685

tara_andringa@levin.senate.gov

**Opening Statement of Sen. Carl Levin
Permanent Subcommittee on Investigations Hearing on
Keeping Foreign Corruption Out of the United States:
Four Case Histories**

Corruption is a cancer that corrodes the rule of law, undermines economic development, and eats away at the fabric of civil society. In extreme cases, corruption can destabilize communities, and lead to failed states, lawlessness, and terrorism. For the United States, which has so much riding on global stability, corruption is a direct threat to our national interests.

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. The fact is that those engaged in large-scale corruption want to put their money in a modern financial system that can store, protect, invest, and transfer their funds efficiently. They want access to U.S. banks. And it is our job to stop them and keep foreign corruption out of the United States.

As the report we are releasing today shows, it's not an easy job. With the help of U.S. lawyers, real estate and escrow agents, lobbyists, and others, 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. While U.S. financial institutions have become more vigilant and built stronger barriers to keep out suspect funds, their anti-money laundering safeguards still have holes.

Our report presents four case studies exposing how politically powerful individuals --known internationally as "politically exposed persons" or PEPs -- are taking advantage of the U.S. financial system. In each case, weaknesses in our financial regulations have allowed these PEPs to move millions of dollars into or through U.S. bank accounts, often by using shell company accounts, attorney-client accounts, escrow accounts, or other accounts, or by sending wire transfers that shoot through the system before our banks react. In addition to exposing these tactics, our report offers a number of recommendations to stop the abuses, which I will get to in a minute.

In conducting our investigation, the Subcommittee conducted more than 100 interviews, viewed millions of pages of documents, and traced millions of dollars. The stories we uncovered are striking in their misuse of our financial system.

Start with Teodoro Obiang, the 40-year old son of the President of Equatorial Guinea who 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 \$100 million in suspect funds through U.S. bank accounts. And he did it even at U.S. banks that had made it clear they didn't want his business.

With the help of two lawyers, Michael Berger and George Nagler, for example, Mr. Obiang created five U.S. shell companies with names like Beautiful Vision, Unlimited Horizon, and Sweet Pink. His lawyers then opened accounts for those shell companies at multiple U.S. banks, and used them to transact business for Mr. Obiang. In addition, Mr. Obiang wired millions of dollars from Equatorial Guinea into his attorneys' own law office and attorney-client accounts which they then used to transact business on his behalf, all without alerting the host bank. His attorneys became hidden conduits for his suspect funds which most U.S. banks would be unwilling to accept.

At the same time, two real estate agents, Neal Baddin and John Kerrigan, helped Mr. Obiang buy and sell California real estate, including a \$30 million Malibu residence which he paid for by wiring cash from Equatorial Guinea to the U.S. bank account of the escrow agent, First American. Mr. Obiang also bought a \$38.5 million U.S.-built Gulfstream jet. When one U.S. escrow agent, as an anti-money laundering precaution, refused to proceed until it had more information on the source of Mr. Obiang's funds, another escrow agent, Insured Aircraft Title Services Inc., stepped in and completed the transaction with no questions asked. U.S. regulations currently exempt both real estate and escrow agents from any requirement to establish anti-money laundering programs, a loophole through which Mr. Obiang poured millions of dollars in suspect money.

Consider next 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. Both men are notorious for accumulating massive wealth while in office in a country known for poverty.

From 2003 until at least 2007, President Omar Bongo hired a U.S. lobbyist, Jeffrey Birrell, to buy U.S.-made armored vehicles and to obtain U.S. government permission to buy six C-130 military cargo aircraft from Saudi Arabia to support his regime. In connection with those projects, more than \$18 million was wire transferred from Gabon into Mr. Birrell's U.S. corporate bank accounts. Part of that money came from President Bongo's personal account; most came from an entity in Gabon called "Ayira." At President Bongo's direction, Mr. Birrell spent millions of dollars of the Gabon money on the armored car and aircraft projects, including wiring more than \$1 million to various "consultants" around the world and at least another \$4 million to a Bongo advisor with accounts in Brussels and Paris. When the aircraft deal fell through, Mr. Birrell wired \$9.2 million of the Ayira money to an account in President Bongo's name – not in Gabon – but in the country of Malta. In short, his corporate bank accounts became conduits for multi-million-dollar suspicious wire transfers directed by President Omar Bongo through the U.S. financial system.

There's more. Between 2000 and 2007, President Omar Bongo provided large amounts of cash to his daughter, Yamilee Bongo-Astier, who was then living in New York and who stashed the money in accounts and safe-deposit boxes at New York banks. These banks were told by Ms. Bongo-Astier that she was an unemployed student, and the databases they used didn't identify

her as a PEP. The banks allowed multiple large cash deposits and offshore wire transfers into her accounts. One bank finally called it quits after a \$183,000 wire transfer from Gabon. Another did so after it discovered she had \$1 million in shrink-wrapped \$100 bills in her safe deposit box, money which she said her father had brought into the country under his diplomatic status in 2007, without declaring it as required by law. The Subcommittee double-checked and confirmed that no declaration was filed by President Bongo for the \$1 million in shrink-wrapped bills. Another relative, Inge Collins Bongo, wife to the current President Ali Bongo, established a U.S. trust in her maiden name, opened U.S. bank accounts in the name of that trust, and brought in millions of dollars in suspect funds into the United States without the banks realizing her PEP status.

Our third case history examines Jennifer Douglas, a U.S. citizen and a wife of Atiku Abubakar, former Vice President and former presidential candidate in Nigeria. From 2000 to 2008, she helped her husband bring more than \$40 million in suspect money into the United States through wire transfers from offshore corporations. Ms. Douglas is alleged in a 2008 civil complaint filed by the Securities and Exchange Commission to have received \$2.8 million in bribe payments from a German conglomerate, Siemens AG. Siemens has pleaded guilty to criminal charges and settled civil charges related to the Foreign Corrupt Practices Act, and told the Subcommittee that it sent payments to her account at Citibank. The Subcommittee located three wire transfers substantiating \$1.7 million in payments from Siemens to Ms. Douglas in 2001 and 2002.

Of the \$40 million, the Subcommittee traced nearly \$25 million in offshore wire transfers into U.S. accounts controlled by Ms. Douglas, provided primarily by three offshore corporations called LetsGo, Sima Holdings, and Guernsey Trust Company. The five banks holding her accounts were generally unaware of Ms. Douglas' PEP status, and did not subject her accounts to enhanced monitoring, despite multiple, incoming wire transfers from Switzerland and Nigeria. One bank took seven years to find out she was a PEP; after it did, it reviewed her account activity and closed her accounts.

The last of our case histories involves Angola and targets accounts used by an Angolan arms dealer, the former head of the Angolan Central Bank, and a private bank that caters to PEPs. Pierre Falcone is a notorious arms dealer who is a close associate of Angolan President Jose Eduardo Dos Santos, having supplied him with weapons during Angola's civil war in violation of the U.N. arms embargo. He has a long history of run-ins with the law, was incarcerated for a year in 2000, was a fugitive from a 2004 global arrest warrant, and is now serving a 6-year prison term in France. Yet between 1989 and 2007, Mr. Falcone had more than 30 U.S. accounts at a Bank of America branch in Scottsdale, Arizona. Bank of America never designated him a PEP even though he was an Angolan Ambassador, and never designated his accounts at high-risk of money laundering, despite the rivers of offshore money moving through them.

A second Angolan, Aguinaldo Jaime, was head of Angola's Central Bank in 2002, when he tried twice to transfer \$50 million in Angolan government funds to private U.S. accounts. The transfers were initially allowed, then reversed when bank or securities firm personnel got suspicious. As a result of those transfers and the corruption concerns they raised, Citibank closed its accounts for the Angolan central bank and all other Angolan government entities. In contrast, another bank testifying here today, HSBC, not only continues to provide U.S. correspondent accounts to the Angolan Central Bank, but also may be supplying the Central Bank with offshore accounts in the Bahamas. A Central Bank of a nation with offshore accounts? That's a new one on me.

Finally, Banco Africano de Investimentos, or BAI, is a \$7 billion Angolan private bank whose largest shareholder is Angola's state-owned oil company and which caters to PEP clients. Over the last decade, BAI has gained access to the U.S. financial system through accounts at HSBC in New York. Despite the presence of PEPs in BAI's management and clientele, and despite the fact that BAI has hidden owners and has failed to provide a copy of its anti-money laundering procedures to HSBC despite multiple requests, HSBC continues to provide the BAI bank with ready access to the U.S. financial system.

How can the United States tell other countries to stop the flow of illegal money, when we don't do a better job of it within our own borders? Each of these case studies exposes loopholes and gaps in our financial regulations that have been exploited to hide, launder, and invest foreign corruption proceeds in the United States.

It doesn't have to be that way. There is a lot more that can be done to combat foreign corruption. The first step is to implement stronger PEP controls as laid out in a recent World Bank report. That includes requiring banks to use reliable databases to screen clients for PEPs, requiring beneficial ownership forms for all accounts so hidden PEPs are exposed, and conducting annual reviews of PEP accounts to detect suspicious activity. A related measure, which this Subcommittee has been pushing for years, is to require persons setting up U.S. shell companies to identify the beneficial owners to the states handling the incorporations.

Equally important is for Treasury to revoke the exemptions it granted back 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. Treasury also needs to address the misuse of attorney-client and law office accounts by requiring banks to treat them as high risk accounts and get certifications that the accounts won't be used to circumvent bank controls. In addition, banks need to take additional measures to strengthen oversight of foreign wire transfers.

Other important steps include strengthening our visa and immigration policies to make foreign corruption a legal basis for keeping out or removing a PEP from the United States; strengthening the work under Presidential Proclamation 7750 to identify corrupt foreign officials; and working with our international partners to beef up the anti-corruption provisions in the Financial Action Task Force's anti-money laundering standards. Still another key action is to enlist the private sector in the battle against corruption, by having U.S. professional organizations issue formal anti-money laundering guidance to their members, including attorneys, real estate and escrow agents, lobbyists, university officials, and others, prohibiting them from facilitating suspicious transactions for PEPs or anyone else.

Stopping the flow of illegal money is critical, because foreign corruption damages civil society, undermines the rule of law, and threatens our security. I would like to thank my Ranking Member, Senator Coburn, and his staff for joining with us in this effort and turn to him now for his opening remarks.

###