European Parliament

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT A
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Offshore activities and money laundering: recent findings and challenges

Study for the PANA Committee

EN

2017

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Offshore activities and money laundering: recent findings and challenges

STUDY

Abstract

The Panama papers and further leaks revealed that money laundering and tax evasion are important issues, which often go hand in hand. The major role of offshore centres is to provide secrecy. With this, offshore centres played an important role for hiding illegal activities, criminal identity and criminal ownership of assets right from their start. In the last years, combating tax evasion and money laundering have become politically more important. A 'hot phase of regulation' has started initiated from the US. The paper argues that Europe has to find its own European way of creating compliance among its member states. For this, creating transparency with regard to bank registers, beneficial ownership, tax accounts and criminal investigations is important. The regulation of European offshore centres would be a first promising step. A homogenous European anti-money laundering and anti-tax evasion policy would need a differentiated EU approach for different groups of Member States and not a one size fits all approach.

This publication was managed by the Policy Department on Economic and Scientific Policies for the Committee on Money laundering, tax avoidance and tax evasion (PANA).

IP/A/PANA/2016-04 March 2017

PE 595.371 EN

This document was requested by the European Parliament's Panama Inquiry Committee.

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LINGUISTIC VERSIONS

Original: EN

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Manuscript completed in February 2017

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CONTENTS

EXECUTIVE SUMMARY

- The paper studies money laundering techniques and the involvement of offshore centres, both for legal purposes (like tax avoidance) and for illegal purposes (like tax evasion and money laundering). It shows how much money is laundered and where. It gives an overview over anti-money laundering policies in the EU Member States and gives policy advice on how to reduce tax evasion and money laundering.
- Money laundering, that is disguising the proceeds from criminal activity, by bringing them back into the legal financial circuit, can take many forms. Bank transactions still play a dominant role for laundering. But also trade-based money laundering through fake invoices for exports and imports is on the rise. Furthermore, setting up shell companies, companies without any economic activity, is a popular way of transferring large amounts of money.
- Between 1.5 trillion USD and 2.8 trillion USD or between 2% and 5% of GDP worldwide is lost annually through money laundering (see diverse estimates quoted in this paper).
- Many steps to fight money laundering have been undertaken in Europe, such as the four EU Anti Money Laundering Directives. Also many tax evasion and tax avoidance regulations took place recently. The Fourth EU Anti Money Laundering Directive 2015 includes tax crime as a predicate crime for money laundering. With this the EU emphasizes that tax evasion is a serious crime, similar to drug dealing, corruption, weapon and human trafficking. However, there are still loopholes in combating tax evasion, which are meticulously studied and detected by professional groups. Specifically employed for this purpose, banks, tax advisor offices, accountants, and lawyers are eagerly busy to detect loopholes. Large companies, wealthy individuals and criminals all profit from those loopholes due to inconsistent bilateral tax treatises, too little transparency in the international tax system, lack of identifying beneficial owners and lack of sharing data and information about bank accounts.
- Combating money laundering and tax evasion can be done in several ways. One way is to put higher sanctions and involve more executive resources (the stick method). The US clearly follows this approach. Another way is to create compliance of the many actors involved in anti-money laundering policy: governments, banks, and facilitators like lawyers, notaries, real estate agents, policemen, and supervisors. This is a more ambitious but in the long run more promising approach. It aims at creating compliance through searching for different incentives for obliged entities, trough whitelists and positive naming of successful combats (the carrot method). A third way is that the regulator has enough information, to 'invite' the actors to comply by showing that he possesses the information necessary to detect tax crime. The Dutch tax authorities, for example, pre fill-in the tax sheet of the citizens, showing that they know the amount of money on their bank account, their house value, their mortgages, their financial assets etc. Citizens can correct these numbers by giving proof that they differ. But there is not much space left for cheating. Only about foreign assets the Dutch authorities do not know enough. If one could create a European wide transparent tax declaration system, many loopholes for evading taxes would automatically be closed.
- European countries differ a lot with regard to their acceptance of sharing information and to privacy issues. Partly due to their legal system, partly due to their historical experience with authoritarian regimes which abused information, partly due to both, the willingness to give up privacy is limited. There is a clear trade-off between protecting privacy and fighting money laundering and tax evasion. The more

transparency, the less laundering and tax evasion will occur. But privacy is a privilege which not all citizens enjoy. The ‘poor’ get checked on the number of tooth brushes in their private bathroom, when being controlled for eligibility to social assistance, and homeless people often suffer from a lack of space for privacy. But privacy is also a privilege which not only dishonest people enjoy. It is a value of individualistic societies, so to all European countries (as opposed to group and tribal life) per se. Privacy regarding financial issues is a privilege which the ‘rich’ can enjoy definitely more than the 'poor' and should only be admitted, if it is not excessively abused to damage the public sector and endanger the financing of European welfare arrangements.

- New technologies, such as encrypted data, allow for sharing information without giving up confidentiality. The example of FIU.net in this study showed how FIUs can search whether other FIUs have information on their suspects without having to give up control over their data.
- At the moment there are ‘four Europe’ of Anti Money Laundering (AML) Policy. Countries which have legal problems to properly implement AML policy, countries which are internally politically divided which prevents a joint policy, countries which experience money laundering as a through flow and hence not as their own problem, and new Member States who have to catch up economically and more urgent problems than fighting money laundering. In order to converge to a joint anti-money laundering combat, the EU should target these four groups differently. Advanced countries have to train less advanced countries and must aim at creating a common understanding of the need for anti-money laundering. The EU regulator should create the most important precondition for a successful combat: namely transparency and easier information exchange between Member States. A transparent EU-wide accessible register of beneficial ownership, of bank accounts and of tax payment data, as well as pressure to close tax havens within the EU would help. New technologies such as encrypted data exchange make it possible to exchange information without losing control over who is using it.
- International pressure to close offshore centres should also be taken.
- Taxes are the price we pay for a civilized society, Oliver Wendell Holmes, judge of the American Supreme Court from 1902 to 1932 once said. Nowadays with trillions of USD worldwide losses from tax revenue through offshore activities, it ‘looks more as if the earth is partly steered from Mars’ (Zucman 2015). It is time to bring the Martians back to earth.
- For Europe, creating more transparency seems very important. This includes a harmonized way of how to identify national and sectoral money laundering risks; central bank registers; and central registers for identifying ultimate beneficial owners. As has been shown, European offshore centres are still the most important ones. So rather than focusing on small islands overseas, these loopholes in the anti-money laundering chain should be closed.

1. INTRODUCTION

The Panama papers and further leaks revealed that money laundering and tax evasion are an important issue, often underestimated by politicians. The major role of offshore centres is to provide secrecy. With this, offshore centres play an important role for hiding illegal activities, criminal identity and criminal ownership of assets.

Money laundering, disguising the proceeds from criminal activity, by bringing them back into the legal financial circuit, is a relatively new topic in politics. It started in the late 1980ies and referred first only to drug money. Later it was extended to proceeds from other predicate crimes like fraud, corruption, bribery, weapon and human trafficking. Today also tax crime is a predicate crime for money laundering. This makes offshore activities double interesting: first they can hide criminal proceeds of drugs, bribery and other crimes, but they can also serve to hide money from evaded taxes from honest business.

Offshore centres always had and still have the function of hiding activities. Their legal purpose is for companies who want to hide their activities from their competitors by going offshore. But this 'hiding' capacity also always invited illegal activities. Offshore centres were first mentioned in the 1920ies, when criminals like Al Capone brought their illegal proceeds from alcohol during the American prohibition (1920-1933) outside their US state to places like Delaware or New Jersey (van Koningsveld 2015). Al Capone was finally convicted for tax evasion (and though the term laundering is attributed to his launderettes not for money laundering). Offshore centres proved useful after World War II so that occupied zones (Germany, Austria) could do business overseas. Multinational Companies like Shell or Unilever could continue their business with this 'remote-access' instrument (van Koningsveld 2015). After the oil shock 1975 offshore centres for finance emerged which circumvented the regulations of (US and European) national central banks. Proceeds of OPEC countries from the sixteen times higher oil price, the so called Petro-dollars, were not reinvested in the US or Europe, but off the mainland in Bahrain etc. (see Scharpf and Schmidt 2000) This is why central bank lost control over financial flows which was the starting point for financial liberalization in the early 1980ies.

Today the term 'offshore' is used in two different ways. The first includes banking centers as the following definition reveals: "The term offshore is not necessarily restricted to tiny or remote islands. It can also be applied to any location (e.g. New Jersey, Delaware, City of London, Switzerland) that seeks to attract capital from non-residents by promising low/no taxes, low regulation, secrecy and confidentiality" (Prem Sikka 2003). The second definition excludes banking centres like City of London, Switzerland or Germany. Offshore centres are "jurisdictions that specialize in attracting the registration of investment vehicles with foreign sponsors." This definition focuses on shell companies, trusts, special purpose vehicles, and mutual funds (Meinzer 2016). Depending on the definition, there are between 20 (IMF 2014 definition), 40 (van Koningsveld), 69 (IMF 2000 definition) and 92 (see Palan, Murphy and Chavagneux 2013) offshore centres in the world. Estimates on the volume of offshore finance vary between 1 trillion and 21 trillion USD (van Koningsveld 2015, p.233).

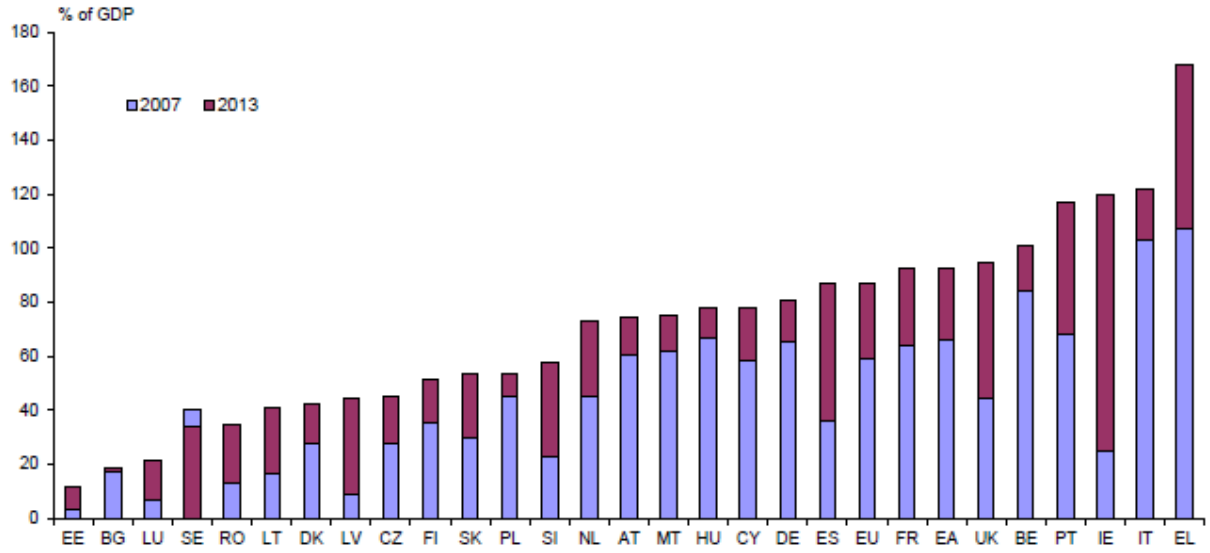
In the following, I will describe, (2) why offshore activities and money laundering are an issue. (3) how money is laundered and (4) where the laundered money goes. Part (5) will show different ways of how one can fight money laundering. Part (6) analyses potential remaining loopholes of the fourth EU anti-money laundering Directive. If furthermore estimates revenue losses for governments from tax evasion, in particular through offshore centres. Part (7), by referring to the Dutch study of Koningsveld (2015), shows that offshore centres are not only helping to evade or avoid taxes, but are definitely used by criminal organizations. Part (8) analyses the effectiveness of anti-money laundering policy

in EU Member States and identifies loopholes. Part (9) concludes with policy recommendations on how to tackle money laundering and tax evasion in the wake of the Panama leaks.

2. WHY MONEY LAUNDERING IS AN ISSUE

The financial crisis of 2008 has increased public debt in many countries in the world. All European countries (except Sweden) were hit quite severely. As Figure 1 shows, in some countries, like Ireland, Spain, Slovenia, Estonia and the UK public debt more than doubled between 2007 and 2013. Greece's public debt rocketed towards 180 percent of Gross Domestic Product. On average, public debt within the EU Member States increased by one fourth (see Figure 1).

Figure 1: Public debt in % of Gross Domestic Product before and after the financial crisis in the EU Member States



Notes: 2012 and 2013 are forecast data. Differences between the sum and the total of individual items are due to rounding.
Source: Commission services.

2.1. The financial crisis and some leaks

Many countries focused now on the tax revenue side in order to serve the increased public debt and the need of the population for public non-bank expenditures like infrastructure, housing and education. Many citizens had noticed this extreme and visible shift of spending from public goods towards the financial sector and perceived it as unfair. Whistle-blowers, some for moral reasons a la Robin Hood (like whistle-blower 'John Doe' of the Panama papers) some for commercial reasons a la Dagobert Duck (like the list of clients of Julius Bär Bank sold to German tax authorities) became active. Leaks in the internet repeatedly showed abuse of the tax system. The German tax authorities of North Rhine Westphalia bought up several CDs with the information of thousands of German 'Steuersünder' (tax sinners) in Switzerland and Luxembourg, Thomas Piketty's book, 'The Capital of the 21st century' showing extreme inequalities between financial capital and the real world, also raised the awareness that something seriously and systematically went wrong in the global financial system.

In 2011, the non-profit organisation Tax Justice Network announced, that 3.1 trillion USD were lost annually by tax evasion and by tax avoidance of large companies due to secrecy havens (see www.taxjustice.net November 2011).

In the US, the Internal Revenue Service (see www.fortune.com from 29th of April 2016) calculates that tax evasion costs the US Government 458 billion USD a year.

In 2015, University of California, Berkeley professor Gabriel Zucman, published a widely noticed book 'The Hidden Wealth of Nations - The Scourge of Tax Havens '. He concluded that as of 2014, at least 7.6 trillion of world's total financial wealth of 95.5 trillion USD was 'missing'. Countries' national balance sheets recorded much more liabilities than assets. This means that the difference must be hidden somewhere. Zucman calculated that 2.6 trillion USD of financial wealth in Europe is held offshore, leading to tax revenue losses of 78 billion USD annually. Worldwide, 8% of financial wealth is held offshore, leading to global tax revenue losses of 190 billion USD (see Table 1). Next to the loss of tax income of 190 billion USD through tax evasion, he estimated losses of 130 billion USD through tax avoidance by US corporations (Zucman 2015). Inequality is rising, since especially less developed countries, in particular Africa, are over proportionally hit (see Table 1, where 30% of African financial wealth is held offshore leading to tax revenue losses of 14 billion USD). Zucman expressed his shock about what was going on globally by exclaiming: 'As if planet earth were in part held by Mars'.

His suspicion was definitely confirmed when the International Consortium of Investigative Journalists (ICIJ) in April 2015 revealed the 'Panama Papers' , consisting of 11.5 million leaked documents that showed financial and attorney–client information for more than 214,488 offshore entities. The documents belonged to the Panamanian law firm and corporate service provider Mossack Fonseca. ICIJ compiled the 2.6 terabyte leak in comprehensive overviews per country and made large parts publicly available, so that today every student and person interested can 'play' detecting offshore connections and networks by clicking https://offshoreleaks.icij.org.

Zucman's Martian men were systematically revealed: heads of governments, top politicians, football players and football managers, actresses, film makers; an elite which had apparently stopped paying taxes by making use of loopholes emerging in an unregulated global world. These elites used apparently the same offshore channels as drug dealers and human traffickers.

Table 1: Offshore wealth and tax evasion 2014

Region	Offshore Wealth in billion USD		Share if Financial Wealth held Offshore		Tax Revenue Loss in billion USD
Europe	2,600		10%		78
United States	1,200		4%		35
Asia	1,300		4%		34
Latin America	700		22%		21
Africa	500		30%		14
Canada	300		9%		6
Russia	200		52%		1
Gulf countries	800		57%		0
Total	7,600		8%		190

Source: Zucman, Gabriel (2015)

It was this latter clientele, drug dealers, fraudsters, human traffickers, to which the money laundering debate referred to. In 1995, the Australian criminologist John Walker estimated that 2.85 trillion USD is laundered globally, of which almost half (46%) in the US. In 1998, Michel Camdessus from the IMF guessed that around 2-5% of GDP worldwide are lost

annually through money laundering. Camdessus' estimate amounts to 1.5 trillion USD worldwide (see Unger et al 2006, Walker and Unger 2009). Many estimates followed. Though no calculations of Camdessus could be found, his 'wet finger' approach has turned out valid and could not be rejected by far more sophisticated measures.

Since money launderers and tax evaders both used offshore centers to hide their identity and business, it was only a matter of time that the two fields – tax evasion and money laundering – would merge.

2.2. From a cold to a hot phase of regulation

The regulation of both money laundering and tax evasion started both in the 1990ies and were both pushed by the United States (see Appendix 1 on the Timeline of Anti Money Laundering Regulation). Money laundering regulation originally was meant as an alternative to fight drugs. Before 1922, the use of drugs was not criminalized in the US. Coca Cola, for example, contained – as the name coca still indicates - cocaine in order to cheer you up. However, the criminalization of drug abuse in the US in 1922 was followed by several decades of unsuccessful efforts to reduce drug trafficking. In a renewed attempt to win the 'war on drugs', the Clinton regime focused on a new strategy: following the drugs money and stripping criminals of their proceeds from crime. *"If one could not get at drug dealers […], then at least they should be discouraged by the realization that they could not reap the monetary benefits of their acts."* (Unger, 2013, p.53). In 1986, the US established the first Money Laundering Control Act (1986) that established money laundering as a federal crime.

Already in 1989 the Financial Action Task Force was founded at the pressure of the United States. The EU so far only transposed the recommendations of the Financial Action Task Force (FATF) - an inter-governmental organization created by the G-7 in 1989 to coordinate global efforts on money laundering. Contrary to other policy fields (e.g. food standards) Europe did not take a lead here but was a follower.

Appendix 1 shows the relevant legislation for the US, the International Conventions and Financial Action Task Force Recommendations and the EU regulations. For Europe the following EU Directives show the enlargement of scope of anti-money laundering regulation from combating drug offences (1st AML Directive in 1991), to including other crimes like fraud and corruption (2nd AML Directive in 2001), to terrorist financing (3rd AML Directive in 2005) and tax crime (4th AML Directive in 2015).

EU Council Directive 91/308/EEC of 10 June 1991 on prevention of the use of the financial system for the purpose of money laundering defined **money laundering in terms of drugs offences** and imposed obligations solely on the financial sector. (1st AML Directive)

Directive 2001/97/EC of the European Parliament and of the Council **extended the scope** of Directive 91/308/EEC both i**n terms of the crimes covered and in terms of the range of professions** and activities covered. (2nd AML Directive). Reporting requirements were expanded to include trust companies, financing companies, and commercial dealers of high-value goods. Also notaries, lawyers, real estate agents/intermediaries, accountants, business economic consultants, independent legal advisers, trust companies and other providers of trust related services, and tax advisors were added. In the Netherlands, reporting entities that fail to file reports could be fined 11,250 Euros, or be imprisoned for up to two years.

- Directive 2005/60/EC of the European Parliament and of the Council on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (2005) included the FATF recommendations of 2003 and included terrorist financing. (3rd AMl Directive)

- Commission Directive 2006/70/EC of 1 August 2006 laying down implementing measures for Directive 2005/60/EC of the European Parliament and of the Council as regards the definition of politically exposed person and the technical criteria for simplified customer due diligence procedures.
- Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. This 4th AML Directive takes into account the latest recommendations of the Financial Action Task Force (''FATF') from 2012. Point 11 of the Directive stresses that it is important expressly to highlight that 'tax crimes' relating to direct and indirect taxes are included in the broad definition of 'criminal activity' in this Directive, in line with the revised FATF Recommendations.

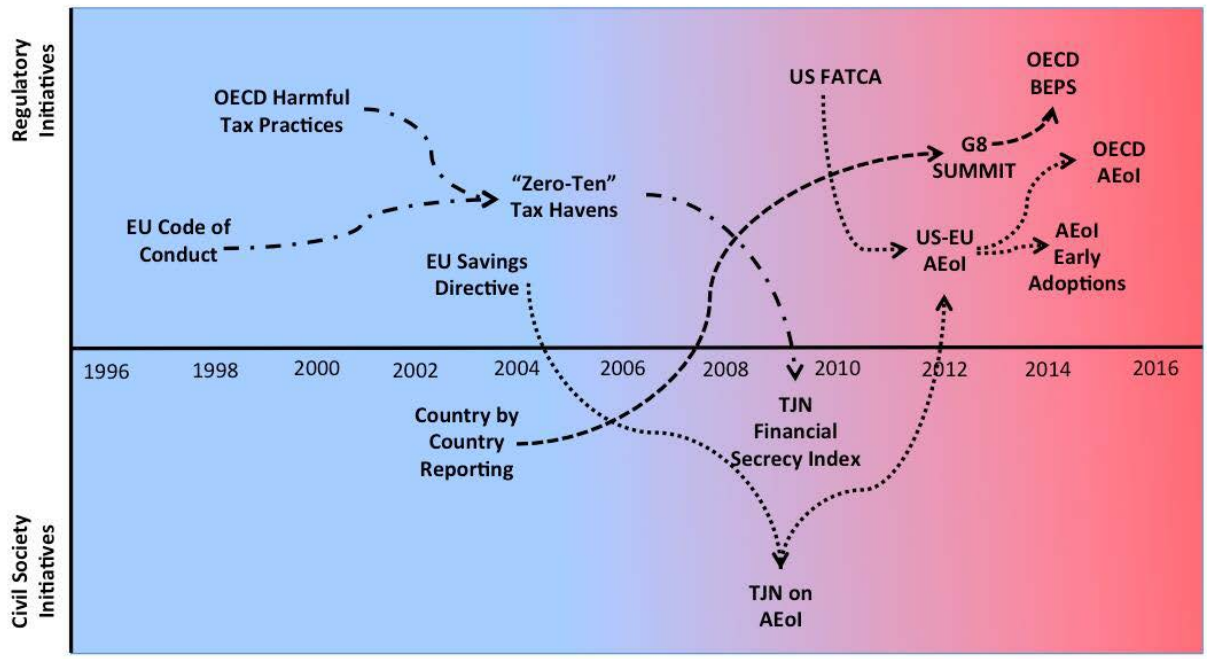
Tax regulations happened slightly later. From 1996 to the Financial Crisis in 2008 a 'cold area of regulation' took place. Many initiatives were taken but did not really work out. The initiatives were driven by the G7 and delegated to international organizations such as the OECD and the International Monetary Fund (IMF). The OECD developed its campaign against harmful tax competition. The Financial Stability Forum tackled financial stability.

Parallel to the OECD's report on harmful tax competition, the EU agreed in 1997 to a package of measures to tackle harmful tax competition within the Union, including a Code of Conduct on business taxation (Sharman 2006, Cattoir 2006, Radaelli 2003).What followed was action on the taxation of savings income.

Figure 2 shows initiatives for tax fraud regulation initiated both from civil society, like the Tax Justice Network, and from regulators from 1996 till 2016. Starting on the left we have the initial interventions from the EU with the formation of the Code of Conduct group and from the OECD with the launch of the Harmful Tax Competition report. These initiatives attracted heavy criticism from civil society and led to the launch of the Financial Secrecy Index, which proved powerful for transparency. The initial Savings Tax Directive, although path-breaking, was considered flaw by design. Given the shift to a fast-burning and hot policy environment, disappointment with the impact of Savings Tax Directive and the hypocrisy of some EU members led to a push from civil society for more effective Automatic Exchange of Information (AEoI).

Ultimately, the United States made the first move with the Foreign Account Tax Compliance Act (FATCA). However, this was a limited and unilateral initiative designed to protect US revenue and required multilateral development. EU Member States were quick to sign up to FATCA and a conjuncture between the US move and rising concerns within the EU led to the adoption of more comprehensive AEoI in a reinforced Savings Tax Directive and then a multilateral instrument promoted by the OECD. Next, is the innovation of a template for Country-by-Country Reporting (CBCR) by the Tax Justice Network, which in the slow-burning phase, met on deaf ears. Under pressure from the G8, when the issue of corporate tax abuse had become a hot political issue, CBCR was adopted by the OECD in its Base Erosion and Profit Shifting (BEPS) initiative and pushed into EU legislation targeting banks and the extractives sector. This provides only a snapshot of some recent initiatives, but this brief illustration of the evolutionary patterns of policy development, from slow to fast and cold to hot. At the moment, many initiatives are present at the same time. The EU Horizon Project COFFERS (2016) analyses whether they are compatible and which new loopholes might emerge.

Figure 2: The evolution of tax evasion regulation 1996-2016



Source: COFFERS (2016)

The financial crisis of 2007-8 stimulated the development of a second, intensive phase in the battle against tax abuse. Mass protests in the USA, UK and other cities had popularized and politicized sentiment on corporate tax avoidance. The onset of austerity in the wake of the on-going impact of the global financial crisis had made tax revenue a scarce and desirable commodity to politicians around the world, especially if recoverable from outside their own jurisdictions, and the impact was seen in the agenda of the G8. A new era of measures aimed at targeting tax abuse had begun[1]. With the Fourth EU AML Directive in 2015 anti-tax evasion and anti-money laundering policy merged.

[1] For the development of the international fiscal regime see Eccleston, R. (2012). *The Dynamics of Global Economic Governance: The OECD, the Financial Crisis and the Politics of International Tax Cooperation*. Cheltenham: Edward Elgar; Palan, R. and D. Wigan (2014). Herding Cats and Taming Tax Havens: The US Strategy of 'Not In My Backyard', *Global Policy*, 5, 3, 334-343.

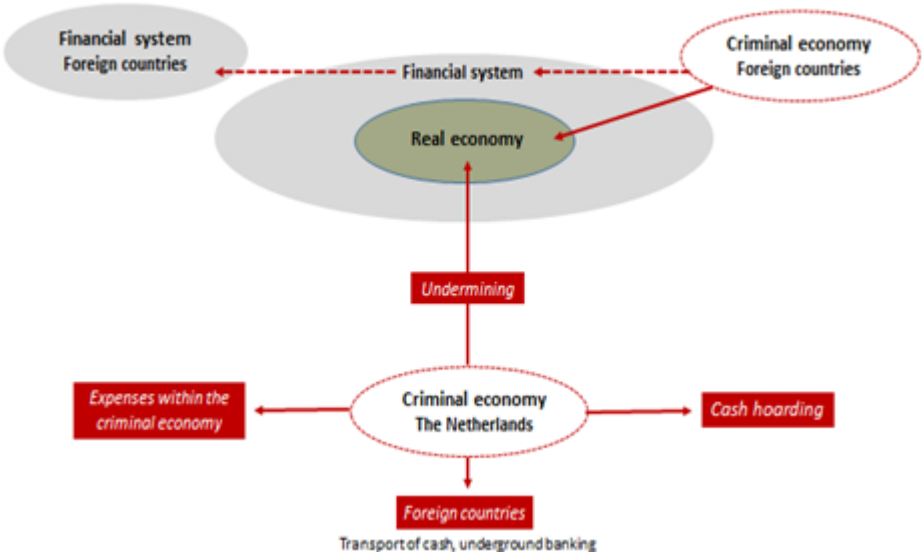
3. HOW MONEY IS LAUNDERED

3.1. Where the criminal money goes

Criminal activities and illegal money can be produced domestically (in Figure 4 the Netherlands stands for the 'domestic' country) and they can come from foreign countries. Money from the domestic criminal economy can be hoarded as cash, can be used for expenses within the criminal economy (for buying drugs or weapons), and can be smuggled to foreign countries, either by transportation of cash by couriers or by underground banking. In the latter case, the criminal brings the cash money to an underground banker in the Netherlands. One phone call of an underground banker in the Netherlands to an underground banker in Suriname is sufficient to pay the money there out in cash. This takes less than a minute. (see Unger et al 2006, The Dutch Suriname Corridor, World Bank Study). The criminal money can also be invested in the real economy. By setting up business in the transport sector in order to transport drugs, or in the restaurant sector to mix legal proceeds with criminal money, criminals can undermine the real economy. They do not have to make profits and can compete out honest business.

Criminal money coming from abroad (see Figure 4 right top) can either flow through the financial system of the country, by using for example the financial services of the respective country, or it can settle down. Organized crime from abroad can infiltrate the real economy of a country. As long as money laundering consists only as through flow for a country, it is difficult to convince politicians that this is a problem that has to be tackled. The country itself does not bear the burden, or it might even profit from the through flow (for example jobs for the financial service sector, tax receipts from the through flow money). One problem in the money laundering debate is that many countries (EU Member States) think that the harms of money laundering are small and that the through flow of criminal money does not bring harm to them. However, the financial system risks ruin of reputation and once criminals invest in the domestic economy, this becomes a domestic problem as well.

Figure 3: Where the criminal money goes



Source: WODC Project (2017)

3.2. Money Laundering Techniques

The FATF has identified three main methods by which criminal organizations and terrorist financiers move money for the purpose of disguising its origin and to integrate it into the formal economy. These methods involve:

- the use of the financial system (either the formal one, like banks or money transfer offices or by use of informal ones such as 'hawala')
- the physical movement of cash such as by the use of cash couriers or shipping containers
- what may be described in general terms as 'trade-based money laundering', disguising the origin of criminal money by hiding it in legal exports and imports of goods and services.

Money laundering techniques can be distinguished according to **the phase of laundering**. Figure 4 describes a simple laundering scheme. In the top left it shows a drug dealer sitting in his car and collecting small bills of money from his drug sales. He has to manage to bring these bills to a bank without raising the suspicion that it is drug money, or he can smuggle it out of the country, or he can mix it with legitimate business. (Al Capone used to mix his illegal proceeds from alcohol during the prohibition in the US with income from launderettes, that's where supposedly the expression 'money laundering' comes from (see Unger 2006). With this the drug dealer enters the first phase of money laundering

The first phase of money laundering occurs at placement where the proceeds of crime are deposited at a bank, smuggled over a border or infused with the turnover of a legitimate business. This phase can be called the placement or pre-wash phase. The second phase is the layering phase (the main wash) where money is circulated many times, either nationally or all over the globe to hide its illegal source. In this phase complicated financial constructions such as complicated hedging and derivative constructions can occur. It is this second phase where offshore centers play an important role. Our drug dealer in Figure 4 after having successfully deposited the drug money in a bank gets this money transferred to the bank account of company X. The money is then sent via wire transfer to an offshore centre correspondent bank in, say, Panama. The Panama bank gives company Y a loan, which pays for a false invoice from company X. Company X now has a legal receipt from company Y. So now the origin of this money, namely company X itself, is not traceable anymore. The more often the money gets transferred around the globe in the layering phase, the less traceable its criminal origins are. (see Unger et al 2006, Chapter 5)

The third phase is the reintegration phase, where the by now clean money is parked permanently, like in the bond market or in the real estate sector, buying companies or buying expensive cars and jewels. Criminals often like to permanently park their money to close where they live. The Turkish mafia invests at the Turkish Riviera, the Chinese mafia in China or in Chinese neighborhoods in the US or UK etc.

In the following discussion, a variety of techniques used during these three phases will be described. Quite a lot of techniques are not easily attributed to one laundering phase alone. They might be used in different phases of laundering. If this is the case, it will be indicated in the description of the techniques.

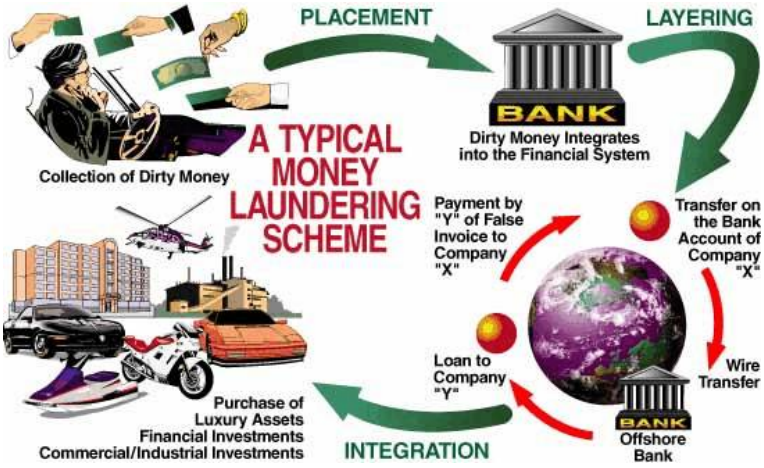
3.2.1. Laundering techniques in the placement phase

Smurfing and Structuring

As a first phase, Smurfing and Structuring (breaking up a large deposit into smaller deposits which helps avoid the currency transaction reporting requirements) takes place. If the reporting limit is say 10,000 Euros, launderers who do not want to risk reporting will

smurf that means put amounts up to 9,990 Euros on their accounts in order to stay slightly under the reporting mark.

Figure 4: The three phases of money laundering



Source: UNODC (2006), https://www.unodc.org/unodc/en/money-laundering/laundrycycle.html

Currency smuggling

This method refers to the physical movement of bulk currency across borders in order to disguise its source and ownership. A launderer smuggles ill-gotten cash into a country with lax money laundering laws. He then places it in a bank there. Very often it is deposited in an offshore bank account and eventually wired back at a later date. Smuggled cash has been found in bowling balls, coffins and scuba diving oxygen tanks of supposed tourists. But cash is heavy. If a drug trafficker sells heroin for one million dollars, he or she must transport 22 pounds of heroin, but then ends up with 250 pounds of currency (if there is an equal mix of 5, 10 and 20 dollar bills) (see Cuellar 2003, p.13). This means that there is great incentive to place money into the financial system or to use the cover of an existing cash-intensive business.

Travellers' cheques

The purchase of travellers' cheques with 'dirty money' is quite a lucrative laundering technique. The FATF has reported cases of purchase of large quantities of cheques for cash in several of the FATF member states. (FATF Report on Money Laundering Typologies, February, 2002)

Gambling, casinos

Casinos can be used for the first and third phase of money laundering. A launderer can clean cash by converting it into chips at a casino, and then exchanging it back into cash to deposit at a bank and have a cheque from the casino showing a legitimate transaction. In the third phase of laundering, the launderer can buy a casino. Casinos are a highly cash intensive business. The launderer can own a casino and claim that the large amounts of cash held are profits from the casino.

3.2.2. Laundering techniques in the layering phase Correspondent banking

Correspondent banking amounts to one bank (the 'correspondent bank') carrying out financial services for another bank (the 'respondent bank'). By establishing networks of a multitude of correspondent relationships at the international level, banks are able to undertake international financial transactions in jurisdictions where they do not have offices. The respondent bank can also be at some offshore centre, such as Cayman Islands; Panama or Seychelles, which are historically known for lax anti-money laundering

regulations. Evidently, these relationships are vulnerable to misuse for money laundering. The reason for this is the indirect character of this type of banking where the correspondent bank will carry out services for clients of another bank, the integrity of which it has not had verified beforehand by the correspondent bank. For example, Al Qaeda used the correspondent network of a Sudanese bank for cross border dealings. These cross border dealings included France's Credit Lyonnais and Germany's Commerzbank (see Busuoic 2006 in Unger 2006 Chapter 5)

Loan at low or no interest rates

A very easy method is to give interest-free loans. This allows the launderer to transfer large amounts of cash to other people and so avoid having to deposit the money into a bank or other institution. These loans will be paid back slowly, which avoids deposits hitting the reporting threshold. The receiver of the loan is likely to be aware of the dubious nature of the money, but will be put off from reporting it due to the benefits he receives from the preferential loan rates.

Back-to-back loans

Back-to-back loans are a construction used for currency hedging. They involve an arrangement in which two companies in different countries borrow each other's currency for a given period of time, in order to reduce foreign exchange risk for both of them. This hedging construction can also be used for laundering purposes. In the Netherlands, it is sometimes used when launderers want to buy real estate, which needs a Dutch bank guarantee. For example, a person takes cash to Paraguay and deposits it in a bank account there. This money is then transferred to Switzerland. The person then purchases real estate in the Netherlands using the bank deposit in Switzerland as a guarantee.

Money exchange offices

Money exchange offices are a legal way of exchanging money into the currency of choice.

Money exchange offices can also be abused regarding unauthorized money transfers. Most of the Surinamese Cambios, for example, are only authorized to do money exchange but not international money transfers. However, many of them do (see Unger and Siegel 2006). The drug dealer gives money to the Dutch underground banker in cash. The underground banker calls the Cambio in Suriname, who pays out the money in cash in Suriname. Since the drug business is running both ways quite well (cocaine versus ecstasy pills), clearing is not needed too often.

Money transfer offices

Money transfers via money transfer offices such as Western Union and MoneyGram seem to be important for money laundering, but small in size. The total amount of money transferred by the existing 30 Dutch money transfer offices is €325 million per year. According to Kleemans (2012), these relatively expensive money transfers are mainly used for smuggling illegal immigrants and women.

Insurance market

One way for the launderer to use the insurance market is to arrange insurance policies on assets, either real or phantom, through a dishonest or ignorant broker. Regular claims on this insurance can then be made to return the cash to the launderer.

Fictitious sales and purchases

This method entails the use of false sales and purchase orders. These can be with legitimate organizations that will have no knowledge that these purchase orders exist. Fictitious sales documents are created to explain the extra income showing in the accounts, which has come from illegal activities.

Shell companies

Shell companies are businesses without substance or commercial purpose and incorporated to conceal the true beneficial ownership of business accounts and assets owned (A number of shell companies are set up in countries known for strong bank secrecy laws or for lax enforcement of money laundering statutes. They can also be in the form of Special Purpose Entities (SPE's) or International Business Companies (IBC's). The dirty money is then circulated within these shell companies via two methods. The first is the loan-back system and the other is the double invoicing system. In the case of the loan-back method, the criminal sets up an offshore company and deposits the ill-gotten gains with the respective company, which subsequently returns the funds to the offender. Given that the ownership of offshore companies is very difficult to establish, it will appear as if a company is lending money to the criminal while in fact he is lending it to himself. The double invoicing system amounts to keeping two sets of books or false invoicing. Funds can be moved across borders through overcharging or undercharging imports and exports.

Trust offices

The term 'trust' refers to the ability of the institution's trust department to act as a trustee– someone who administers financial assets on behalf of another. The assets are typically held in the form of a trust, a legal instrument that spells out who the beneficiaries are and what the money can be spent for. Trust offices in the Netherlands are somewhat different. They provide services in the field of tax and law for foreign companies. The foreign companies do not run businesses in the Netherlands; they are only placed in the Netherlands because of tax advantages on royalties or worldwide dividends. The huge volume of transactions and the little knowledge on beneficial ownership makes these offices suspect of money laundering.

The role of special purpose entities (vehicles)

Special Purpose Entities (SPEs), also known as Special Purpose Vehicles, (SPVs) are companies settled in the Netherlands where non-Dutch resident participants are able to earn foreign income in the Netherlands and then to redistribute it to third countries For example: Esso collects the receipts from all over the world in the Netherlands and then redistributes these to its branches or to financial institutions abroad. This happens in order to reduce global tax exposure. The volume of these transactions is so huge (eight times the Dutch GDP) that if only half a percent of the turnover was used for illegal activities such as money laundering, money laundering would be around 18 billion Euro a year in the Netherlands.

Underground banking

Underground banking can be considered as any financial operation outside the conventional or regulated banking and financial sector. The term 'hawala', used for parts of underground banking, means 'transfer' in Arab. Ethnic groups often use currency exchange offices in food, telephone, and video shops which deliver local currencies to their relatives. While these systems have been traditionally used by transnational ethnic networks, lately they are being increasingly used by those who would like to be undetected when moving money such as drug traffickers, tax evaders, money launderers and terrorist financiers.

Black market of foreign currency

The launderer uses the foreign currency black market both to remove the risk of transporting large amounts of currency and to avoid depositing large amounts of foreign currency in domestic banks.

3.2.3. Money laundering techniques in the integration phase

In the third phase, money launderers want to park the laundered money safely without being detected and with profit. Offshore centres are only marginally involved in this final phase.

Capital market investments

Capital market investments can happen in all phases of laundering. In the first phase, the launderer uses his ill-gotten cash for buying. The launderer can invest the money into financial assets so as to avoid having large amounts of cash. But he can also use capital market investments in the layering phase or for placing the money in its final spot. These assets, such as shares and bonds, are generally low risk and so the chances of losing money are small. Furthermore, the assets are highly liquid, which means they can be converted back into cash very easily. Laundered funds are co-mingled with lawful transactions.

Derivatives

Derivatives are financial assets and all have in common that they can be interpreted as bets on future events. Their value is intrinsically linked or contingent upon some external item of worth, hence they 'derive' their value from something else. This 'something else' is conventionally referred to as the 'underlying', which, depending on the type of derivative, can be bets on stocks, bonds, currencies, interest rates, energy, third party or instrument credit quality, commodities, the weather, macroeconomic data and mortality rates, for example.

These are financial assets and so can be purchased by the launderer in order to invest the cash in reputable enterprises. Again, a disreputable broker is probably needed. These assets are highly liquid and so can easily be resold in order to return the cash back to the launderer. However, derivatives are much more risky than traditional financial instruments. Biggins (in Unger and van der Linde 2013) calls them dangerous markets.

Credit Default Swaps were mentioned during the Greek financial crisis. Speculators speculating on Greece's default bought Greek government bonds with high interest and parallel bought CDS, a sort of insurance to pay out in case of Greek default. So they had a perfect win-win situation, no matter what happened to Greece. Biggins (2013) shows diverse ways in which derivatives can be used for money laundering. For example 'mirror trading' where two trading accounts are opened, one to receive funds which are laundered and one and the other to receive the 'washed' funds. The broker enters the market and, for example, simultaneously buys and sells some quantity of futures contracts. Later in the day, the broker re-enters the market and repeats this process. The broker has thus, in effect, created four trades. The broker makes it appear as though the account set up for the funds to be laundered has made a loss while the account set up to receive the 'washed' funds has recorded a profit. Put simply, 'framework conditions must be manipulated in such a way that the dirty money is lost on the bet, while winnings are clean money'. 'When considering the potential for money laundering to occur through derivatives, it is important to highlight not only the derivative related strategies themselves, but also the existence of, for example, sham companies and other arrangements, such as the complicity of professionals involved in the derivatives markets. These factors can be crucial, providing

necessary infrastructural support in the initiation of the strategy and any results flowing from it' (Biggins 2013).

Real estate acquisition

The launderer can invest the illegal cash into property, which is generally a non-depreciating asset. This would normally require a facilitator. A real estate agent or notary, who is willing to overlook the fact that the launderer wants to pay cash for an expensive asset, or uses a strange mortgage from Switzerland. Real estate is extremely attractive for launderers. It is difficult to estimate the true value of an object. One can use it for criminal purpose. One can use it to derive regular legal income from tenting (see Unger and Ferwerda 2011)

Industries with cash intense business and/or high value

The catering industry, the gold market, the diamond market, buying jewels, the acquisition of luxury goods, cash-intensive business like restaurants, football bet offices etc. all belong to this category

Trade base money laundering

The stricter regulations of financial markets might lead to an increase of trade based money laundering. To overprice imports (for example a cheap watch which is declared a Dior watch and can explain high payments of the importing firm to the exporter) or to underprice exports (the Dior watch is sent as a cheap watch abroad. The importer then sells it expensive. With this the exporter has brought money outside the country).

As Zdanowicz showed in 2016, the amounts of trade based money laundering rise significantly. The cost of false invoicing to the US authorities between 2003 and 2014 was more than $2.3 trillion. Abnormally priced goods were used to mask complex tax avoidance schemes, and that the overall figure had grown by some 30% over the period from $168.3 billion in 2003 to $230.6 billion in 2014, despite improved understanding of the threat and efforts to combat trade based money laundering. (see FIU, Zdanowicz 2016). In June 2016, the US Congressional Research Service published a report highlighting the importance of trade-based money laundering R. Miller et al 2016). Also the Treasury of the Isle of Man (Isle of Man Treasury: Customs and Excise Division 2016) warns from this oldest form of money laundering dating back to ancient Chinese trade, in new disguise.

3.2.4. New money laundering risks

With the advent of the internet, new forms of money transfers and possibilities for launderers have occurred.

On-line banking

On-line banking makes it easier for the launderer to conduct transactions as they can avoid having to go to banks and being seen or having to complete many forms. Furthermore, it is much more difficult to trace the operators of these accounts if they never go to banks.

E-cash

E-cash, or electronic cash, is even harder to trace than real cash as the ease with which it can flow around the world makes it twice as hard for the authorities to detect. Money becomes not a real commodity, but simply a line on a piece of paper or a computer screen. The launderer then does not have to worry about depositing large amounts of cash, as the money does not physically exist. All payments and receipts are made electronically.

E-gold

One can buy gold on the internet, using addresses such as http://www.e-gold.com/examiner.html or http://goldmoney.com/. These sales and buys still need some identification, one has to register, but when used after having cleaned the money they still guarantee some anonymity.

Pre-paid phone cards

Pre-paid phone cards can be bought on the streets. One can pay with criminal cash for them and use the prepaid phone cards for shopping anonymously on the internet. The possibilities and variety of products for sale increases steadily. The Dutch Banking Association calculated that payments over the Internet valued 2 billion Euros (5-7 million transactions) in 2004. Payments via mobile phones amounted to about 1 billion Euros in the Netherlands (NVB 2006).

Proprietary systems

Proprietary systems refer to a specific set of payment and funds transfer rights owned and patented, with intellectual property protections, to a financial services provider located anywhere in the world. Proprietary systems enable customers to access electronic banking or funds transfer routing systems located offshore and hence avoid local reporting requirements. This does not mean that customers are engaging in money laundering, but it does mean that customers can make undetectable financial transactions that may increase the risk of money laundering. These proprietary systems may include international funds transfers between offshore accounts/entities, cheque writing, trading facilities, letters of credit and securities trading. They also involve alternative payment systems with the conversion of funds into a virtual currency with e-credits, Pay PAL and e-gold. Funds can then be disbursed offshore without triggering the reporting requirements (Hackett 2003: 3).

The use of electronic offshore access and payment methods is related to the growth of proprietary systems that potentially escape reporting requirements and detection strategies. This involves accessing overseas accounts, trusts and companies. Money is permanently kept offshore and shifted between offshore jurisdictions that have a high degree of bank secrecy. These overseas accounts are then accessed at ATMs using offshore debit/credit cards, which can also be used to make local purchases. Entities such as trusts, banks and International Business Corporations, also established offshore, then repay the credit cards and continue to deposit funds into them on a regular basis.

In 2002, the United States Internal Revenue Service (IRS) found that MasterCard alone processed 1.7 million offshore transactions for 230,000 US resident account holders with offshore debit/credit cards issued in 30 countries with bank secrecy and minimal reporting requirements (US Department of Justice 25 March 2002).

3.2.5. Virtual currencies

Lately, virtual currencies such as BITCOINS and ETHEREUM (the latter can be linked to smart contracts), have shown to be used for laundering. Viruses installed in order to receive Ransom have to be paid in bitcoins. Bitcoins can be used for internet shopping, e.g. Amazon accepts them. Since the owner of bitcoins is almost not traceable, this currency might become attractive for criminals. The EU Working Group on Virtual Currencies (Burkhard Mühl and Sebastiano Tine of DG Home) keeps track of these new events.

4. WHERE THE LAUNDERED MONEY GOES

Not all types of crime necessitate the same amount of laundering. Some crimes, such as proceeds from homicide, usually do not require much laundering, whereas proceeds from drugs need substantial laundering. Drug dealers need laundered money in order to create facades of legal income for their businesses and thus enjoy the profits from their illegal activities. Robberies are quite costly to the community but the amount of money gained from each robbery is usually a small enough amount that it has no need of being laundered. Ordinary theft is similar to robbery (in fact can be the same in some jurisdictions) in so far as there is little need for laundering. Offenders are much more likely to spend any money earned from theft rather than undertake the often complex transactions required to first 'clean' their gains through laundering. Drugs and fraud offences, however, are usually associated with money laundering. Large amounts of money are involved (earnings exceed those amounts that could be reasonably spent without detection) which creates an incentive for laundering. Walker (2009) revised the percentage that is likely to be laundered for drug proceeds by lowering it. Before, he assumed that 80 percent or "considerable amounts" of drug proceeds were laundered. In his latest revision he speaks of "medium laundering intensity" and he assumes 60%-70% (see Walker 2009).

Additional income that results from tax evasion can either be immediately spent (as with ordinary theft) or laundered, depending on the amount of money involved. Company fraud can be 100 percent laundered. Social security fraud, wherein social benefits are paid out under false pretences can *either* be spent immediately *or* laundered, depending on the amounts involved or the techniques used to achieve the fraud.

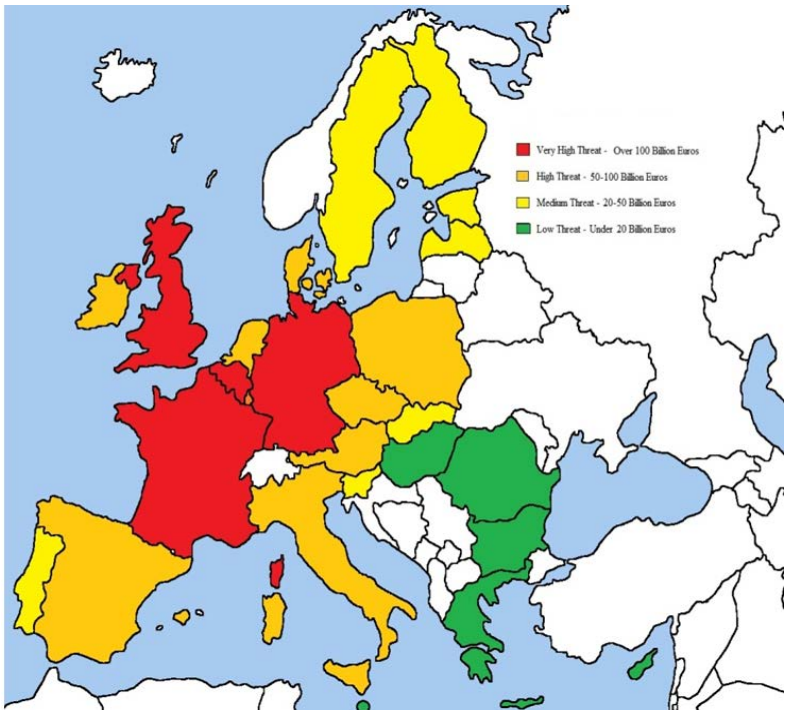
4.1. The threat to attract money for laundering

Which countries are attractive for launderers? Launderers prefer countries with solid financial markets, good financial services, not too high corruption, high Gross Domestic Product, high exports and imports, with high secrecy and lax anti-money laundering regulations and low fines. They prefer countries which they know or with which they share language, culture, social ties and networks. Figure 5 displays how threatened European countries are from laundering. Big countries are leading. The UK tops the list being threatened by 282 billion Euro of annual laundering, followed by France, Belgium, Germany, Luxembourg, the Netherlands and Austria.

The picture changes, once one corrects for country size (see Figure 5a). Compared to their Gross Domestic Product, the Baltic States, Luxembourg and Cyprus are over proportionally threatened by money laundering. The Baltic States are the entrance port to the Euro for Russia. Also Cyprus was a popular target for Russian oligarchs to park their money outside Russia.

Figure 5: Money laundering threat in the EU-27

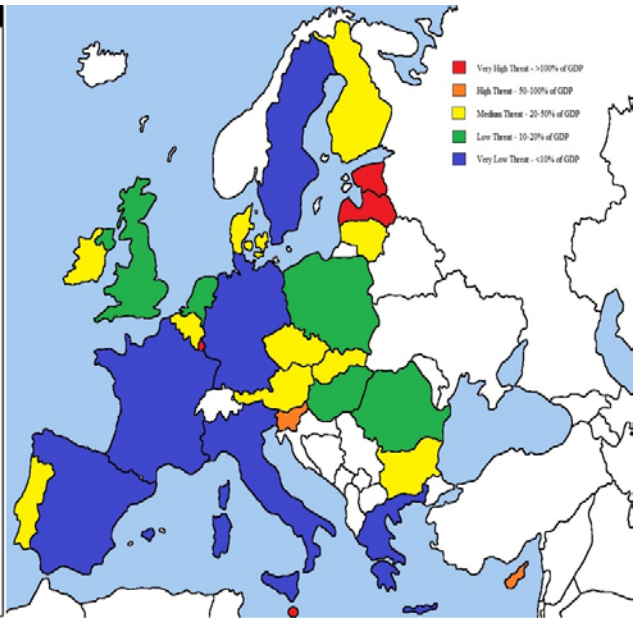
Rank	Country	Threat (€ Million)
1	United Kingdom	282.004
2	France	151.302
3	Belgium	119.896
4	Germany	108.872
5	Netherlands	94.121
6	Luxembourg	93.765
7	Austria	88.810
8	Italy	73.910
9	Denmark	59.177
10	Spain	56.311
11	Ireland	54.439
12	Poland	53.923
13	Czech Republic	51.193
14	Finland	45.104
15	Portugal	43.015
16	Latvia	42.639
17	Estonia	40.074
18	Slovenia	35.106
19	Sweden	26.206
20	Slovakia	23.557
21	Hungary	19.952
22	Cyprus	19.090
23	Bulgaria	18.513
24	Greece	16.598
25	Romania	14.075
26	Lithuania	12.870
27	Malta	8.325



Source: ECOLEF (2012), Croatia was then not yet member of the EU

Figure 5a: Money laundering threat in % of GDP in the EU-27

Rank	Country	Threat as % of GDP
1	Estonia	207.7%
2	Latvia	163.2%
3	Luxembourg	155.2%
4	Slovenia	75.3%
5	Cyprus	53.6%
6	Bulgaria	40.2%
7	Czech Republic	30.3%
8	Belgium	27.9%
9	Austria	24.6%
10	Portugal	21.2%
11	Slovakia	21.0%
12	Denmark	20.6%
13	Lithuania	19.5%
14	Finland	19.4%
15	Ireland	18.9%
16	Poland	14.5%
17	Netherlands	14.0%
18	United Kingdom	13.3%
19	Hungary	13.1%
20	Malta	11.0%
21	Romania	9.4%
22	France	7.3%
23	Greece	6.1%
24	Sweden	5.8%
25	Spain	5.4%
26	Italy	4.9%
27	Germany	4.7%



Source: ECOLEF (2012), Croatia was then not member of the EU

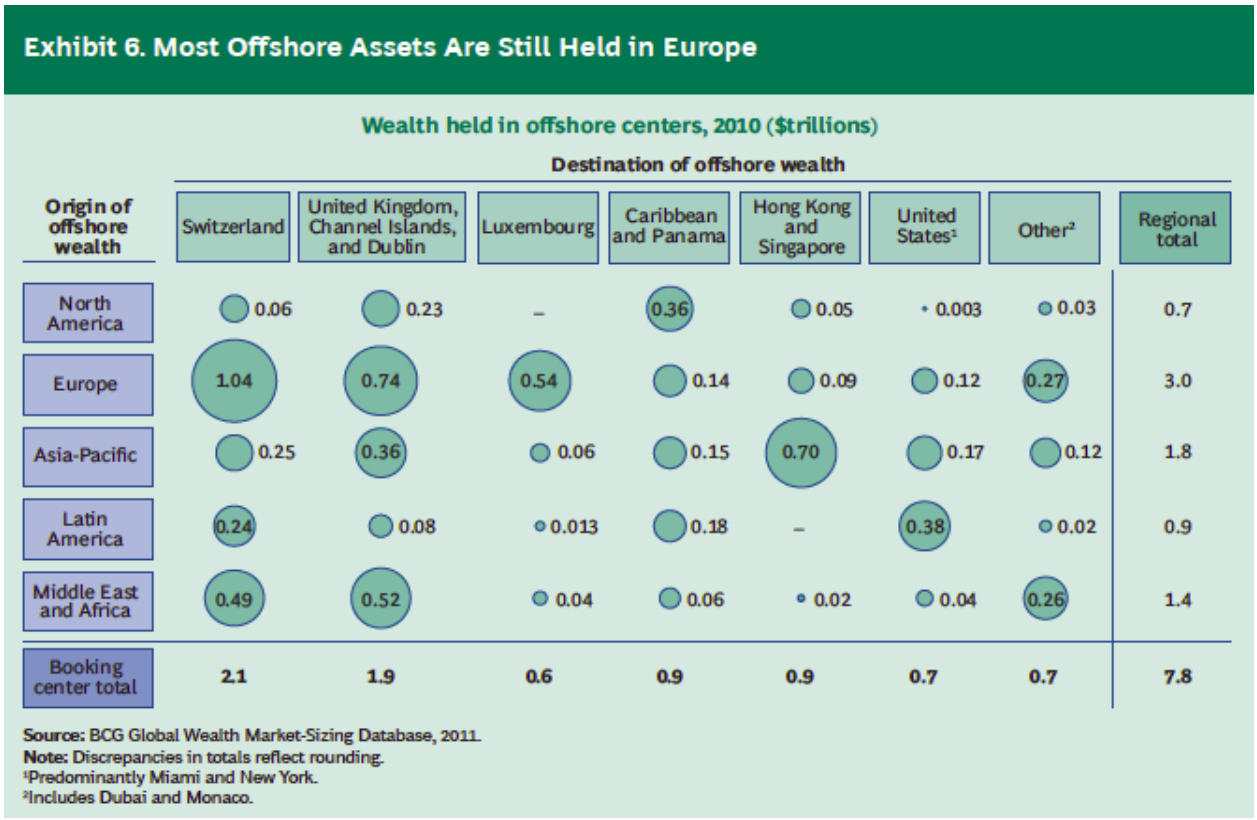
4.2. The origin and destination of offshore activities

Figure 6 shows the origin and destination of wealth held in offshore centres in 2010. (Financial centres like Switzerland, UK and Luxembourg are included here under offshore).

From the 7.8 trillion USD of global offshore wealth, Europe holds by far the most with 3 trillion, followed by Asia Pacific with 1.8, the Middle East and Africa with 1.4. Latin America and North America hold much less offshore and if they do it is in the Caribbean and in Panama. Europeans invest their money mainly in Switzerland 1.04 trillion USD, followed by the UK, Channel Islands and Dublin (0.74 trillion USD) and Luxembourg (0.54 trillion USD). The Caribbean and Panama are less popular among Europeans (0.14 trillion USD).

As Figure 6 clearly shows, offshore wealth is clearly a European problem!

Figure 6: Origin and destination of Offshore wealth



Source: van Koningsveld (2015)

4.3. Offshore activities and tax havens

Offshore centres and tax havens are ranked in diverse ways. In Palan, Murphy and Chavagneux (2009) the Bahamas are at the top followed by Bermuda and Cayman Islands. Panama has rank 7. Many European jurisdictions take top ranks or use jurisdictions ranked top in OFC. European countries that top the list are Malta (rank 6), Cyprus (rank 10) Liechtenstein (rank 12), Switzerland (rank 19), Ireland (rank 25) and Luxembourg (rank 26). Many European countries use offshore jurisdictions for their less transparent business, where regulations are laxer than in their home country. The UK uses the Channel Islands (Alderney, Guernsey, Jersey, Sark), Isle of Man, Bermuda, British Virgin Islands, Isle of Man, Gibraltar, Turks and Caicos Islands, Anguilla and Montserrat. France uses Monaco. Italy uses Campione d'Italia and San Marino, the Netherlands use their former colonies Aruba and the Netherlands Antilles, Portugal uses Madeira, Spain uses Melilla. Seen the importance and volume of wealth held in offshore centres by Europeans in Europe, it would already be a milestone for combating tax evasion, if the European OFCs would be regulated or closed.

Table 2: Top Offshore Centers

	Top OFCs		Consensus Basis				
1	Bahamas	29	St Kitts & Ne.	57	South Africa	86	Sark
2	Bermuda	30	Andorra	58	Tonga	87	Somalia
3	Cayman Is.	31	Anguilla	59	Uruguay	88	Sri Lanka
4	Guernsey	32	Bahrain	61	U.S. Virgin Is.	89	Taipei
5	Jersey	33	Costa Rica	62	**U.S.A**	90	Trieste
6	**Malta**	34	Marshall Is.	63	Alderney	91	Cyprus (Turk.)
7	**Panama**	35	Mauritius	64	Anjouan	92	Ukraine
8	Barbados	36	St. Lucia	65	Belgium		
9	British Vir. Is.	37	Aruba	66	Botswana		
10	**Cyprus**	38	Dominica	67	Camp. D'Italia		
11	Isle of Man	39	Liberia	68	Egypt		
12	**Liechtenstein**	40	Samoa	69	**France**		
13	N.L. Antilles	41	Seychelles	70	**Germany**		
14	Vanuatu	42	Lebanon	71	Guatemala		
15	Gibraltar	43	Niue	72	Honduras		
16	Hong Kong	44	Macau	73	Iceland		
17	Singapore	45	Malaysia	74	Indonesia		
18	St. Vin. & G.	46	Monserrat	75	Ingushetia		
19	**Switzerland**	47	Maldives	76	Jordan		
20	Turks & Caicos	48	**U.K.**	77	Marianas		
21	Antigua & B.	49	Brunei	78	Melilla		
22	Belize	50	Dubai	79	Myanmar		
23	Cook Islands	51	Hungary	80	Nigeria		
24	Grenada	52	Israel	81	Palau		
25	**Ireland**	53	**Latvia**	82	Puerto Rico		
26	**Luxemburg**	54	Madeira	83	Russia		
27	**Monaco**	55	**Netherlands**	84	San Marino		
28	Nauru	56	Philippines	85	S. Tome e Pri.		

Source: Palan, Murphy and Chavagneux (2009)

4.4. Offshore activities according to the Panama Papers

The information provided by ICIJ shows offshore entities defined as a company, trust or fund created in a low-tax, offshore jurisdiction by an agent. Officers are defined as a person or company who plays a role in an offshore entity. An offshore entity linked to a country means that either the offshore entity is established in this country, or is traceable to this specific country. Officers are active in the country they are linked to.

Appendix 2 gives a complete overview over the number of offshore entities linked to each country and jurisdiction in the world and the number of officers active in the country they are linked to, identified by the Panama Papers. The following table 3 shows in how far EU-28 Member States are linked to offshore activities. The UK with 17.973 offshore entities displayed in the Panama Papers, followed by Luxembourg (10.877 entities) and Cyprus (6374 entities) are leading. But also Latvia, Ireland, Spain, Estonia and Malta have many

offshore entities related to their country. With regard to officers active in offshore entities, Italy and France join the group of Member States active.

Just to give an indication of the importance of the problem, table 4 lists offshore entities and officers related to offshore entities for Panama, and other outstanding countries and jurisdictions, like Hong Kong, Switzerland, Jersey, the United Arab Emirates and also Monaco and Liechtenstein. The British Virgin Islands with 69.902 entities are leading.

Table 3: Offshore activities of EU-28 Member States in the Panama Papers

Country/Area	Offshore Entities	Officers	Country/Area	Offshore Entities	Officers
Austria	76	121	**Ireland**	**1936**	261
Belgium	61	363	Italy	347	**1196**
Bulgaria	50	117	**Latvia**	**2941**	162
Croatia	20	38	Lithuania	33	36
Cyprus	**6374**	**3678**	**Luxembourg**	**10877**	**1764**
Czech Republic	173	272	**Malta**	**714**	351
Denmark	14	65	Netherlands	251	352
Estonia	**881**	**108**	Poland	161	146
Finland	66	60	Portugal	246	300
France	304	**1005**	Romania	8	109
Germany	197	504	Slovenia	21	58
Greece	223	400	**Spain**	**1170**	**831**
Hungary	90	186	Sweden	84	201
Iceland	15	213	**United Kingdom**	**17973**	**5676**

Source: ICIJ (2016)

Table 4: Offshore activities of selected countries in the Panama Papers

Panama	**18122**	**5357**	Jersey	14562	7100
Switzerland	38077	4595	Monaco	3168	1398
United States	6254	7325	United Arab Emirates	7772	3397
Hong Kong	51295	25982	Liechtenstein	2070	1147
British Virgin Islands	69092	15211			

Source: ICIJ (2016). I thank my Student Bertram van AA for looking up the data of Table 3, 4, and Appendix 2

5. AN ASSESSMENT OF HOW TO COMBAT MONEY LAUNDERING

5.1. The twin track approach of combating money laundering

'Currently, the fight against money laundering and terrorist financing follows a so-called twin-track approach. On the one there is *preventive policy*, which aims at the prevention of money laundering through the setting of identification and reporting obligations for financial institutions, certain non-financial institutions and legal professionals such as lawyers and civil-law notaries. The preventive policy aims *"to deter criminals from using institutions to launder the proceeds of their crimes and to create sufficient transparency to deter institutions from being willing to launder"*.(Levi and Reuter, 297) On the other hand the twin-track approach consists of a *repressive policy* of which the objective is to punish the money launderer, usually through the use of criminal law and by the freezing, seizure and confiscation of assets' (van den Broek in: Unger and van der Linde 2013).

This twin approach can also be found in the 40 Recommendations of the Financial Action Task Force. Reporting obligations can be found as well as severe punishment for money laundering, from freezing of assets, to seizing and confiscation of assets, to years in prison. But also reporting entities can be punished with fines and imprisonment for not reporting suspicious transactions.

The current preventive AML/CTF policy consists of four key elements[2], namely customer due diligence, the reporting obligation, the record-keeping obligation, and the enforcement (supervision and sanctioning) of those obligations.

Customer due diligence

Customer due diligence measures ensure that institutions know who they deal with and try to prevent institutions from having business relationships with unknown customers or businesses that they not fully understand. The customer due diligence measures include the identification of customers and the verification of the identity, the identification of the identity of the beneficial owner and verification of this identity, to obtain information on the purpose and intended nature of the business relationship and on-going monitoring.

Customer due diligence measures should be applied to new and existing customers. In order to be more effective, institutions are allowed to perform customer due diligence measures on the basis of a risk-based approach.

Reporting obligation

The second key element, and maybe the most important one, is the obligation for institutions to report on their own initiative (reasonable) suspicions of money laundering or terrorist financing to the competent authority, the Financial Intelligence Unit (FIU).[3] Suspicious circumstances are, for example, cases where the transaction serves no apparent purpose, the nature of the transaction does not match the customer's business needs or the transaction structure is unnecessarily complicated.

The national legislature is free in deciding how the report should take form. One can think of suspicious transaction reports, unusual transaction reports, cash transaction reports,

[2] See for a different categorisation Levi and Reuter (2006) at 297-298.

[3] An FIU is a central national agency responsible for receiving, analysing, and transmitting disclosures on suspicious transactions to the competent authorities. Pursuant to the FATF Recommendations and EU Money Laundering Directives, Member States are required to establish an FIU.

threshold reports, and so on. When one takes a look at the European Member States' current reporting systems, it can be noticed that there are a lot of differences here.[4]

The reporting obligation is not an uncontested obligation. Especially the legal and financial service providers, most notably lawyers, consider the reporting obligation to be an infringement on their legal professional privilege. Legal professional privilege is a legal norm that protects the confidentiality of communications made between a lawyer and his or her client. It is an important right and cannot be easily be overridden by other interests (i.e., it can only be limited by 'overriding requirements in the public interest in certain specific circumstances'), yet not all communications fall under this privilege. Only communications falling under 'legal advice' or stand in relation to 'litigation' fall under the privilege (Itzikowitz 2006). In Europe there is some case law on the relationship between the reporting obligation and this fundamental notion of legal privilege (Komárek 2008). The European Court of Justice has decided in the *Ordre des Barreaux*-case that the reporting obligation does not infringe the right to a fair trial (van den Broek in Unger and van der Linde 2013).

Beside the fierce opposition of lawyers who fear for the loss of their legal privilege, democratic accountability is at stake. Private actors (banks, notaries, dealers of large values…) have to perform politics. The problem is that while *"public actors are accountable within the democratic system of command and control"*, the private actors are not. Under the rule-based approach it was obviously the government who was responsible for the design and functioning of the applicable rules, but with the risk-based approach a far more active behaviour is required from the institutions. From an empirical study performed in the United Kingdom and Sweden, Bergström et al (2011) conclude that the risk-based approach with respect to customer due diligence in the prevention of money laundering and terrorist financing has diluted the boundaries between the public and private sector and that the strong involvement of private actors in the process could jeopardize the classic understanding of accountability.

Record-keeping obligation

The record-keeping obligation entails the obligation for institutions to keep the identification documents and all transaction data stored for a period of at least five years following the carrying-out of the transactions. One needs to think of copies of identity cards or passports, driving licenses, but also account files and business correspondence.

The purpose of this requirement is two-fold. On the one hand it enables supervisory authorities to check compliance with the preventive AML/CTF norms, while on the other hand record-keeping enables the competent authorities to gather evidence in case of criminal prosecution.

Enforcement

Enforcement in the preventive AML/CTF policy includes the supervision by administrative authorities on the compliance with the obligations, as well as the sanctioning in case of non-compliance. Where the enforcement runs through criminal law, it entails the stages of investigation, prosecution and effectuation of sanctions. In most EU Member States, the enforcement of the preventive AML/CTF norms is of an administrative nature. However there are tendencies to sharpen and to harmonize this instrument. Both the FATF

[4] Ferwerda, J., Deleanu, I., Van den Broek, M. and Unger, B. (2011), *Comparing the incomparable: The principal agent problem of the FATF in assessing countries' anti-money laundering policy performance*, paper presented at the conference 'The Shadow Economy, Tax Evasion and Money Laundering', held from July 28-31 2011 in Muenster.

Recommendation and the Directive stipulate that there must be *"effective, proportionate and dissuasive sanctions"* to deal with non-compliance by institutions.[5]

Repressive enforcement

The repressive part of anti-money laundering policy aims at punishing launderers usually through the use of criminal law and by the freezing, seizure and confiscation of assets. The extension of the scope of money laundering 'from Al Capone to Al Qaeda' (Unger 2013), from drugs to terrorist financing has severe implications. Since 9/11 money laundering has become a prominent issue of national and international safety and security. The extension now to further include tax evasion, means that almost every citizen is affected by the anti-money laundering combat. By including terrorist financing, there was a paradigm change in law, according to Vervaele (in Unger and van der Linde 2013). The fact that the police can fall in into everybody's house from suspicion of endangering national security, makes money laundering an extremely serious crime, also the fact that money laundering allows to reverse the burden of proof (the launderer has to explain where he has the money from rather than that the police has to proof that it is criminal) is a change in law.

5.2. Alternative ways of combatting money laundering

There are alternative ways of anti-money laundering policy thinkable. The first is that the state takes again more responsibility for combating laundering, rather than putting large responsibilities (and costs) to the private sector, which does not really enjoy or see benefits from this.

Money laundering is, what the philosopher John Stuart Mill called a 'victimless' crime. It does not produce immediate victims; nobody gets immediately damaged from laundering. The launderer puts his money on a bank, and the bank earns from him opening an account. The launderer buys a house and the real estate agent earns from having the house sold. So, there are no direct negative effects of laundering. Laundering has only indirect effects on society and the economy (when criminals are penetrating the economy and society, the public sector gets hollowed out from lack of tax revenues etc.). This means that it is difficult to create compliance among the very many actors involved. Money launderers are customers of the private sector: of banks, of real estate agents, of financial service providers, of lawyers and notaries. Having to report them to the Financial Intelligence Unit (which in some countries is police or even public prosecution) means also a loss of business to the one who reports. In addition, the private sector runs high costs for reporting, has to hire compliance officers, and runs the risk of being punished for doing this wrong. Takats (in Masciandaro, Takats Unger 2006) already warned that this might result in perverse outcomes, like banks reporting every transaction from fear of being punished for not reporting, and that by informing about everything, they will dilute information. He called this a 'crying wolf' problem, like the boy in the fairy tale crying 'wolf, wolf' all the time, and when the wolf really came, nobody believed him. The switch from the rule based approach, where the private sector had to report transactions exceeding a certain threshold (e.g. transactions above 15.000 Euro) to a risk based approach (where Oma buying a new car of 16.000 Euro for her grandson, would not have to be reported because the subjective risk of Oma being a launderer is low) was certainly an improvement, but at the same time poses the question who is responsible for identifying money laundering risks. The state has shifted here an important task of providing public security to the private sector.

Today's politics goes in the direction of criminalizing more and more activities and citizens. Alternative suggestions are to distinguish between serious crime like drugs, weapon

[5] FATF Recommendation 17; article 39, first paragraph, Third Money Laundering Directive.

trafficking, human trafficking and white collar crimes like fraud, tax evasion and corruption and target the latter group differently.

For the first group of serious crimes, drugs, the Dutch way shows an alternative. By legalizing soft drugs, the proceeds of drug revenues are simply much lower. Legalized soft drugs would then be no big business anymore and could prevent people from using much more expensive hard drugs. Evidently, this Dutch way is not liked by many Member States, but it is a very efficient way of taking away business from drug dealers. The Dutch problem is not Dutchmen hanging around stoned, but Germans who come over the border to enjoy legally what they are forbidden in their home country. So de-criminalizing certain soft drugs would have to be done Europe-wide. The US by pointing at the harmful health effects of hashish or Marihuana clearly goes into opposite direction. And also Europe seems to prefer a different path.

For terrorists, completely other politics of national security apply. The financing of terrorist attacks very often takes place through small amounts of (legal) money donated and cannot be traced easily. Special police corps are necessary to deal with this plus well updated lists of blacklisted persons.

For the second group, white collar crime, which is at the center of this study here, the state should provide a clear framework of how to assess risk and not leave these fundamental tasks of a 'Res Publica', the public think, to the private sector.

Through transparent company registers, bank registers, ultimate beneficial owner registers, exchange of information between Member States, the white collar crime group can be deterred from committing tax crime. As the example of the Dutch tax authorities show: sending a pre-filled in tax declaration to citizens, indicating that the authority knows everything about their assets, bank accounts, ownership of companies etc. certainly reduces the incentive of this group to evade taxes.

Furthermore, facilitators of money laundering (real estate agents, dealers of large values, tax advisors, lawyers, notaries, accountants) and of supervisors should be studied separately on how one could improve compliance by setting the right incentives for them.

To give an example, in the mandate of the Panama commission is mentioned 'the alleged failure of the Commission to enforce and of Member States to implement and to enforce effectively Directive 2006/43/EC of 17 May 2006 on statutory audits of annual accounts and consolidated accounts (hereinafter SAD 2006), taking into account the obligation of timely and effective implementation of Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (hereinafter SARPIE) and Directive 2014/56/EU of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (hereinafter SAD 2014).

One could study the role of auditors to improve timely and effective financial information in more detail. As the Dutch professor of accountancy, Frank Verbeeten (2015) showed, the person responsible for providing adequate financial information is the Chief Financial Officer (CFO) of the organization. However, in most organizations, the CFO is responsible for both achieving specific company goals as well as for providing the right information. One way to ensure that the information is right, is by making auditors check the information; another way is to make sure that you adopt the 'right' incentives. For example, companies adopt clawback policies where bonuses based upon 'inadequate' financial numbers can be retrieved back from the CFO; this reduces incentives for earnings management. Alternatively, forecasting may help to set more 'adequate' targets; this may also reduce earnings management. Finally, you can focus upon hiring the 'right' CFO; for example, female CFOs and CFOs with an audit background are less likely to manipulate the numbers.

Studies on what would be right incentives for different professional groups involved in the money laundering combat with conflicting goals between reporting and making business, would help to increase 'true' compliance.

Finally, one should also think about creative 'positive incentives' for combating money laundering that reinforce behavior of citizens into a direction wanted by the government. Though criticized as 'soft paternalism', (Fischer, Lotz 2014), this concept has been used quite successfully by Barack Obama. Under the term 'nudging' the idea of positive incentives stemming from cybernetics, has entered behavioural science, political theory and economics. It argues that positive reinforcement and indirect suggestions to try to achieve non-forced compliance can influence the motives, incentives and decision making of groups and individuals, at least as effectively – if not more effectively – than direct instruction, legislation, or enforcement (https://en.wikipedia.org/wiki/Nudge_theory). A typical example mentioned is to stick a plastic fly into men's urinals, so they all will try to hit it and not pee on the side (done so in Dutch airports). Imagine an electronic tax declaration sheet, that each time you correctly fill it in, starts singing 'you are wonderful', or gives you access to a lottery win, or, perhaps even more useful, shows you what will be done with your money. As Unger and van der Linde (2017) showed, in many public domains the state still finances public tasks but has them provided by the private sector. With this, the state has become invisible. Many people cannot 'see' the state anymore, which poses a problem for democracy and paying taxes. So showing the usefulness of tax revenues to the tax payer might increase compliance.

6. ANALYSIS OF REMAINING LOOPHOLES OF AML 4TH AND ESTIMATES OF LOSSES INCURRED (BOTH FROM TAX EVASION AND ANTI-MONEY-LAUNDERING)

On 25 June 2015, the Fourth Anti Money Laundering EU Directive, DIRECTIVE (EU) 2015/849 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing was enacted, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC. With a two-year window for implementation, all EU member states must be compliant with the new mandates by 26 June 2017.

The Directive made changes to a wide range of aspects, including enhanced customer due diligence for doing business with high risk countries; the definitions and obligations concerning politically exposed persons and ultimate beneficial ownership; it lowered the cash payment threshold from 15.000 Euro to 10.000 Euro, and extended the scope of reporting entities to include the entire gambling sector beyond just casinos.

It made changes with regard to the risk- based approach. Here it is stressed the use of the risk-based approach as a way to identify and mitigate money laundering risks. It obliges Member States to conduct national risk assessments and to keep these up to date (see under loopholes).

It included tax crimes as a predicate offence to money laundering (see under loopholes).

It put emphasis on ultimate beneficial ownership. To whom does an offshore company, who is a branch of another company, who is part of another company etc. ultimately belong? Who is the economic ultimate beneficial owner of the company and not just a legal strawman hiding the true owner's identity? Article 30 of the Fourth Directive requires all members to hold central registers on company beneficial ownership information. Furthermore, Article 31 requires that Member States shall require trustees of any trust governed under their law (whether it generates tax consequences or not) to hold and update information and make this information available to the FIUs. The Directive requires that the beneficial ownership of the trust is held in a central register when the trust generates tax consequences (see under loopholes identified by the EU).

Article 49 urges Member States to improve the effectiveness of their reporting system by giving feed-back to obliged entities on the usefulness and follow-up of the suspicious transactions reports they present.

6.1. Loopholes Identified by the EU Commission

On July 2016 the European Commission proposed amendments to the Fourth AML Directive:

Central Bank Registers

Every country should hold central bank registers of bank and payment accounts of each person. The information access and exchange should also be improved.

Bringing virtual currencies within scope

It is proposed that virtual currency operators and custodian wallet providers should be covered by the AML regime, so that they are bound by the requirements to verify customers' identities and monitor financial transactions.

Prepaid cards

The Commission has proposed minimising the use of anonymous pre-paid cards by lowering the thresholds for identification from €250 to €150 and making anonymous use impossible online. Cards issued by non-EU countries would only be capable of use in the EU if they comply with requirements equivalent to those set out in EU legislation.

Transparency of beneficial ownership

The Commission has said that the Panama Papers have highlighted the need for further measures relating to the beneficial ownership of companies, trusts and other corporate vehicles. It is proposed that the public will have access to certain beneficial ownership information regarding companies and trusts that engage in economic activities, with a view to making a profit. Information about other trusts will only be granted to those who can demonstrate a legitimate interest.

The threshold for identifying beneficial owners of corporate entities is to be reduced from a shareholding of 25% plus one share, or an ownership interest of more than 25%, to 10% in respect of certain limited types of entities, which present a risk of being used for money laundering or tax evasion.

Systematic monitoring of existing customers is proposed, so that beneficial ownership can be identified for existing as well as new customers.

Member States will have responsibility for implementing measures in relation to trusts administered in their Member State. It is proposed to remove the requirement for a trust to generate tax consequences in order to be included in a central register.

The Commission proposes setting up direct connections between national beneficial ownership registers. It is said that the authorities and public will have access to EU-wide beneficial ownership information.

6.2. Remaining Loopholes

6.2.1 Tax crimes

The Fourth EU Directive focusses on **tax crimes,** but this term is ambiguous. ‘It is important expressly to highlight that ‘tax crimes’ relating to direct and indirect taxes are included in the broad definition of ‘criminal activity’ in this Directive, in line with the revised FATF Recommendations. Given that different tax offences may be designated in each Member State as constituting ‘criminal activity’ punishable by means of the sanctions as referred to in point (4)(f) of Article 3 of this Directive, national law definitions of tax crimes may diverge. While no harmonisation of the definitions of tax crimes in Member States' national law is sought, Member States should allow, to the greatest extent possible under their national law, the exchange of information or the provision of assistance between EU Financial Intelligence Units (FIUs).’(see The Official Journal of the European Union L141/73 5.6.2016 http://eur-lex.europa.eu/legal-content/NL/ALL/?uri=OJ:L:2015:141:TOC)

Table 5: Comparative table of predicate crimes for money laundering in some countries

Types of crime	US	Germany	Austria	Switzerland	Netherlands
Drugs and narcotic	X	X	Only some major delicts and hard drugs	Only some major delicts and hard drugs	Only serious crime and hard drugs
Theft, burglary and fencing	X	Not included simple theft and fencing	Not included simple theft and fencing	X	Only serious crime
Illegal activities in the labour market	Hiring illegal workers	No	No	No	No, misde-meanor
Tax evasion	If from US proceeds on crime; if from mix criminal/non-criminal proceeds	Only business and criminal org.	No	No	No, misdemeanour, only if fraud
Fraud	X	Only business and criminal org.	Only business and criminal org	x	X

Source: Unger, a tentative comparison of penal codes from a non-lawyer

The term 'tax crime' is very ambiguous. It is an American term which is hardly found in European laws. As Table 5 shows, tax evasion is treated very differently in penal codes[6]. Some countries consider tax evasion as serious crime, others as misdemeanour. Some countries use the term tax fraud. There is a threshold from which on not paying taxes is considered a tax fraud by the fiscal authorities. In this case, tax fraud was a predicate crime under the Third Directive already, and the 4th Directive would not help. In the Netherlands, e.g. evading taxes can be considered tax fraud and hence a predicate crime for money laundering. In Germany, evading taxes is mentioned in the fiscal code (§370 of the Abgabenordnung) where tax evasion of 50.000 Euro or more can result in prison. From 100.000 Euro on it should be punished with prison, the law says. In Germany, tax evasion was not a predicate crime for money laundering, since it did not figure under serious crime in the penal code; similar in Austria. In some countries, like Switzerland, tax evasion is a 'misdemeanour', not a serious crime, so would not fall under tax crime at all.

The subsidiarity principle does not allow the EU to regulate tax laws. But clearly, if one wants to fight tax evasion, it would be necessary for EU Member States to agree on what tax evasion is, from when on is it considered a serious crime, and a predicate crime for money laundering.

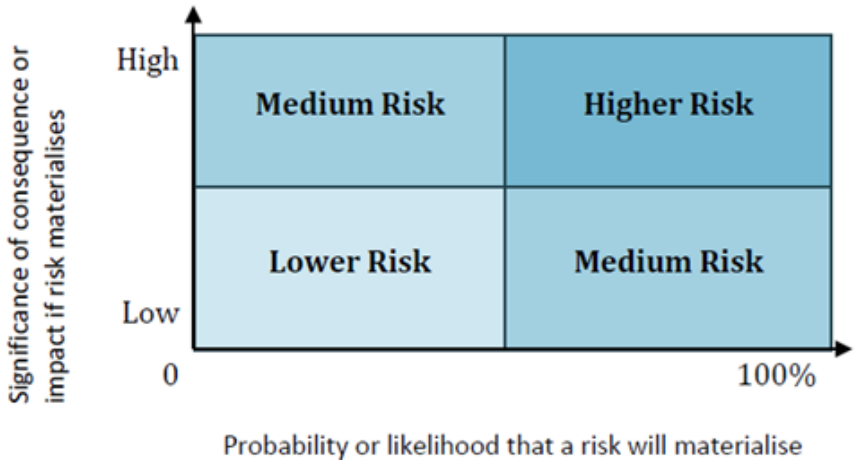
6.2.2. What is a money laundering risk?

The EU Directive wants the EU at supranational level (Article 6), the Member States at national level (Article 7) and the reporting entities (Article 8) as part of their CDD (Art 10-24) to identify money laundering risks. Risks should be identified at these three layers. For

[6] Unfortunately, there is almost no comparative penal law research covering several countries. One comparative law study on only one question, namely whether a lawyer, who defends a drug dealer and gets paid by him (so that it is likely that the payment is from drug proceeds), is a money launderer, covered 3 countries (Austria, Switzerland and Germany) and was 3oo pages long (Sven Hufnagel, Der Strafverteidiger unter dem Generalverdacht der Geldwäsche, Vergleich Österreich, Deutschland, Schweiz. Dissertation der Universität Wien, 2004). Lawyers may forgive me the preposterous short browse through the penal codes of those countries, with whose language I am sufficiently familiar to make the tentative table 5. Any corrections are welcome!

the second layer, Member States should assess national money laundering risk. But how should they do this? The reference to the FATF Guidelines (2013) (http://www.fatf-gafi.org/media/fatf/content/images/National_ML_TF_Risk_Assessment.pdf) on National Money Laundering and Terrorist Financing Risk Assessment seem promising only at a first glance. Identify, assess, understand risk in your country it says in big letters. You can use the following matrix, it says. But how do you have to do this? The guidelines stay vague and give no clue as how to quantify risks As a consequence, Member States have started to improvise.

Figure 7: Examples of a Risk Analysis Matrix



Source: FATF Guidelines (2013, p.27).

The EU proposes a **three-layers approach** (European Commission, 2015): each level (e.g. obliged entity, national, supranational) should take into account the risk assessment conducted at other levels, so as to fulfil the *holistic* nature evocated by the Directive.[7]

Table 6: National Risk Assessments of Member States

Country	Followed FATF guidance?	Method	Risk quantification / classification?	Includes unknown risks?	Replicable?
United States	Yes – with different taxonomy	Semi-quantitative	Any	No	No
United Kingdom	Yes	Mostly qualitative	Classification	No	No
Canada	Yes	Qualitative	Classification	No	No
Italy	Yes	Semi-quantitative	Classification	No	In part
Sweden	Yes	Qualitative	Classification	No	No

Source: (Veen & Ferwerda, 2016)

[7] Also the FATF recommends Risk Based Analysis to be applied by both countries and obliged entities. In particular "countries should identify, assess and understand the ML/TF risks […] and should take action, including designating an authority or mechanism to coordinate actions to assess risks […]" (FATF, 2012, p. 6); and "financial institutions and DNFBPs should be required to take appropriate steps to identify and assess their ML/TF risks (for customers, countries or geographic areas; and products, services, transactions or delivery channels). […] [They] should be required to […] manage and mitigate effectively the risks" (FATF, 2012, p. 33).

As van der Veen and Ferwerda (2016) showed, the outcomes of improvisation are manifold (see Table 6). Only one assessment (Italy) is partly replicable. All the other assessments are purely qualitative and cannot be traced.

Equally, each category of **obliged entity** may interpret the risk assessment in a different way; and even within the same category (e.g. the banking industry) different stakeholders (e.g. different banking groups) could rely on different models, *modi operandi* and practical tools which end up in very different analyses and risk maps.

Obviously this is part of the exercise itself – to **tailor the risk assessment to the specific nature (and risks) of each area, sector, activity** (that of a bank is not the same of a small law firm, which entails different risks and assessment needs). However, the **lack of harmonised and data-based** Risk Assessment methodologies makes it difficult:

- to replicate the risk assessment **over time**
- to produce **comparative analyses** across countries, sectors, areas
- to have **transparent, accountable and verifiable** methodologies.

In order to ultimately reach a **"holistic approach"** as called for by the 4th European AML Directive Article 22 (see Savona and Riccardi 2017). The Project IARM (Identifying and Assessing the Risk of Money Laundering), forthcoming in March 2017 developed a standardised methodology for money laundering risk assessment, and in particular a composite indicator of ML risk and tested it in three pilot countries: Italy, the Netherlands and the United Kingdom (see Savona and Riccardi 2017). With this an important loophole has been filled.

6.2.3. Feedback

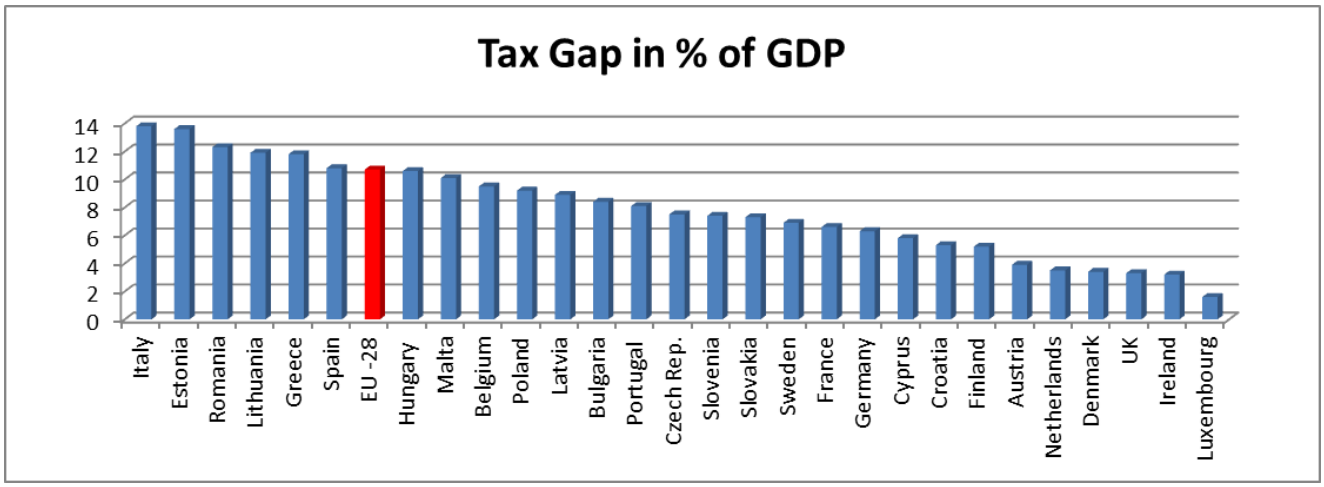
The Directive urges that FIU and public prosecutors should give more feed back to the reporting entities. But in many countries this is legally not possible due to privacy and data protection issues. Since reporting units often do not know how useful their reports have been for tracing launderers, it is difficult for them to improve their reporting system. Here it would help if countries or the EU could publish successful cases of well traced reports, and cases of flops. And if Member States would try to improve the feedback possibilities.

6.3. Estimated costs

Money laundering globally is estimated between 2.8 trillion USD and 1.5 trillion USD. As Figure 5 on Money Laundering Threats showed, money laundering in the Member States varies between 282 billion USD (UK) and 8 billion USD (Malta).

Tax evasion amounts to 5%-15% of Gross Domestic Product. In Italy, tax evasion according to Confindustria, amounted to 122 billion euro in 2015, **equivalent to 7.5% GDP** Italy, together with Romania, Lithuania, Slovakia and Greece have the highest Value Added Tax evasion of around one fourth of total value added tax revenue (IARM Project Report 2017 and CASE and CPB (2013). Raczkowski (2015) measures tax gaps (the difference between the amount of revenues calculated from GDP and the actual tax revenue income) by using the latent variable 'mimic' estimation model. He gets almost double as high tax gaps for Italy than Confindustra has calculated. As Figure 8 shows, Italy has the highest tax gap (13.8% of GDP), the EU average lies around 10% of GDP (see Raczkowski 2015).

Figure 8: Lost Gross Domestic Product due to tax losses (Tax Gap in % of GDP) in the EU-28



Source: Konrad Raczkowski (2015)

Depending on the method of measurement, and kind of taxes included, tax gaps vary. Mostly, they are measured for individual countries and purposes. Sweden, for example has a higher tax gap than in Figure 8, namely of **9%** of the theoretical revenue base (consisting of 60% informal sector, 15% international transactions, 15% large companies and 10% others) (van Kommer in Unger and van der Linde 2015). Internal Revenue Service www.fortune.com from 29th of April 2016 says tax evasion costs the US Government 458 billion USD a year. The International Monetary Fund estimated in July 2015 that profit shifting by multinational companies costs developing countries around US$213 billion a year, almost two percent of their national income (IMF 2015).

Though estimates of costs of tax evasion and avoidance vary, one can conclude that they are substantial, since they amount to several percentages of GDP.

7. THE USE OF OFFSHORE CENTERS FOR CRIMINAL PURPOSE AND ITS PRACTICE IN THE NETHERLANDS

7.1. Offshore Centers are a European problem

Since the Panama Papers and further leaks one gets the impression that Offshore Centers – like Panama are small island tax havens rather than large countries. Many authors before had just found the opposite (Rawlings and Sharman, Unger et al 2006, the Tax Justice Network).

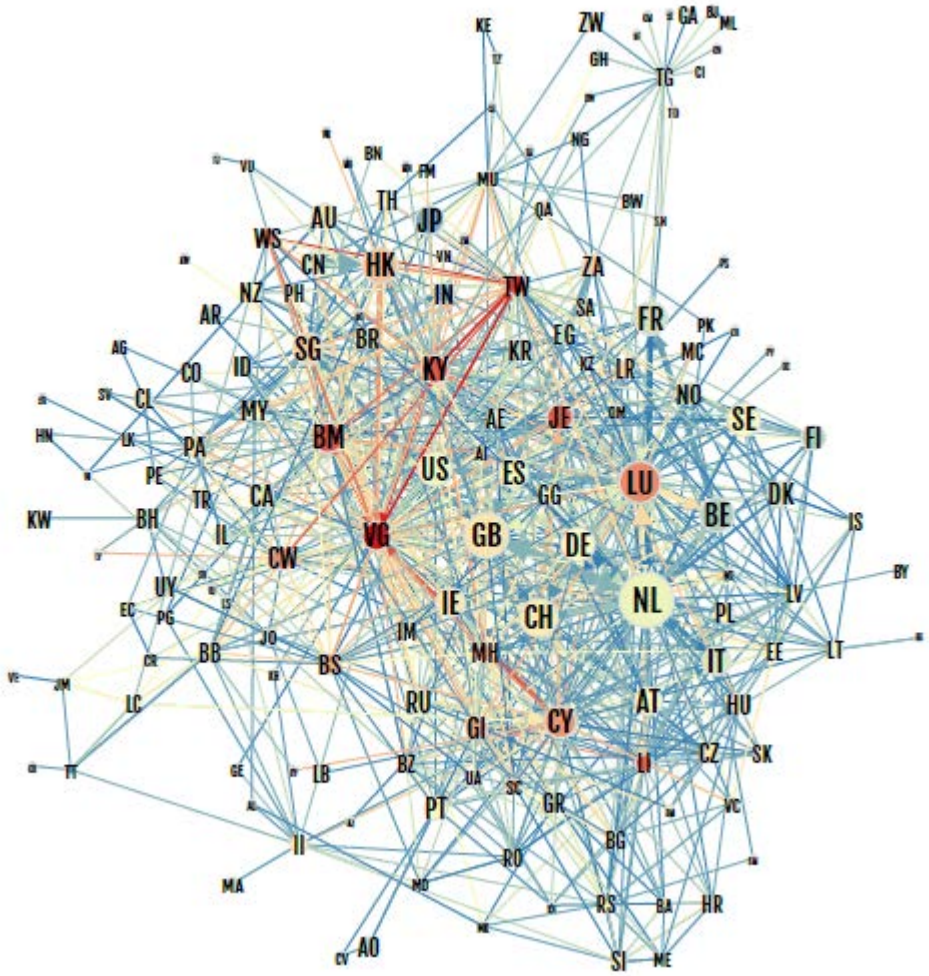
A new data-driven approach for identifying OFCs based on the global corporate ownership network, in which over 40 million firms (nodes) are connected through 71 million ownership relations (lines), has just been developed by four ambitious students at the University of Amsterdam (see Javier et al 2017).

The authors used data from the ORBIS database in November 2015, which covers data from 200 million public and private firms worldwide. The paper distinguishes between **sink Offshore Centers**, which attract and retain foreign capital and purely **conduit Offshore Centers**, which are mainly attractive for through flows of capital, and mixed types of OFCs. They identify 23 Offshore Centers which attract and retain foreign capital (sink OFC), and five purely through flow (conduit) OFCs. It is this small set of five countries – the Netherlands, the United Kingdom, Ireland, Switzerland and Singapore – which canalizes the majority of offshore investment. They facilitate the transfer of value from and to sink-OFCs, and are used by a wide range of countries. Each country is specialized in a geographical area: the United Kingdom serves as a conduit between European countries and Luxembourg (LU), Bermuda (BM), Jersey (JE), British Virgin Islands (VG) and Cayman Islands (KY). The Netherlands (NL) is the principal conduit between European companies and Luxembourg (LU), Curacao (CW) Cyprus (CY) and Bermuda (BM). Luxembourg and Hong Kong companies invest directly in European countries and China, without using a conduit OFC. In contrast, investments from countries typically identified as small tax havens (e.g., Bermuda (BM), British Virgin Islands (VG), or Cayman Islands (KY) do use conduit OFC, and thus companies located in these jurisdictions invest in other OFCs..

Against the idea of OFCs as exotic Caribbean islands, the authors show that many OFCs are highly developed countries.

Figure 9 shows the network of value flow between countries, where the color indicates the relative importance of the link. Red is used for values that stay (sink), yellow is used for through flows. The position of a country in the network is set so that countries well connected are close in space. This is reflected by European countries placed close to the Netherlands (NL) and Luxembourg (LU), while Asian countries are placed close to Hong Kong (HK) and other sink-OFCs, and the United Kingdom (GB) acts as an integrator between Europe and Asia. Figure 9 shows a connected inter-sink-OFC network, with the British territories triplet British Virgin Islands (VG), Bermuda (BM), and Cayman Islands (KY) at the center.

Figure 9: Centers in the Global Corporate Ownership Network



Source: Javier et al (2017)

Table 7 gives an overview over countries identified as sink Offshore Centers, where global values are parked, and of Conduit Offshore Centers, where global values flow through (see column 1). Column 2 lists the Oxfam tax havens, column 3 the tax havens according to the Financial Secrecy Index of the Tax Justice Network, column 4 the EU 2015 world tax havens blacklist (EU Business 2015), column 5 lists the IMF 2000 list of cooperative versus non cooperative countries. 1: stands for 'non-cooperative', 2: stands for 'below international standards' and 3 for 'generally cooperative'. Column 6 ranks countries according to the IMF 2008 Assessment Program for Offshore Centers.

Table 7: List of Offshore Centers and Tax Havens Compared (Javier et al 2017)

	This study	Oxfam	FSI2015	EU2015	IMF2000	IMF2008
	sink-OFCs					
Luxembourg	1	7	6		3	x
Hong Kong	2	9	2		3	x
British Virgin Islands	3	15	21	x	1	x
Bermuda	4	1	34	x	2	x
Cyprus	5	10	35		1	x
Cayman Islands	6	2	5	x	1	x
Jersey	7	12	16		3	x
Taiwan	8					
Curaçao	9	8	70		1	x
Malta	10		27		2	x
Mauritius	11	14	23		1	
Liechtenstein	12		36		1	x
Bahamas	13	11	25	x	1	x
Samoa	14		51		1	x
Gibraltar	15		55		2	x
Marshall Islands	16		14		1	x
Liberia	17		33		x	
Seychelles	18		72		1	x
Belize	19		60	x	1	x
Guyana	20					
St Vincent and Grenadines	21		64	x	1	x
Nauru	22				1	x
Anguilla	23		63	x	1	x
	conduit-OFCs					
Netherlands	1	3	41			
United Kingdom	2		15		x	
Switzerland	3	4	1		3	x
Singapore	4	5	4		3	x
Ireland	5	6	37		3	x
Belgium	Small		38			
Guernsey	Small		17	x	3	x
Panama	Small		13	x	1	x
	non-OFCs					
Barbados		13	22	x	2	x
Antigua and Barbuda			65	x	1	x
Grenada			82	x	x	x
Montserrat			92	x	x	x
St. Kitts and Nevis			69	x	1	x
Turks and Caicos Islands			68	x	1	x
US Virgin Islands			50	x		

The study also identifies what OFCs are doing economically. Ireland (IE) (together with GB) specializes in activities of head offices. For chains using Luxembourg as a conduit, 90% of the value ends up in an unknown sector in a sink-OFC. Similar trends are observed for Hong Kong, Singapore and Ireland. For Switzerland, 70% of the value ends in the sector 'mining and quarrying' in Jersey ((The root of the corporate structure of GLENCORE is there). Manufacturers of electronics and computers use predominantly Hong Kong as conduit, while holding companies use the Netherlands and Luxembourg as conduits, and other financial sectors use Ireland. Finally, the Netherlands is active in sectors 'business support service activities' (concentrated in Luxembourg). 'Hence, we observe a clear sectoral specialization of conduit-OFCs` (Javier et al 2017).

This type of study seems very promising. It could be used to analyze trade based money laundering of big companies and to locate the ultimate beneficial ownership of companies, when done for persons registered.

7.2 The Criminal Use of Offshore Centers

Igor Angelini, head of Europol's Financial Intelligence Group, said that shell companies 'play an important role in large-scale money laundering activities' and that they are often a means to 'transfer bribe money' (see EUROSTAT Handbook of Money Laundering, to appear in 2017).

Van Koningsveld (2015) did so far the most encompassing study about criminal use of offshore centers. He distinguishes four types of offshore companies:

International business companies are best known and resemble the offshore company in its most pure form as specific legislation is and/or was applicable which differs from legislation for local corporations. This type of offshore companies is generally considered as the most often used in cases of money laundering, tax fraud, corruption and other criminal activities.

Non-resident companies were introduced shorty after World War II with the rise of multinationals and the start of international tax planning. Because offshore companies in this form only were exempted from taxes when the companies were managed abroad from the country of incorporation, this type lost popularity.

Exempt companies were introduced as an alternative for non-resident companies. Exempt companies can be managed from abroad, in principle are subject to tax obligations in the country of incorporation but are exempted under certain conditions.

Zero Tax Companies are the last type of offshore companies defined in the literature. International pressure on certain countries to abolish their damaging tax practices, which differentiated between onshore and offshore companies, induced these countries to introduce a tax rate of 0% for all corporations.

It should be noted that a certain type of offshore companies does not exclude another type.

Van Koningsveld (2015) analyses the criminal involvement of Offshore Companies. For this he analyses the 17 biggest drug cases with which the Dutch fiscal police FIOD had to deal between 1990 and 2012. He also uses data from the police and the Chamber of Commerce... He calculates that in 741 criminal cases Offshore Centers were involved in 3434 financial transactions with a volume of 56 Billion Euro within the last fourteen years. 80% of cases concerned money transfers between banks. Many activities of OFC were in Dutch real estate and mortgage market. In almost all of the investigated organized crime cases offshore companies played a role in financing of or investing in real estate in The Netherlands

Van Koningsveld also analysed unusual transaction reports, from which the Dutch FIU filters out suspicious ones. Between 2010 and 2013 813,000 unusual transactions have been reported. In 62,000 unusual transactions a legal person or corporation was involved. Koningsveld identified 480 purely foreign legal entities related to offshore jurisdictions. They were involved in 922 suspicious transactions with a total value exceeding 1.1 billion Euros.

Another indication of the abuse of foreign legal persons can be found when looking at the 'monitor organized crime', which points out that foreign legal persons were involved in 35% of the investigated files in 2002 and 32% of the investigated files in 2007.

This pioneer study of Van Koningsveld (2015) clearly proofs that offshore companies a r e involved in tax evasion and money laundering. Also a US Senate Study of 2008 finds that 100 billion USD are lost due to tax fraud by Offshore Companies, whereby 70% by individuals and 30% by companies (US Senate 2008).

This means that the revelations of the Panama Papers where not just a coincidence. Individuals and companies abuse offshore constructions in order to hide from paying taxes or being prosecuted as criminals.

7.3. The Koningsveld study in the light of the Panama Papers

The study by van Koningsveld was done before the Panama Papers were revealed. The Panama Papers show that many Dutch residents and (owners of) small and medium enterprises set up offshore companies. From the Panama Papers persons who use offshore companies can be identified, but nothing can be concluded on whether offshore companies are abused illegally. The study of Koningsveld showed that there are indications of criminal abuse. In addition, a large part of the offshore companies appearing in the Panama Papers linked to the Netherlands still have to be connected to Dutch citizens and/or companies. Also the names of several individuals known for their criminal activities, like money laundering, drug dealing and investment fraud are present in the Panama Papers.

The Panama Papers also confirm the conclusion that trust offices insufficiently perform their monitoring tasks. Additionally it is found that offshore companies consciously create false invoices, conceal beneficial owners and sign obviously false contracts. From the Panama Papers it also follows that a Dutch legal firm is involved by establishing dubious constructions where offshore companies are involved. Appendix 3 gives an overview over the most important empirical estimates and sources of the Koningsveld (2015) study.

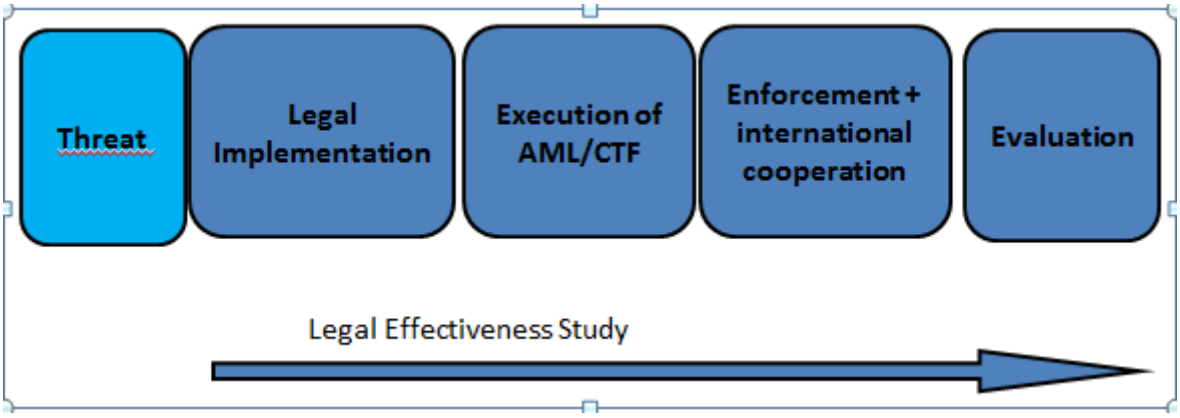
8. THE EFFECTIVENESS OF ANTI MONEY LAUNDERING POLICY AND LOOPHOLES

In 2009-2012, the Project ECOLEF, 'The Economic and Legal Effectiveness of Anti-Money Laundering and Combating Terrorist Financing Policy JLS/2009/ISEC/AG/087 was made possible with the financial support from the Prevention of and Fight against Crime Program of the EU-Commission Directorate-General Home Affairs. It analysed the anti-money laundering policy of 27 EU Member States. Croatia was then still not an EU Member and is, therefore, missing in the following. The study was later also published in a shorter version by Edward Elgar (Unger et al 2014).

The ECOLEF Study wanted to analyse the effectiveness of anti-money laundering policy starting from implementing the third EU anti-money laundering directive into the legal system of the Member States, through the whole preventive and repressive policy process, till the conviction of launderers. For this, 201 questions were prepared, which were partly answered through desk study (FIU reports, Mutual Evaluation Reports of Member States), and partly by surveys. Five questionnaires for ministries, Financial Intelligence Units, Public Prosecutors, Supervisors and Supervised banks were developed and sent to all 27 Member States. In addition, the ECOLEF team visited all countries and made more than 100 interviews with involved policy makers. In four regional workshops ministries, FIUs and Public Prosecutors commented solved cases. It was especially this last part which allowed to detect subtle differences between Member States' interpretation and understanding of anti-money laundering policy.

We did not find out much about terrorist financing, since completely other actors are involved in its combat, to which we had no access. In some Member States it is even secret, where the secret service is located.

Figure 10: Five Building Blocks for Evaluating the Effectiveness of Anti Money Laundering Policy



8.1. Legal Effectiveness

With regard to the legal implementation of the 3rd Directive, which was due 15th of December 2017, we found quite some delays of some of the Member States. France, Sweden, Spain, Ireland and Belgium had delays of more than two years. The reasons for delay that countries mentioned were:

Legal Difficulties

Some countries, like Ireland, mentioned that the Anti-Money Laundering Law simply did not fit their legal system. Other countries, like Austria, were almost on time, but had to change numerous laws (penal code, securities law, banking law, banking supervision law,

administrative law etc., in total around 50 laws), in order to fit the 'odd American law' precisely into their meticulously legal system which dates back to Maria Theresia. The purity of law is important in a country, where lawyers are still overwhelmingly present in politics. The Dutch were more pragmatic and implemented the Directive into their national law and let the courts decide if something does not fit. Other Member States, especially Eastern Europeans had difficulties to write the Directive. One Member State drafted it itself, but found out later, that references to the relevant legal code were missing. So §126b did not mean much, since it did not say of which law. This is, why this country (and many other Eastern European countries) decided to just copy and paste the Directive. With this, no criticism of the FATF was possible.

Social and political difficulties

Some countries mentioned social difficulties, especially the opposition of legal professions who contested since they saw having to report suspicious clients as a violation of their legal privilege to protect clients. Belgium, France and Poland mentioned this point. Some countries mentioned political difficulties as a reason for the implementation delay. Belgium had no government, so the law could not pass. Also other difficulties were mentioned. For example France pointed at long parliamentary procedures.

In general the EU Directive was well perceived by the Member States. The EU had prepared the Directive well, and since it built upon FATF standards, which had to be dealt with anyway, it did not create additional problems.

What we could notice is that old Member States had statistically significantly more delay in the implementation than new Member States.

Factors that were less well perceived (and now largely incorporated into the 4th Directive) were:

A divergence between FATF Recommendations and Third Directive with respect to simplified due diligence and third party reliance ('EU equivalence'). Countries which fulfilled the EU Directive were still criticized by the FATF for not fulfilling the stricter FATF standards.

Open norms, application and interpretation difficulties with regard to Ultimate Beneficial Owners, Politically Exposed Persons and simplified CDD have to be mentioned.

Country-specific factors that had a negative impact (cf. table 4.6 p.68 in the ECOLEF 2013 report):

Fundamental: gaps in scope of coverage of obliged institutions (e.g. trust and company service providers not covered in Austria) and deficiencies in criminalization (for example some countries had no organized crime in their penal code but only persons).

8.2. Enforcement

We studied the role of the FIU, found differences in the number of tasks they do (for example also drafting the law, or supervising entities), found enormous differences in staff numbers (ranging from 100 full time positions in Italy to 17 people for Germany and 10 people in smaller countries like Estonia and Malta. Big differences exist access to data. With regard to tax evasion, the lack of access to tax data in Germany and Ireland is noticeable. However, there are reforms of FIUs now, and a separate study on the role of FIUs will be prepared by the European Parliament.

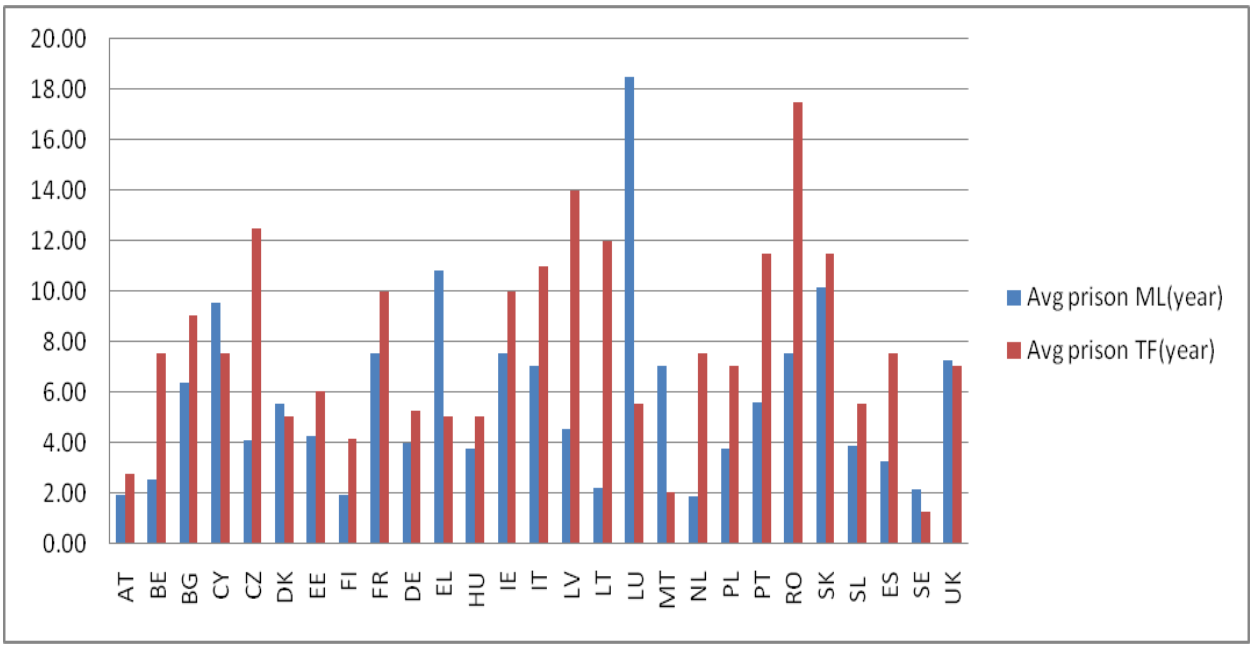
We also studied supervisors and found that supervision was still a step child in the anti-money laundering combat.

8.3. Execution

We studied the role of public prosecutors and the information flow between FIUs, police and public prosecutor. The lack of feedback from the Public Prosecutor to the police and the FIUs and from the FIUs to reporting entities was seen as a weakness of the chain. There are also huge differences between sentences for money laundering

Sentences for money laundering crimes still differ a lot in member countries. We calculated average prison years per country (taking the highest minus the lowest sentence of jail and calculating fines into prison months):

Figure 11: Sentences for Money Laundering and Terrorism Financing in 2012 in the EU-27



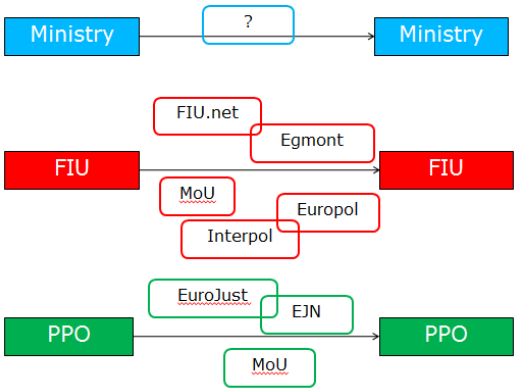
Source: ECOLEF 2012

From the effectiveness of execution (measured by the quality of information flows) and from the expected sentence we calculated, where a rational launderer would do his laundering business in the EU. According to our calculations, rational launderers would go to the North of Europe (strict enforcement but low fines) or to the South (high fines but lax enforcement) rather than to the West (strict enforcement and high fines)

8.4. International Cooperation

International Cooperation takes place at the same levels. As Figure 12 shows, Ministries cooperate with ministries (we did not study this channel), FIUs cooperate with other FIUs through the Egmont Group, through FIU.net, through Memorandi of Understanding, through Europol and Interpol. Public Prosecutors cooperate also through Memorandi of Understanding, through Eurojust and the European Justice Network.

Figure 12: International Cooperation



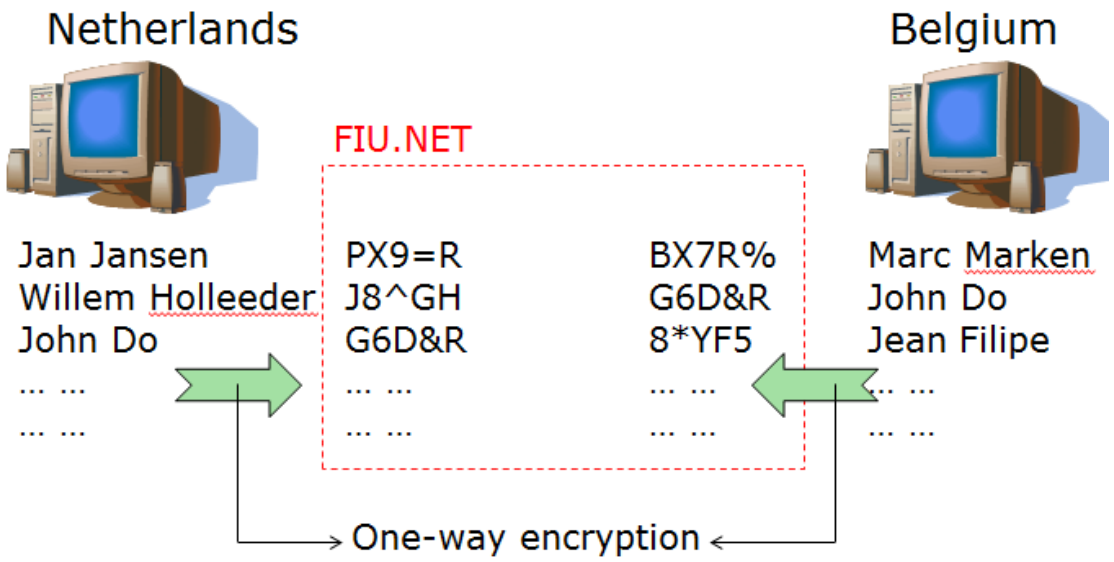
Source: ECOLEF 2012

The major hindrance in international cooperation identified by the workshop participants of ECOLEF was time delays. 15 Member States mentioned this as the biggest problem. 9 countries criticized conflicting data protection systems. 6 countries complained that the information exchanged was not specific to the request. And only four countries mentioned language barriers.

Since money laundering is an international crime, combating it needs improvement in international cooperation. The access to a joint database would help.

One solution might be found in exchanging information by using new technologies, without threatening privacy. The FIU.net model has developed this.
Imagine the Netherlands and Belgium have suspects and want to check whether the other country has information on him or her. Say, the Netherlands has suspects Jan Jansen, Willem Holleeder and John Doe. The Belgium have suspects Marc Marken, John Doe and Jean Filipe. Each suspect gets an encrypted code from the FIU.net. For example John Doe gets G6D&R. Both the Netherlands and Belgium find out that they have one match (John Doe). Belgium does not know that the Netherlands is looking for Jan Jansen and Willem Holleeder, the Netherlands do not know that Belgium is looking for Marc Marken and Jean Filipe. The only know that they both have information on John Do. Now, they can decide, whether they want to share information. The advantage of encrypted data is that one can decide with whom one wants to share information, so there is no loss over the control of data.

Figure 13: Exchanging Information Confidentially



8.5. Overall Evaluation

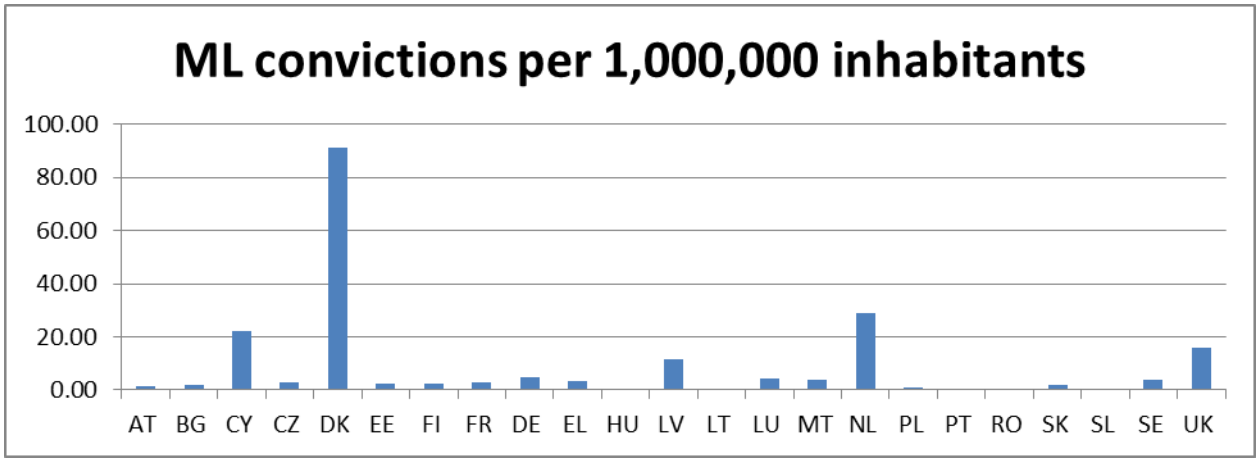
8.5.1. Low number of convictions

Seen all the efforts taken, from drafting the Directive to reporting, the FIU, police and prosecution efforts, the number of convictions for money laundering is still very small.

We did not analyze the last piece of the money laundering chain, the role of judges. But – apart from Denmark, Member States do not have much success here. One reason is that in many countries, crimes are not added up, and the harder crime is punished. So, if a drug dealer is convicted, he will get the fine for drug dealing. Money laundering would be a lower fine, so would not count. This is, why many judges and prosecutors do not see the money laundering law as a help. That there is a reversal of the burden of proof is not practiced by many judges and prosecutors. They simply find it odd, violating legal principles. And if the judge has to proof that the money stems from an illegal source, why not immediately prosecuting for the predicate crime, so the opinion of many judges.

Seen that countries get criticized for too little convictions, prosecutors and judges will also tick the money laundering box. It seems this paradigm change in law which many participants did not believe.

Figure 14: Money Laundering Convictions per million inhabitants in 2012



8.5.2. Four Europe

Analyzing all the data we had collected and letting the computer cluster countries which are similar, we found the following four groups (see Figure 15):

- The first group includes Austria, Denmark, Finland, Sweden, Germany and Ireland. These countries have legal problems to properly implement AML policy. Most of these countries had self-laundering excluded from money laundering. Their idea was that if a person stole money and was then caught with this money and charged for money laundering, this would be double punishment. Under strong pressure from the FATF, by now, all countries changed their laws to include self-laundering as a money laundering crime. Germany was the last country to change. But for this group of countries (except for Denmark) the American anti-money laundering laws do not fit their legal system.
- The second group of countries include Belgium, France, Greece, Italy, Portugal, Spain and the United Kingdom. Most of these countries are internally politically divided which prevents a joint policy.
- The third group includes the Netherlands, Cyprus and Luxembourg. These are countries which experience money laundering as a through flow and hence not as their own problem.
- The fourth group includes Bulgaria, Hungary, Romania, Czech Republic, Malta, Poland, Slovakia, Slovenia, Latvia, Estonia, Lithuania. These are new Member States who have to catch up economically and more urgent problems than fighting money laundering.

In order to converge to a joint anti-money laundering combat, the EU must target these four groups differently. Advanced countries have to train less advanced countries and must aim at creating a common understanding of the need for anti-money laundering.

Figure 15: Four Europe for Anti Money Laundering Policy

Group	Countries
1	Austria, Denmark, Finland, Germany, Ireland and Sweden
2	Belgium, France, Greece, Italy, Portugal, Spain and the United Kingdom
3	Cyprus, Luxembourg and the Netherlands
4	Bulgaria, Hungary, Romania, Czech Republic, Malta, Poland, Slovakia, Slovenia, Latvia, Estonia, Lithuania

Source: ECOLEF (2013)

9. POLICY RECOMMENDATIONS

- Money Laundering amounts to 2%-5% of GDP worldwide. Tax revenue lost through tax evasion is estimated to be around 10% of GDP in the EU-28. So a substantial amount of economic resources is escaping legal channels.
- Combating money laundering and tax evasion can be done in several ways. One way is to put higher sanctions and involve more resources for execution (the stick method). The US clearly follows this approach. Another way is to create voluntary compliance of the many actors involved in anti-money laundering policy: governments, banks, and facilitators like lawyers, notaries, real estate agents, policemen, and supervisors. These groups would have to be targeted separately, since they have very different relations with launderers. This is a more ambitious but in the long run more promising approach. It aims at creating compliance through searching for different incentives for obliged entities, through whitelists and positive naming of successful combats (the carrot method). An example given was the study of Verbeeten (2015) who discusses positive incentives for accountants. A third way is that the regulator has enough information, to 'invite' the actors to comply by showing that he possesses the information necessary to detect tax crime. The Dutch tax authorities, for example, pre fill-in the tax sheet of the citizens, showing that they know the amount of money on their bank account, their house value, their mortgages, their financial assets etc. Citizens can correct these numbers by giving proof that they differ. But there is not much space left for cheating. Only about foreign assets the Dutch authorities do not know enough. If one could create a European wide transparent tax declaration system, many loopholes for evading taxes would automatically be closed.
- New technologies, such as encrypted data, allow for sharing information without giving up confidentiality. The example of FIU.net in this study showed how FIUs can search whether other FIUs have information on their suspects without having to give up control over their data.
- In order to reach a harmonized anti-money laundering policy in Europe, a one size fits all approach does not seem promising. European countries are too different to all comply in the same way. The study showed that there are four groups of countries within the EU, which should be targeted differently. Eastern European countries should be trained and supported by older Member States.
- Regarding Offshore Companies and Offshore Centres, there should be a common international definition what they are and include. Transparent registers and reports should keep the world informed what they are doing.
- Van Koningsveld (2015) suggests to establish an international and/or national 'knowledge bank' to increase the knowledge and transparency of offshore companies and their structures. If each country, or a group of cooperating countries, establishes such a knowledge centre, then this knowledge and experience could be exchanged internationally.

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ANNEX

A.1 A time line of anti-money laundering legislation

Defined as the process of concealing the origins of money obtained illegally[8], money laundering has slowly gained momentum on the center stage of US, and later, global policy making.

In the US:

- The Bank Secrecy Act [BSA] (1970) has been the starting point in the fight against money laundering. The law established requirements for recordkeeping and reporting by private individuals, banks and other financial institutions and required banks to report cash transactions larger than $10,000, to identify persons that transact with the bank and to keep appropriate records of financial transactions.
- The BSA was followed by the Money Laundering Control Act (1986) that established money laundering as a federal crime and further reinforced the enforcement of the BSA – by prohibiting structuring transactions to evade the reporting of cash transaction higher than $10,000, by introducing civil and criminal forfeiture for BSA violations and by incentivizing banks to create the conditions for compliance monitoring as requested in the BSA.
- The Anti-Drug Abuse Act (1988) expanded the definition of financial institution that were subject to reporting large currency transactions and required the additional verification of the identity of purchasers of monetary instruments larger than $3,000.
- The Annunzio-Wylie Anti-Money Laundering Act (1992) further strengthened the sanctions for BSA violations, increased the scope for verification and recordkeeping and required obliged entities to report suspicious activity in relation to money laundering.
- The Money Laundering Suppression Act (1994) further pressured banks to create the means for effective detection and reporting of money laundering and introduced new federal registration requirements for Money Services Businesses.
- The Money Laundering and Financial Crimes Strategy Act (1998) required the Department of the Treasury and other agencies to develop a National Money Laundering Strategy, created specialized anti-money laundering task forces and required banking agencies to develop anti-money laundering training for examiners.
- Following the 9/11 attacks on the World Trade Center, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (2001) (USA PATRIOT Act – Title III) criminalized the financing of terrorism, prohibited business with foreign shell banks, expanded the scope of the anti-money laundering legislation to all financial institutions, strengthened and expanded existing customer identification procedures, improved information sharing between financial institutions and the government, required banks to respond to regulatory requests for information within 120 hours, increased civil and criminal penalties for money laundering, and provided the Secretary of the Treasury with the authority to impose "special measures" on jurisdictions, institutions, or transactions that are of "primary money laundering concern".[9]

[8] See UN Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) - Article 3(b) with the later expanded list of predicate offences.

[9] FinCEN: History of Anti-money Laundering laws, available at https://www.fincen.gov/history-anti-money-laundering-laws .

- The Intelligence Reform and Terrorism Prevention Act (2004) amended the BSA to require the Secretary of the Treasury to prescribe regulations requiring certain financial institutions to report cross-border electronic transmittals of funds, if the Secretary determines that such reporting is "reasonably necessary" to aid in the fight against money laundering and terrorist financing.[10]

Increasingly aware of the international dimension of money laundering, **the US pushed for a global strategy.**

- The United Nations Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) criminalized the laundering of proceeds of drugs related offences.
- In 1989 the Financial Action Task Force FATF – an intergovernmental organization was created by the G-7. Until the late 1990s FATF was an exclusive international organization, with membership restricted to the OECD-countries.
- In 1990, common rules to fight money laundering, the so-called '40 Recommendations' were released only one year after FATF's foundation. They include the criminalization of money laundering, the establishment of a Financial Intelligence Unit to whom financial institutions and later other groups like notaries, lawyers, dealers in great values etc. have to report suspicious transactions, know your customer rules, customer due diligence for banks etc.
- The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (1990) criminalizes money laundering as an autonomous offence and expands the range and reach of the predicate offences.
- In 2001, just weeks after 9/11, 'Nine Special Recommendations on Terrorism Finance' were added to the Forty Recommendations of the FATF; Money laundering and financing of terrorism are since then treated together. Money laundering becomes herewith a first priority issue of national security.
- In June 2003, the Financial Action Task Force (FATF) revised its Recommendations to cover terrorist financing, and provided more detailed requirements in relation to customer identification and verification.
- The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (2005) sets standards on the access to financial information or information on assets held by criminal organizations, for both the prevention and the control of money laundering and of terrorism financing.
- In 2012, the FATF revises the 40 plus Nine Recommendations into Forty Recommendations which now include Terrorism Financing.

Finally, the EU transposed the recommendations of the Financial Action Task Force (FATF) – an inter-governmental organization created by the G-7 in 1989 to coordinate global efforts on money laundering

- EU Council Directive 91/308/EEC of 10 June 1991 on prevention of the use of the financial system for the purpose of money laundering defined money laundering in terms of drugs offences and imposed obligations solely on the financial sector. (1st AML Directive).

[10] *Ibid* 2.

- Directive 2001/97/EC of the European Parliament and of the Council extended the scope of Directive 91/308/EEC both in terms of the crimes covered and in terms of the range of professions and activities covered. (2nd AML Directive).
- Directive 2005/60/EC of the European Parliament and of the Council on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (2005) included the FATF recommendations of 2003 and included terrorist financing. (3rd AMl Directive).
- Commission Directive 2006/70/EC of 1 August 2006 laying down implementing measures for Directive 2005/60/EC of the European Parliament and of the Council as regards the definition of politically exposed person and the technical criteria for simplified customer due diligence procedures.
- Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. This 4th AML Directive takes into account the latest recommendations of the Financial Action Task Force ("FATF") from 2012. Point 11 of the Directive stresses that it is important expressly to highlight that 'tax crimes' relating to direct and indirect taxes are included in the broad definition of 'criminal activity' in this Directive, in line with the revised FATF Recommendations.

A.2 Offshore activities in the Panama Papers

Country/Area	Offshore Entities	Officers	Country/Area	Offshore Entities	Officers
Albania	2	25	China	4188	33290
Algeria	0	22	Colombia	1854	1245
American Samoa	1	16	Comoros	-	-
Andorra	490	55	Congo, Dem. Rep.	0	0
Angola	10	58	Congo, Rep.	-	-
Anguilla	23	254	Cook Islands	558	408
Antigua and Barbuda	280	229	Costa Rica	894	453
Argentina	270	1294	Cote d'Ivoire	21	36
Armenia	0	37	Croatia	20	38
Aruba	27	29	Cuba	11	19
Australia	118	1703	Curacao	64	124
Austria	76	121	Cyprus	6374	3678
Azerbaijan	8	127	Czech Republic	173	272
Bahamas	5021	1593	DR Congo	0	51
Bahrain	13	94	Denmark	14	65
Bangladesh	2	56	Djibouti	1	4
Barbados	35	47	Dominica	66	555
Belarus	35	98	Dominican Republic	486	268
Belgium	61	363	Ecuador	1852	928
Belize	1455	626	Egypt	38	316
Benin	0	9	El Salvador	234	99
Bermuda	149	402	Equatorial Guina	0	2
Bhutan	0	1	Estonia	881	108
Bolivia	95	43	Ethiopia	0	2
Bosnia and Herzegovina	0	6	Fiji	3	13
Botswana	6	105	Finland	66	60
Brazil	1399	2056	France	304	1005
British Virgin Islands	69092	15211	French Polynesia	0	19
Brunei	5	73	Gabon	0	34
Bulgaria	50	117	Gambia	0	7
Burkina Faso	0	1	Georgia	2	82
Burundi	-	-	Germany	197	504
Cambodia	0	30	Ghana	3	37
Cameroon	1	51	Gibraltar	2113	947
Canada	912	1352	Greece	223	400
Cape Verde	0	24	Grenada	3	3
Cayman Islands	2520	1085	Guam	1	5
Central African Republic	1	42	Guatemala	1233	527
Chad	11	51	Guernsey	7332	3473
Chile	140	220	Guinea	0	10
			Guinea-Bissau	0	1
			Guyana	0	3

Country/Area	Offshore Entities	Officers	Country/Area	Offshore Entities	Officers
Haiti	8	224	Mauritania	-	-
Honduras	24	17	Mauritius	1344	1412
Hong Kong	51295	25982	Mexico	68	289
Hungary	90	186	Moldava	2	85
Iceland	15	213	Monaco	3168	1398
India	22	1046	Mongolia	0	49
Indonesia	71	3544	Montenegro	13	29
Iran	4	148	Morocco	41	68
Iraq	0	31	Mozambique	3	28
Ireland	1936	261	Myanmar	0	36
Isle of Man	4893	2018	Namibia	2	35
Israel	684	1097	Nauru	1	19
Italy	347	1196	Nepal	0	19
Jamaica	4	29	Netherlands	251	352
Japan	28	899	New Zealand	85	487
Jersey	14562	7100	Nicaragua	12	15
Jordan	1553	421	Niger	0	2
Kazakhstan	8	265	Nigeria	21	196
Kenya	25	191	Niue	372	148
Korea, Rep.	-	-	Norfolk Island	0	1
Kosovo	-		North Korea	0	0
Kuwait	63	174	Northern Mariana Islands	0	0
Kyrgystan	0	5	Norway	17	115
Laos	0	56	Oman	2	66
Latvia	2941	162	Pakistan	3	259
Lebanon	486	756	Palestine	0	12
Lesotho	1	1	Panama	18122	5357
Liberia	12	148	Papua New Guinea	0	4
Libya	2	59	Paraguay	127	40
Liechtenstein	2070	1147	Peru	52	1662
Lithuania	33	36	Philippines	49	882
Luxembourg	10877	1764	Poland	161	146
Macao	25	342	Portugal	246	300
Macedonia	2	3	Puerto Rico	3	8
Madagascar	0	14	Qatar	27	99
Malawi	1	46	Romania	8	109
Malaysia	553	2973	Russia	11516	6285
Malidives	0	17	Rwanda	0	3
Mali	8	20	Réunion	0	2
Malta	714	351	Saint Kitts and Nevis	392	882
Marshall Islands	6	211	Saint Lucia	7	20
Martinique	0	7	Saint Martin (French Part)	0	1

Country/Area	Offshore Entities	Officers	Country/Area	Offshore Entities	Officers
Saint Pierre and Miquelon	0	0	United Kingdom	17973	5676
Saint Vincent and the Grenadines	6	56	United States	6254	7325
Samoa	9729	918	Uruguay	4906	2016
San Marino	0	1	Uzbekistan	5	104
Sao Tome and Principe	0	0	Vanuatu	34	591
Saudi Arabia	106	734	Venezuela	750	831
Senegal	3	17	Viet Nam	19	189
Serbia	9	54	Yemen	1	9
Seychelles	1446	1952	Zambia	2	47
Sierra Leone	0	7	Zimbabwe	8	293
Singapore	5869	6116			
Sint Maarten (Dutch Part)	1	4	Not identified	25700	39446
Slovakia	1	128			
Slovenia	21	58			
Solomon Islands	0	1			
Somalia	0	32			
South Africa	120	1984			
South Korea	8	175			
Spain	1170	831			
Sri Lanka	3	65			
Sudan	1	9			
Suriname	0	8			
Swaziland	0	16			
Sweden	84	201			
Switzerland	38077	4595			
Syria	5	65			
Taiwan	2906	19571			
Tajikistan	0	12			
Tanzania	3	53			
Thailand	1013	1413			
Togo	0	2			
Tokelau	0	0			
Tonga	0	15			
Trinidad and Tobago	6	18			
Tunisia	4	31			
Turkey	101	684			
Turkmenistan	0	18			
Turks and Caicos Islands	41	75			
U.S. Virgin Islands	13	609			
Uganda	1	8			
Ukraine	469	643			
United Arab Emirates	7772	3397			

Source: ICIJ Panama Papers (2016) Per country/area information on linked entities: A company, trust or fund created in a low-tax, offshore jurisdiction by an agent; officers are defined as: A person or company who plays a role in an offshore entity.

A.3 Major findings and estimates on Offshore Companies in Koningsveld 2015

What is estimated	Volume	Sources	Time	Page in PhD
Number of worldwide pure OFCs	1,583,702	Trade registers, INCSR, Company formation survey	2013	262/263
Number of worldwide mixed OFCs	561,978	Trade registers, INCSR, Company formation survey	2013	265/266
Foreign Legal Persons registered in NL	40,044	Dutch trade register	2013	276
OFCs registered in NL	3,438	Dutch Tax Authority	2006	278
Managed wealth worldwide	$ 8,900 billion	Global Wealth Report	2013	285
Managed offshore wealth of Dutch people	$ 143,586 million	Global Wealth Report	2010	285
Offshore managed wealth	$ 5-7,000 billion	OECD	2007	284
Money flow through Dutch SPEs	€ 8,610 billion	DNB	2012	306
Directly acquired real estate by OFCs in NL	€ 1,620 million	Housing Register Cadastre	2013	322
Directly financed real estate by OFCs in NL	€ 23.6 billion	Housing Register Cadastre	2013	327
Unusual transactions by OFCs in NL	€ 1.1 billion	FIU	2010-2013	337
Offshore loans in NL	€ 1.3 billion	Tax authorities/FIOD	1997 →	341
Evidence found for OFC abuse in % cases	54%-58%	FIOD/National Investigation agency	2010-2013	342
No. of OFCs abused in (drug) criminal cases	57	29 FIOD cases	2004-2016	252
Illegal transactions (corruption, worldwide)	$ 56.4 billion	The Puppet Masters, 150 cases	Till 2011	190

CAT: QA-04-17-281-EN-C (paper)
CAT: QA-04-17-281-EN-N (pdf)

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ISBN 978-92-846-0754-9 (paper)
ISBN 978-92-846-0753-2 (pdf)

doi: 10.2861/247938 (paper)
doi: 10.2861/539319 (pdf)

Publications Office

Offshore activities and money laundering: recent findings and challenges