

**COMMITTEE OF INQUIRY INTO MONEY LAUNDERING,
TAX AVOIDANCE AND TAX EVASION (PANA)**

TUESDAY 28 NOVEMBER 2017

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**PUBLIC HEARING
MONEY LAUNDERING: THE CASE OF NLB FINANCIAL GROUP SLOVENIA
AND AZERBAIJAN LAUNDROMAT REVELATIONS**

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PANEL 1: NLB financial group Slovenia

Anze Logar, Member of the Slovenian Parliament, President of the Commission for identifying irregularities in banks

Borut Mekina, journalist from Mladina Newspaper

PANEL 2: Azerbaijan Laundromat revelations

Eva Jung, Michael Lund

and Simon Bendtsen, journalists from Danish newspaper Berlingske

Carl Dolan, Director of Transparency International (Brussels office)

1-002-0000

IN THE CHAIR: WERNER LANGEN

Chair of the Committee of Inquiry to investigate alleged contraventions and maladministration in the application of Union law in relation to money laundering, tax avoidance and tax evasion

(The meeting opened at 10.10.)

1-003-0000

The Chair. – *Good morning, everyone!* This is our last but one public hearing. This morning we will spend two and a half hours on the topic entitled ‘Money Laundering: the case of NLB Financial Group Slovenia and Azerbaijan Laundromat Revelations’. The first panel is for the Financial Group Slovenia. May I just say that we have interpretation into 15 languages – many thanks to the interpreters –, and also that we have web streaming this time and that we are slightly behind. For that reason, I don't want to make a long preliminary remark. The first part of today's hearing concerns the case of NLB Financial Group Slovenia and Azerbaijan Laundromat Revelations. This afternoon, our final hearing will be concerned with the Paradise Papers and their impact.

I am pleased to be able to welcome two speakers today. For the case of NLB Financial Group Slovenia, Anze Logar, Member of the Slovenian Parliament, and President of the Commission for identifying irregularities in banks. Welcome Mr Logar. Then Borut Mekina, a journalist from the newspaper Mladina. Welcome.

I want to briefly explain how we will proceed. We have granted each speaker seven minutes to give their presentation. Following this, we will have questions from colleagues. We have divided this into four minute slots – one minute for the questions, and three minutes for the answers –, so that we can manage it in the allocated time.

I'd now like to give the floor to the President of the Commission from the Slovenian Parliament. Mr Logar, the floor is yours.

1-004-0000

Anže Logar, *Member of Parliament, President of the Commission for identifying irregularities in banks.* – *(During the presentation, the speaker followed a PowerPoint presentation.)* Thank you, President, hello, members of the Committee. I know that you discuss interesting topics at this Committee and I believe that this is also one of the topics that might raise an eyebrow or two. I will present the Farrokh case in Nova Ljubljanska banka, the largest national bank in Slovenia.

I have prepared a presentation. If you could present the next *slide* on my mark, please. The first *slide*, the one following this one, briefly describes what is recorded at the Office for Money Laundering Prevention as suspicion of money laundering.

In the Farrokh case, which is under consideration at this Committee, all three cases, or three circumstances, which substantiate the suspicion of money laundering, are met. We encountered this during our investigation of secret documents in one of the State-owned banks.

The Farrokh case: this is a company, established in the British Virgin Islands in 2006 with two dollars of initial capital. This company operated through a Swiss bank. When, due to suspicious transactions, their operations through the Swiss bank were forbidden or terminated in 2008, the company came to the largest State-owned bank, Nova Ljubljanska banka.

In this case, this was a company that had its current accounts in two banks, which are on the list of banks with which the European Union, as well as the UN, prohibit operations for due to them taking part in the proliferation of the Iran weapons programme or transfer of dual goods use.

Specifically, the Farrokh case operated through the Export Development Bank of Iran, the national bank, which was in July 2007 - 2010, for the reasons mentioned, placed on this list and, for this reason, the operations with this bank were prohibited.

This is the entire financial scheme showing how this bank or this company operate. Each company, established a few months earlier, i.e. the company, established with two dollars of initial capital, transferred EUR one billion in two years through Nova Ljubljanska banka into the banking systems of the European Union, USA, Australia and so forth.

The transaction took place in such a way that, for example, in one day a significant sum of money came through, which was then transferred into fifty smaller amounts. In one month, there was up to EUR 70 million transferred through this account at Nova Ljubljanska banka. As mentioned above, in two years more than EUR 1 billion.

In 2010, Farrokh was, as I have already mentioned, with two dollars of initial capital, the largest client in the payment transactions of Nova Ljubljanska banka. Larger than the national companies Telekom or Krka, the latter exporting to Russia and all other markets.

Already, at the beginning of its operations, i.e. in 2009, the employees of the bank warned about suspicious transactions and asked for attention to be paid to operations with Iran. They reported their concerns to their superiors. They always received the reply: 'Everything is OK, continue with your work, as if there were no suspicious transactions'.

In March 2010, foreign offices for money laundering prevention also started to raise suspicions. In this case, the French office was the first. It notified the Slovene Office for Money Laundering Prevention. The reply was similar to this: 'Why do you want to know? Further explain, on what do you base your suspicion that this is a case of money laundering'.

When new cases emerged three months later, i.e. new notifications from two other offices for money laundering prevention in European countries, the Slovenian Office for Money Laundering Prevention finally opened a case called 'suspicious transactions'. However, when the case 'suspicious transaction' was opened, the transactions continued without interruption, as if nothing had happened.

From the moment it was opened, when the case 'suspicious transaction' was opened by the Office for Money Laundering Prevention, more than EUR 250 million were transferred through the Farrokh account at the Nova Ljubljanska banka to accounts in Europe, USA, Australia and so on. Until the end of 2010.

The Police investigated this case in 2011. At the change of power, i.e. one month before the change of power, this case was transferred from active to open cases. Open cases are the ones that have not been investigated, are not being investigated, or those that remain there. Under the Criminal Procedure Act, the Prosecutor's Office should have been informed, but it was not. Later, the Office for Money Laundering Prevention no longer dealt with this case. The politicians, who were informed about it, failed to take any action. Also Nova Ljubljanska banka, after they stopped and terminated any transactions with Farrokh due to pressure, failed to take any action, it merely closed the case.

Let me just tell you what was discovered in the report, adopted by majority votes, and no votes against, by the Slovenian Parliament. We have discovered political responsibility of those who

hold political power, as they failed to react. They were informed in due time, however, they did not react. We have discovered the responsibility of the management of Nova Ljubljanska banka, which failed to take measures, even though it had been informed. We have discovered that Nova Ljubljanska banka did not have an established system for money laundering prevention until 2012. We have called on all institutions, supervisory institutions, to reopen this case and start investigating it, this time in the correct way that it should have been investigated, in the event of such allegations.

1-005-0000

The Chair. – Thank you, Mr Logar. That was a process that shows that after a small beginning, it was possible to create a large money laundering business. Thank you very much for your work in the Parliament. I'd now like to give the floor to Borut Mekina, the journalist, who investigated this. Please go ahead, you have the floor.

1-006-0000

Borut Mekina, journalist, Mladina newspaper, Slovenia. – Mr Chair, I am a journalist from *Mladina* newspaper in Slovenia. We were researching this issue and I would now like to present to you our findings. I would like to begin by presenting the context so you can understand the whole case, because the detail makes it difficult to grasp.

The first slide: what I have tried to show here is the international context of the whole issue. You see on the left side the major European banks, all the banks involved are listed there, and in the middle you see the amounts of money laundered. According to the US regulatory institutions, the biggest European banks are believed to have laundered these amounts: for example, BNP Paribas, the biggest French bank, USD 190 billion; Commerzbank, USD 250 billion. And the fines were extreme. In the course of a decade, almost all the big European banks were involved in dealings with Iran, and some of the fines were at record high levels. The BNP Paribas fine was historic. I do not know if there has been any criminal fine in Europe bigger than this: USD 8.9 billion.

You have seen that all the European banks were fined, and that they laundered huge amounts of money. What is interesting is what they were doing. Commerzbank, for example, had a designated group of employees who were stripping away information on Iranian citizens. Basically, European banks were deleting information which indicated that they were dealing with Iranian citizens while they were transferring the money. The next interesting thing is that – if we now concentrate on the French case – in May 2014, for example, the French Central Bank chief said that although BNP Paribas was doing this they did not in fact break any European or French rules. The French Foreign Minister also said that the imposition of fines by the USA was an unreasonable, unfair unilateral decision. I would remind you that all these fines were imposed under American anti-terrorist law. Formally, these were fines for the financing of terrorism.

Next slide: I wanted to show here that, because of what happened, European banks are still afraid. They moved out of Iran, it was unclear how to deal with Iran, and so on. The story – if I may make a point here – is that the Iran case was an international matter, a dispute between the USA and the EU regarding sanctions and relations with the Middle East, etcetera, and, in Slovenia, there was one lady employed by the NLB Bank who was responsible for deciding on these matters. It seems somehow impossible!

When the Iranian citizen came to our bank (NLB Bank), it was her responsibility to decide in relation to something which, as I showed you previously, none of the European banks or the EU Member States were clear about.

Next slide please. The explanation why the Iranian citizen came to Slovenia, when he had previously been making transactions in Switzerland, is logical. Our bank has no US branch, and

that means it cannot be fined by the US regulator. In the time of Yugoslavia, NLB had a broad network of corresponding banks, and they were earning money through transactions like this, commissions, currency conversions. So he came to Slovenia because this was a complicated matter. In 2008, so-called U-turn banking was forbidden by the USA, a kind of clearance of dollars inside Europe.

Next slide please. It was not the case that everyone except the lady in the NLB Bank knew it was money laundering. Here is the chronology of what happened. Basically in 2008, as I said, the Iranian citizen came along, and interestingly he came with a recommendation letter from Credit Suisse. Then the first transactions followed: he laundered around EUR 819 million, according to the NLB Bank review report. Money went to all the big, major European banks, and it came from some big banks too, like EUR 30 million from Dubai (Standard Chartered Bank).

In 2010, the avalanche happened because the French authorities started asking about some of the transactions. Therefore, the Slovenian anti-money-laundering institution was activated, there was the internal review of the bank, the involvement of the police, the Central Bank inspection, and so on. In the end, the account was closed.

Next slide please. They found two illegal transactions from the Iranian Export Development Bank, for a total of EUR 360 000, because in the NLB Bank at that time they were checking manually whether a certain institution was on the sanction list and, for several days after the sanctions were imposed in July 2010, the lady made a mistake.

But they did, in the end, make some reforms in the bank. On the basis of this case, the bank afterwards introduced the new IT system called Siron AML Robot, an automatic system that checks all the transactions according to different scenarios – checks on the money that comes in.

Our conclusion is that this case is a typical EU-US international matter. It happened in the context of sanctions differences between the EU and the USA regarding Iran. It certainly revealed weaknesses in our Central Bank, which were then fixed. And – last but not least – the case is now a matter of popular interest in Slovenia because we have general elections coming up. In the view of our paper, this is not the most important problem in Slovenia in relation to tax havens.

1-007-0000

The Chair. – Thank you Mr Mekina, for extremely interesting information, from both speakers. We now have both of our rapporteurs. Considering the time, I would like to ask you to keep to two or three minutes, rather than the full five. Jeppe Kofod, our rapporteur – please continue.

1-008-0000

Jeppe Kofod (S&D). – Mr Chair, I will be very brief because I know we have time constraints. First of all, a question to Mr Logar and also to Mr Mekina: the police and the judiciary in Slovenia, why didn't they act and what have they done so far to prosecute people involved in possible money laundering? That is my first question. Is there a weakness in the system of police and judiciary that was the reason for their not acting?

Secondly, as Mr Mekina said, this is an international case involving a lot of the biggest European banks. So, would it be helpful, as we discussed in the Committee, for example, to strengthen European authorities such as Europol or to have something like that to enforce and also to investigate – not only Europol but also Eurojust – so as to have stronger European intervention in a situation like this? Would that help to clarify and establish the rule of law in Slovenia in this field?

1-009-0000

The Chair. – Thank you very much. Who would like to start? Mr Logar, could you start? Also considering the question of what consequences the Slovenian Parliament has decided on in addition to this unanimous decision?

1-010-0000

Anže Logar, *Member of Parliament, President of the Commission for identifying irregularities in banks.* – As regards the question, the judiciary and the prosecutor were not even informed about this case, therefore they were not able to apply any measures to investigate the case.

As regards the police: the criminal police officer, who investigated the case, fell off a ladder and died. The Head of the Economic Crime Division, which investigated the case in 2011, is still the Head of Economic Crime Division and still claims that everything is OK.

Marjan Fank, who was, at the time of the investigation of the Farrokh case, assistant to the Director of the Criminal Police Directorate and was informed about the case, is today Director General of the Police.

The Chief of the National Investigation Office, who supposedly dealt with these matters, became the Head of the Specialised State Prosecutor's Office. In short, the persons who investigated the case, are either no longer among us or were granted higher positions in the structure which is supposed to investigate this matter. This was also the reason why no action was taken.

Let me also say that, based on the report, when the commission of inquiry, and subsequently also the National Assembly, required the cases to be re-opened, the police found irregularities with the internal supervision and initiated procedures to identify the police officers responsible for the shortcomings in the procedure, and set up a special group to detect criminal offences, which the officers had been suspected of in their previous work. This is the official reply from the Ministry of the Interior, which means that there were many irregularities made in the investigation in 2010/2011.

As regards the presentation of Mr Mekina, I would like to say the following: many things he mentioned are incorrect. It is not true that only the Information Commissioner was informed about this matter in the report, adopted by the National Assembly with no negative votes. There exists considerable evidence, letters and e-mails by minor officials in the bank's management that there were money laundering cases daily and that measures should have been adopted by the bank, however nothing happened.

1-011-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia.* – I will try to be quicker. I will now describe the process. In a time frame of several months, 32 anti-money-laundering institutions around the world were informed about the case. That was the first step.

The whole international intelligence community was informed and all these institutions got feedback during these months from the other countries. The result was inconclusive so other countries did not have anything concrete but, in the internal review of NLB, they found that the biggest mistake was that they were checking by hand the lists of sanctioned banks. So, as a result, they upgraded the system.

Regarding the EU system – and you asked another question – I think there is now a debate throughout the European Union. The USA is trying to bring back sanctions against Iran and the EU is trying to oppose these. The EU has also published several texts for banks with a view to clarification, so that dealings with Iran would be clearer. However, the problem is still that, because the dollar is a world currency, the USA has extra-territorial capabilities and it can still

sanction European banks. So they still do not want to go there. It is still not clear if they would be sanctioned.

1-012-0000

Anže Logar, *Member of Parliament, President of the Commission for identifying irregularities in banks.* – Just a short remark. It is true that 33 Offices for Money Laundering Prevention were informed, but with one small detail. Instead of the amount of EUR 680 million, the Slovenian Office for Money Laundering Prevention put down the amount of EUR 680 000. There is probably a huge difference.

And regarding the intelligence services being informed, this is not true. They were not informed, for example the Israeli Intelligence Service was not informed, the American Intelligence Service was not informed, so the information was very selective.

As to the question why was there a mistake in the amount, i.e. instead of the alleged sum of EUR 680 million laundered money in July 2010, there was merely EUR 680 000, the reply from the former Director of the Office for Money Laundering Prevention during the interview conducted by the Investigation Commission was: *‘Lost in translation’*.

1-013-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia.* – Mr Chair, I will be very brief. You might find it interesting to hear what the Swiss anti-money-laundering office said when they were asked by Slovenians about what happened with this transaction. They said, cynically, to the Slovenians that not every foreign transaction is money laundering, so they were making a joke out of the panic in Slovenia.

1-014-0000

Petr Ježek (ALDE). – Thank you, gentlemen, for your contributions. I wonder whether criminal activity on this scale in this area could happen nowadays, with new legislation being implemented and adopted, and whether the difference between the time when it all started and now is significant from the point of view of detecting such large-scale activities. For example, as far as I know, Slovenia has decided that a register of beneficial owners of companies and trusts will be fully accessible to the public, and so on. In other words, I wonder whether the measures we have been adopting at EU and national level have developed in a way that would prevent such a case being triggered nowadays.

1-015-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia.* – I have a statistic which may explain this. It was, of course, an unfortunate case, but in the Bank of Slovenia report for the year 2014 they said, about new practices in the NLB Bank, the following (as I said before, the NLB Bank has now introduced a new computer system with a robot that checks all transactions): *‘In 2014 this system provided the Slovenian Anti-Money-Laundering Office with 74% of successful cases.’*

This system is now automatically reporting money-laundering cases. When these cases are checked by human beings in the anti-money-laundering institution 74% of them are found to be viable. So, I think, from this point of view, the system now works.

1-016-0000

Anže Logar, *Member of Parliament, President of the Commission for identifying irregularities in banks.* – I have to say that I am surprised by the statements made by my colleague Mekina, when he talks about this topic as some kind of PR representative of Nova Ljubljanska banka.

It is true that, until recently, Nova Ljubljanska banka co-owned the company, which owns the weekly magazine Mladina. It is also true that they had common registered seats in the Nova Gorica branch offices, but nevertheless, the tasks of a journalist probably do not include defending poor banking practice in one of the State-owned banks.

I cannot agree with the statement that this was merely an *unfortunate case*. There was a substantiated suspicion of money laundering, which should be investigated again in detail, and it is unusual that politicians are investigating something that should have been investigated by the media.

The difference between the past and today is that today such cases would probably not be possible to such extent. Firstly, because legislation in the field of banking has been amended, as well as legislation in the field of money laundering prevention, and monitoring in banks has significantly improved as well.

As I said, until 2012, Nova Ljubljanska banka did not have controls in place to prevent money laundering. Unfortunately, the Bank of Slovenia also did not point this out, so that part of the responsibility also lies with the Bank of Slovenia.

If you noticed on the first *slide*, presented by my colleague Mekina, all the major money laundering events took place before 2007, because later the banks started to establish proper measures. And this may be the reason why someone who obviously had malicious intent or thought in this regard, would move to a specific bank, which did not have such a system in place. Unfortunately, this is the largest State-owned bank, and unfortunately this bank was in Slovenia.

1-017-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia*. – I just wanted to add that, regarding the accusations about our journalistic work and the media, I sent a letter to all of you because yesterday you received another, unfortunate letter. So you have an email from me.

The second thing I want to say is that I was quoting a report from the Bank of Slovenia, not the NLB Bank; and the third point is that we are not defending the NLB Bank here. Our position is that this is not the most important case of off-shore practices in Slovenia: Slovenia has problems but this is not the most important case of its kind.

1-018-0000

Romana Tomc (PPE) – Thank you for the floor, Mr President, and allow me to put this story into a slightly broader context, because in this way our colleagues will be able to understand it more clearly.

The bank under discussion, Nova Ljubljanska banka, is the largest Slovene bank and it is still State-owned. It has been recapitalised by taxpayers several times, not only once, and the last rehabilitation was carried out upon the consent of the European Commission and under the condition that this bank would be sold or the State would withdraw from ownership.

And when new affairs are emerging, such as this one regarding money laundering, or earlier the affair with granting loans, it becomes clear why the government is trying to avoid the sale. However, I am afraid that neither the Prime Minister nor the Minister of Finance make decisions about this. Decisions are made by those who have been deeply involved in the operations of this bank for decades. And this bank represents a non-exhaustive source of money and, consequently, political power. They also made sure that the criminal transactions were carefully hidden from the public, but now so much information has come out that the story can no longer be stopped. Documents do exist.

The rule of law in Slovenia and its institutions, which have been, as you were able to see, completely ineffective so far, are being tested now. And it seems that they have been again, as Nova Ljubljanska banka was robbed. And the invoice for this will be issued to people, children, students, pensioners. Thanks to the findings made by the Commission in identifying

irregularities in banks, headed by Dr Anže Logar, today we now the names of the people responsible.

They have to be held responsible. Many of them hold high and responsible positions in State institutions, others have good business interests at home and abroad. And people, on the other hand, wonder why their salaries and pensions are so small and why they have to wait two years for their surgery. One of the answers also is hidden in Nova Ljubljanska banka.

The solution to this problem is also of key importance to the future of Slovenia. Dear Anže, my colleague from the Slovenian Parliament, thank you for having done such important work instead of the institutions, which should have done this. And thank you for your presentation. I have just a short question for you: could you maybe present a concrete example to us?

And my next question for Mr Mekina, or better first my conclusion. Mr Mekina, it is interesting that you come from the media, the ownership of which has been connected with operations in tax havens. Do you believe the findings of the Investigation Commission? Will you claim that maybe these findings are incorrect? And, as an investigative journalist, did you know about this and what did you do?

Having listened to what you have said, I am very deeply concerned because the laundered one billion of dollars of Iranian money is one of the biggest, or is the biggest, case. And if you said that this is not true, I am worried, which one is?

1-019-0000

Anže Logar, *Member of Parliament, President of the Commission for identifying irregularities in banks.* – I have included the two examples in the *PowerPoint* presentation, but they are also enclosed in the document. Maybe just a description of what was going on.

Some embassy in a European capital. An officer in the embassy carries out over 500 withdrawals of money with an embassy bank card and transfers the money to his wife's account. Withdrawals for the amount of EUR 990. Why this amount? The internal controls in the bank do not trigger alarms for withdrawals of up to EUR 1 000.

When the amount of EUR 500 000 is exceeded, it is deposited to his wife's account. His wife then transfers this amount in three tranches to Farrokh at Nova Ljubljanska banka. And from here on to other recipients, for the payment of a house, life costs, frozen chicken, fitness equipment, Ana Karenina, Superman, etc. This was one example. There are criminal proceedings pending on the suspicion of abuse of position, money laundering and so on, in one of the European countries.

Another example in another country. When transferring the money to a 22-year old Iranian citizen, after three transactions the foreign bank notifies its Office for Money Laundering Prevention and closes the account or the transfers. The person then goes to another bank, then another, and again another. In this way he withdraws over EUR one million in cash in one year. With open borders this money can travel freely, wherever you want to take it.

What is appalling is that the banks, where the person had accounts in another country, only informed the Office for Money Laundering Prevention after three or four transactions had already been processed. And Nova Ljubljanska banka did nothing even after 20 000 of such transactions. For this reason the suspicion is more substantiated than maybe today any journalist of any weekly magazine may imagine.

1-020-0000

The Chair. – Thank you, Mr Logar. We have understood where the problem was. Please continue, Mr Mekina, you have the floor.

1-021-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia*. – As you can all see, we do not like each other! Just to illustrate our relationship, in the Slovenian Parliament they are not only investigating the NLB Bank, but also the media. In the media, we think that this is putting pressure on journalists, and because they are also investigating – or trying to investigate – us we will probably inform the International Federation of Journalists about this.

1-022-0000

Anže Logar, *Member of Parliament, President of the Commission for identifying irregularities in banks*. – I think I have to reply to this. My Commission and I definitely do not investigate any media. We deal with banking fraud.

And my personal relationship: This is the first time I have seen Mr Mekina, so I do not have any special relationship with him. However, when I encounter a certain irregularity, I most definitely investigate the matter in the name of the Investigation Commission. I think that EUR one billion of allegedly laundered money is a good reason for the Investigation Commission to deal with it.

1-023-0000

The Chair. – Thank you very much! A unanimous decision of a parliament is indeed a factor for us. And you have conducted other research that we will look into just as intensely.

1-024-0000

Ana Gomes (S&D). – Mr Mekina, you said that the NLB scandal and the Farrokh case was not the most important tax haven-related issue.

What is the most important tax haven-related issue in your country? Could it be incorporation? When I look at the internet I see a lot of companies advertising services to open companies in Slovenia. They can handle everything; the only thing one doesn't need is to have a real business in Slovenia.

1-025-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia*. – Thank you for this question. The question is, from our point of view, what is the most important offshore or tax-haven problem for Slovenia? Is it this case or do we think it is another case?

Several years ago, like many countries, Slovenia was in a difficult economic situation. It too was forced to privatise some of its infrastructure companies. The disturbing thing here was that the laws were changed so that these companies could also be sold to offshore companies. Previously, the state had been able to sell assets to companies where the owners were clear. When this wave of pressure and privatisation came, the country became able to sell, let us say, infrastructure companies to companies from tax havens. It was enough that the buyers presented a written statement that they were the owners.

The explanation from our state institution was that the companies could be sold for a higher amount of money if they were sold via a tax haven.

So we think this is one of the problems. It is also connected with our stress tests and our 'bad bank'. The counselling organisations that came to Slovenia and were involved in setting up structures from stress tests to the bad bank were, in fact, also based in tax havens. So, in our view, the offshore system is not a particular case, like the NLB case, but is at the core of the financial system.

1-026-0000

Anže Logar, *Member of Parliament, President of the Commission for identifying irregularities in banks*. – This is definitely the biggest case as regards suspicious management or suspicion on prevention or suspicion of money laundering and terrorist financing.

Evidence that this is the case is also that the former Heads of the State – President of the Republic, Prime Minister, Minister of Foreign Affairs, Minister of the Interior, Minister of the Interior and the Minister of Finance – were informed by a special intelligence report of SOVA, i.e. intelligence agency, which stated all the facts, which should encourage anyone leading the country to convene at least a meeting for national security.

So, four members of the Government were informed, even the President of the Republic. Nothing happened. Despite the fact that a substantial part of the Government was informed about it, not even a meeting to discuss this topic was convened.

The notification, the Investigation Commission saw and read it, includes the key examples, which provide evidence of the size of this case, however, as we have found, nothing happened.

The Investigation Commission is a correction or exceptional body, which shows that control over the system in the Republic of Slovenia, at least in that period, failed. And if this investigation serves to any benefit, in addition to the fact that the case has been reopened, I also hope that new monitoring has been set up, or at least it has been established in such a manner that such major misuses in the field of payment transactions are no longer possible.

1-027-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia*. – Maybe a factual remark. Mr Logar said that all the important politicians knew about the case at that time. I tried to explain earlier that it was difficult for the lady in the NLB Bank to grasp it, but if all the politicians knew about it, then I can name some more. For example, the General Prosecutor at that time was from their party. The head of the Secret Service was named by their party, and the person in the NLB Bank responsible for dealing with this kind of transaction was named by their Government. And two years later, in 2012, when France was making inquiries about the case, they sent letters to the Minister, who was part of their Government.

1-028-0000

The Chair. – The question is, which failures were there, and on whose part? This is not something that we can clarify here – nor is this the aim, but rather we would like to determine the facts. Clearly there are more parties involved than either side claims, and clearly it could be the case that this was a system failure. But we would also like to hear how this will be remedied in the future.

Please continue, Mr Logar – but please be brief.

1-029-0000

Anže Logar, *MP, Chair of the Slovenian Parliament Commission of Inquiry to determine the abuses in the Slovenian banking system*. – There were direct accusations I have to refute.

As I mentioned earlier, the colleague probably did not pay attention, the Prosecutor's Office was not informed. The State Prosecutor, who is not informed, cannot take any action. It is not true that the State Prosecutor comes from our political party, the State Prosecutor is independent.

The claim that the Director of the Intelligence Service was appointed by us is false. On the day when a suspicious transaction was opened at the Office for Prevention of Money Laundering, the Government of Mr Pahor replaced the Director of the Office for Prevention Director of Intelligence and Security Agency.

1-031-0000

Molly Scott Cato (Verts/ALE). – I am really carrying on from the Chair's question and I will be very brief. It appears from the information you have presented and other information available to this committee that there has been a breach by the NLB in terms of its obligation to identify the beneficial owners of accounts and transactions, as they are required to do under

money-laundering regulations. Would you agree with that? What about its money-laundering obligations related to due diligence procedures, for example checking Mr Farrokzadeh's source of wealth. So that is my first question.

The second question is about whether there is a UK connection here because, during the course of these hearings, I have – obviously sadly – found that there is a central role played by London and the City in a lot of money laundering. So is there a UK connection here? I note that the four UK-based banks were all on your list. Did any money end up in London property? Did it end up in Russian banks? Where did the money that was laundered actually end up?

1-032-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia*. – There was an echo, so I did not fully understand the question. But yes, the money went to all the major banks in Europe, obviously. We tried to understand what was really happening and the most logical explanation is that, because big European banks were sanctioned by the USA (the USA changed the interpretation of its laws in 2008 and started extra-territorially imposing sanctions), many Iranians moved to smaller banks and were making transactions from these smaller banks to bigger banks.

I have one other statement. What I am saying here is about the general pattern. I am not saying that each of these several hundred thousand transactions was clear. Obviously, this guy was working for many people, behind many businesses, so I cannot say that there is one example. We know that France is investigating one case regarding fraud – I think this is what Mr Logar mentioned – but if you want to understand the general pattern, I think this is what happened. If you want to understand it further, it is a matter between states, a difference in their approach to Iran.

1-033-0000

Anže Logar, *Member of Parliament, President of the Commission for identifying irregularities in banks*. – The largest amounts were transferred to Germany. The countries that stand out are Italy, the funds were also transferred to Great Britain and France.

It is interesting that the individuals, who received money, were later expelled from the country for violations, safety reasons, or other reasons and so on. When, as a result of pressures from abroad, the Nova Ljubljanska banka was forced to close this account, Iraj Farrokhzadeh transferred his operations through one of the Russian banks. He simply moved higher to the North.

However, recently (i.e. at the end of operations), there has been an increased number of rejections, the banks rejected all deposits or most of the deposits, received from the account of Farrokh at Nova Ljubljanska banka and it must have been difficult to operate for this reason as well.

1-034-0000

Molly Scott Cato (Verts/ALE). – Maybe my first question somehow got lost, but it was about the failure of due diligence and the failure to conform to the requirements of money-laundering regulation. I mean, are there clear breaches and do we need to take punitive action in response?

1-035-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia*. – If this is a technical question then it is very difficult, because the interpretation by Europe at the time was that Europe did not impose sanctions on Iran, and therefore transactions between two European banks were legal regarding Iran. So if Iran was buying something inside Europe, it was considered to be okay because Europe wasn't sanctioning Iran; the US was. But then at some point the US changed the interpretation of its laws and said that even when the transactions Iran made in dollars were between Berlin and Paris, this was a breach of US law.

What I am trying to say is that it was a very difficult and a complicated matter. As you can see, before sanctions were imposed many lawyers in many countries were obviously thinking about this – what is money laundering here, what is not money laundering, and so on.

1-036-0000

David Coburn (EFDD). – I do not know what to make of all this. It seems to me like an enormous storm in a teacup. I do not exactly know what the point is. Basically, Mr Mekina does not like American policy in Iran, which is neither here nor there, and it seems like a problem between the police and judiciary in Slovenia. Why did they not act?

Why does Slovenia not just sort it out? It should be left to the Slovenian Government to investigate: it has nothing to do with the EU. It is interesting to have a hearing, but this should be the competence of the nation state, not the EU. They should not be sticking their noses into everyone else's business. The EU is just looking for something to do, interfering in just about everything, to justify the huge bureaucracy and massive salaries of the people in this building.

States should resist EU interference. Let us keep banks out of governments' hands. We need free markets, not crony capitalism, and that is what you are after: crony capitalism. Ms Scott Cato – she is not here now – again had a kick at the City of London. Well, the City of London makes a great deal of money for Great Britain. It is one of the most important things we have and it is under attack by the European Union because they want to get more money out of the British taxpayer as a divorce settlement. Quite frankly, it is very wrong of her to have a go at the City of London and, quite frankly, as a British person and a British representative of the people, I find it distasteful, but there you are.

I cannot understand what this is all about; it seems like a waste of everybody's time and of taxpayers' money.

1-037-0000

The Chair. – Thank you, David! David has just made the case for us to bring euro clearing into the euro area and no longer leave it in London.

Who has a response? Who would like to respond? Please go ahead, Mr Logar!

1-038-0000

Anže Logar, Member of Parliament, President of the Commission for identifying irregularities in banks. – I would like to point out that, in the case of prevention of money laundering, there are always two things under investigation. One is money laundering, suspicion of money laundering, and terrorism financing. Previously I presented an example, which you can also find in the presentation, of how it is possible that all these billions on 2 000 accounts of individuals were diverted and over EUR 100 million could have, due to open borders, ended anywhere.

Let me point out one more thing. We are talking about it here because we were invited, and I am grateful that we were invited to be able to present this case. But if the institutions in Slovenia took appropriate action about this, I believe that this would not have happened, as we would have been able to resolve the matter earlier.

And now we have an interesting situation where there is a member of the Commission for the Prevention of Corruption, who was informed about the case – before he managed to complete the investigation into the case – who then got a job at Nova Ljubljanska banka, namely in the Compliance Centre, and is nowadays primarily trying to find out how this information on the alleged money laundering in Nova Ljubljanska banka was leaked.

The Primer Minister at the time, who was also informed about this through a special intelligence report, is today the President of the Republic. Mr Žbogar, the Foreign Minister, who was also

informed about this through a special intelligence report of SOVA, is today an EU special representative for Kosovo. And the President of the Commission for the Prevention of Corruption at the time, who drew up a report on the condition of the banking system, and was aware of the case through the so-called *whistle blower*, failed to mention it with even one word in the report about this case, is today the Minister of Justice and the candidate of the Republic of Slovenia for the Commissioner for Human Rights of the Council of Europe.

I listed at least some of the functions that relate to the European Union. I revealed the amount and the possibility of how this money came into the payment system or financial system of the European Union. I also described why at least part of this money is of dubious origin. And I think, considering that the European Union is a global village, this very much also concerns the European Union.

1-039-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia*. – The police were, of course, investigating this problem. As I said before, according to our sources, they were in contact with practically the whole international community – anti-money-laundering institutions and so on – but they simply could not solve the Middle East problem by themselves.

1-040-0000

David Coburn (EFDD). – Mr Langen says this is a reason why clearance should happen in Europe and not in London. Well, I'm afraid that is why London is leaving, because we don't want all this interference from a bunch of bureaucrats in Brussels who are destroying business. We don't want to end up as an economic basket-case like the rest of Europe.

1-041-0000

The Chair. – That is the subject of a different day's agenda, not for today.

Brian Hayes, next for the PPE, then Milan Zver as the last in this question and answer session. We have five more minutes. Please go ahead, Brian!

1-042-0000

Brian Hayes (PPE). – I just have three brief questions. One of them goes back to the point that the Vice-President, Ms Gomes, raised to Mr Mekina. He spoke earlier about there being other cases as serious – and more serious – than this case. Rather than giving a narrative to us about the sale of assets and how some of that went offshore, could he give three specific examples of more serious cases? The committee would be interested in hearing that.

My second question, to Mr Logar, on the issue of the commission, is whether any pressure was put on you or your parliamentary commission at the time of the investigation, in terms of doing your work? Were you able to source where that pressure came from? Was it from various parts of the Slovenian State?

My final question is this. We have one example of the French authorities acting on a fraud case where there were, of course, multiple numbers of accounts in multiple numbers of banks. Is that the only case that you are aware of where the authorities – in this case the French authorities – have actually taken up this issue as a consequence of laundered money?

1-043-0000

Borut Mekina, *journalist, Mladina newspaper, Slovenia*. – Concretely, during the recent wave of privatisation in Slovenia, almost every sale of state assets was to funds that were based offshore; here I mean also Luxembourg. The second biggest bank, NKBM, was sold to Luxembourg. The problem is that in the end you are not really sure who the owners of these funds are because, starting from several years ago, the state is happy if it receives signed statements saying who the owners are. They cannot check the register; it's not necessary anymore.

1-044-0000

Brian Hayes (PPE). – Just to be clear, because you used the argument yourself, give me the three cases in ranking order. I find it astonishing that a member of the free press would determine rank in money-laundering cases. Give me the three cases specifically, rather than the narrative.

1-045-0000

Borut Mekina, journalist, Mladina newspaper, Slovenia. – There was the second biggest bank, and then you have all the assets from – I do not know if you know the companies – let us say DZS, and then the biggest company in Slovenia for pools and so on, which was sold to another American company via a Luxembourg shell company.

1-046-0000

Brian Hayes (PPE). – All cases of money laundering.

1-047-0000

Borut Mekina, journalist, Mladina newspaper, Slovenia. – I am not talking about money laundering, I am talking about tax evasion and according to EU law it is not tax evasion if it is Luxembourg.

1-048-0000

Milan Zver (PPE) – Thank you very much for the floor, Mr Langen, the President. First I would like to extend my recognition to Dr. Logar for his work, as well as excellent and clear answers he gave us today.

Nevertheless, I would like to ask him the following: Since 2014, Europe has had a mechanism, called protection of rule of law in the Member States, in which it can assess, recommend or even take measures when the Member States are unable to provide the rule of law by themselves. Do you think that in this case Slovenia could resolve this matter, this affair, by itself or not? Is intervention by the EU necessary?

1-049-0000

Anže Logar, Member of Parliament, President of the Commission for identifying irregularities in banks. – Let me for a moment return to the previous question – if I experienced any pressures, if I suffered any consequences. I can say that during the investigation – I am a diplomat – my status of a diplomat was revoked. Decide for yourself if this is pressure or not. I know that my family, my parents, were threatened with something like: Who gave birth to this scumbag.

As far as everything else is concerned, I can say only that the Commission occasionally encounters a lack of reporting by the media about his case. For example, when the Farrokh case was discussed at the session of the National Assembly for two days – this report, which was confirmed with no negative votes, the national television channel did not even mention this topic.

As regards the rule of law, the Investigation Committee discovered numerous irregularities in this respect. I would not dare presume that Slovenia is now competent within all its institutions to investigate properly such a criminal offence. I would like to keep hoping that it is. There are some positive indicators, in particular, if all the institutions reopen the cases and investigate them in detail.

However, probably some persons, who already took part in the investigation in 2010 and failed to find anything, will have to be replaced and fresh forces found who will be able to continue the investigation. In particular those who were not included in the investigation at the time.

It is not true that those cases were investigated thoroughly. On our own initiative we also checked those Slovenian companies that received funds from Farrokh. We were told that in 2010/2011 the police did not contact them. And it would probably have been the easiest to contact the Slovenian companies.

1-050-0000

The Chair. – Did I understand you correctly: Your diplomatic status was revoked? Or is it just dormant, because you are a member of the National Assembly? This is how I understand it from my home country, it is just dormant. Was your diplomatic status revoked?

1-051-0000

Anže Logar, Member of Parliament, President of the Commission for identifying irregularities in banks. – This coincided with the moment when we started interviewing witnesses before the Investigation Commission. There was some imaginary reason claiming that I am over-educated for this position.

This is difficult for me to understand. I handed the case over to the court and I succeed in one of the lawsuits – two were initiated. The second one is still pending.

1-052-0000

The Chair. – Many thanks. We have not clarified all of this, but we understood that there were mechanisms in place that directly promoted money laundering. We have not been able to clarify what was ultimately at the root of this revelation – whether financing of terrorism, the French authorities or investigations in the Slovenian Parliament. However, we have been provided with an example in this hearing that requires our full attention, also as regards the dates of American penalties.

I would like to thank both of you and also my colleagues. The open questions must be resolved in Slovenia, also on a political level. We are unable to answer the political questions here, any more than in Luxembourg, Malta or the Channel Islands. These are political conclusions that the states must draw for themselves.

I would like to express sincere thanks and can now close this panel.

The speakers of the next panel are already here. We will now have four minutes' break, then we will continue. Once again, thank you very much.

(The meeting was suspended for a few minutes.)

1-053-0000

The Chair. – Ladies and Gentlemen, esteemed colleagues, would you please all take a seat. We will now start the second part, only slightly delayed. 'Second panel: Azerbaijan Laundromat revelations'. I would like to extend a warm welcome to the speakers. Firstly Carl Dolan, Director of Transparency International (Brussels office) – welcome, and three journalists from the Danish newspaper Berlingske: Eva Jung – welcome Ms Jung, Michael Lund – welcome, and Simon Bendtsen.

Many thanks for coming. You have already seen the procedure. We have two blocks for the presentations. First the journalists as a trio – who will speak for you? Mr Lund, OK. You can start, and then Mr Dolan.

Please go ahead, you have the floor.

1-054-0000

Michael Lund, journalist, Berlingske newspaper, Denmark. – It is my first time here, so thank you so much. Together with my colleagues, I am happy to share with you some of our key findings in the series of articles we called the Azerbaijani Laundromat. The stories were first presented in September this year, after months of work together with 15 media organisations across Europe, including, among others, the Organised Crime and Corruption Reporting Project.

The collaboration began when we, at *Berlingske*, got access to a large volume of state material showing thousands of transactions to and from four accounts in Danske Bank's Estonian branch during the years 2012-2014.

Danske Bank is, by far, the biggest bank in Denmark, with branches all across the Nordic region, and we knew from previous work that the branch in Estonia had experienced major problems in complying with the Anti-Money-Laundering Regulation. The branch had directly broken many of the rules that should prevent banks from assisting with money laundering and other criminal activities. What made this new material different from previous leaks of banking data was its level of detail. Normally, when suspect customers misuse banking systems they hide themselves behind different offshore entities, but this data was different. For many of the transactions we were actually able to see the specific payer and beneficiary, which gave us a unique look into the secret world of money laundering and illegal offshore activities.

From the data, we were able to show how the regime of Azerbaijan channelled millions of euros through accounts in Danske Bank to tax havens, luxury goods, lobbyists, local politicians and officials, and, perhaps most interestingly, influential European politicians. We will come back to the names, but first a few words on the set-up.

As seen before in similar cases of suspicious activities, such as money laundering and tax evasion, the masterminds used British limited partnership (LP) and limited liability partnership (LLP) companies, and, in this case, companies with addresses in Azerbaijan as well. Only very limited information about the beneficial owners is required in order to register such a company and they are therefore a crucial part of illegal money laundering.

Other countries have similar company types. In Denmark we have what are known as *kommanditselskaber* and they are being heavily debated at the moment in Denmark. So it was no surprise to us that we could not find the names of the beneficial owners behind the companies. According to publicly available information, the four companies – here is some documentation that we got access to – were controlled by other companies in offshore jurisdictions such as the British Virgin Islands and Belize. The beneficial owners were hidden and if there were any persons mentioned in the company registers, such as directors, for example, they seemed to be just proxies without any knowledge of the activities of the companies.

Still, the four companies were not entirely unknown to us. They had been mentioned in connection with a criminal case in Italy against the politician Luca Volonté. He is charged with money laundering and accepting bribes from the regime in Azerbaijan – a regime he actively supported during his time as a member of the Council of Europe. Here are some extracts from the indictment in the Italian case and, according to this indictment, it was precisely these four companies that were used to transfer a total of EUR 2.3 million to Luca Volonté.

Among the evidence in the Luca Volonté case are several emails sent to Volonté from leading politicians in Azerbaijan, in which the names and details of the four companies are mentioned. It was therefore obvious that these four companies in fact worked as so-called slush funds, controlled by the regime in Azerbaijan, which made it even more interesting to go through the 16 000 transactions and find the names of payers and beneficiaries of the money.

First, my colleague Simon will present some of the most interesting payers.

1-055-0000

Simon Bendtsen, *journalist, Berlingske newspaper, Denmark.* – The origin of the billions that fed the four accounts in the Estonian branch of Danske Bank were hard to find. Secretive shell

companies and fake beneficial owners made tracing the funds difficult. But we noticed very early that there were many links to Azerbaijan from the four accounts.

We analysed the money flow into the four accounts, together with our colleagues in the Organized Crime and Corruption Reporting Project (OCCRP). This showed that a large amount of the money deposited in these four accounts came directly from the regime in Azerbaijan – for example, the Ministry of Defence Industry of Azerbaijan, the Ministry of Emergency Situations (a very powerful ministry in Azerbaijan) and a special military unit, the Special State Protection Service, which reports directly to Azerbaijan's President Aliyev.

Money was also transferred from a number of large companies owned either by the state or by powerful Azerbaijanis with close ties to the country's power elite. As an example, transactions show USD 1.4 billion being transferred by Baktelekom MMC, a company that at first sight appears identical to a major telecoms operator but which turns out to be an empty shell. According to research done by OCCRP, the company was established by Rasim Asadov, son of the country's former Minister of the Interior.

Also contributing to the four accounts were real companies, many of which had large contracts with the Azerbaijani State. A large number of the transactions also came directly from, or via, accounts in the International Bank of Azerbaijan, the country's largest bank, which is controlled by the government. Another significant amount, of over USD 29 million, was sent by Rosoboronexport, a Russian state-owned weapons export company – a company which at the exact same time sold weapons to Azerbaijan. Experts have assessed that it looks like kickbacks to the regime in Azerbaijan.

We tried numerous times to get an interview with the regime in Azerbaijan but they declined all requests. Later on, the regime called the revelations prejudiced, groundless and provocative. My colleague, Ms Jung, will now present some of the recipients of the money from the Azerbaijani Laundromat.

1-056-0000

Eva Jung, *journalist, Berlingske newspaper, Denmark.* – Several European politicians have systematically been receiving money via the Azerbaijani Laundromat. In the 16 000 bank transactions that we have been analysing, we found systematic patterns of big sums being transferred, often in handfuls of instalments, to these politicians – there are a few names on the slides that you can see here. When we did background checks on these politicians and powerful officials, they had one more thing in common: they would all speak in a way that very few do about the Azeri regime. Whereas Azerbaijan is generally recognised as a major perpetrator of human-rights violations and could be rightfully labelled as a dictatorship, these politicians spoke or acted in favour of the regime.

Let me mention a few of these powerful politicians. Eduard Lintner, a former member of the German Bundestag and the Parliamentary Assembly of the Council of Europe (PACE) for many years, travelled to Azerbaijan during elections. Whilst, for example, the Organisation for Security and Co-operation in Europe (OSCE) internationally harshly criticised the election in 2013 for not being free and fair, Mr Lintner told the press that the election process met the standards of one of the world's most democratic countries, his own Germany.

Another powerful European is Bulgarian Kalin Mitrev, board member of the European Bank for Reconstruction and Development (EBRD) and married to Irina Bokova, until recently the General Secretary of UNESCO. While Kalin receives the money, it is his wife who has a close relationship with the Azerbaijani Presidential couple. Bokova, for example, gave a UNESCO gold medal to Mehriban Aliyeva, the wife of the President and today also the Vice-President of the country. She has also praised Azerbaijan for backing up UNESCO goals on freedom of

speech and democracy, virtues that human-rights organisations say Azerbaijan is normally very poor at.

None of these people have denied receiving the money, none of the politicians you see on the list have denied receiving the money. They all reject the suggestion of being bribed, but they offer no good explanations as to why the transfers were made via secretive limited liability partnerships (LLPs) with hidden owners. I will shortly mention, too, that a lot of high-ranking Azerbaijanis around the world have also been receiving money, people who all have a close professional or personal relationship with the ruling family of Azerbaijan.

It is worth noting that in our material – as we said, 16 000 bank transactions – there are many beneficiaries we have not identified yet. There might be lots of interesting people still in the material that we cannot tell you about today.

We were also asked to mention any possible links to Malta. The Maltese media has mentioned a money-laundering scheme whereby money from Azerbaijan was transferred via companies in Dubai to a Maltese bank and to Panama companies linked to politicians from Malta. We have not found any of the same names, companies or banks in our material, but methods and procedures look similar.

Just very quickly on the consequences across Europe: you can see some of them on the sheet here. A few politicians have vacated their seats, and investigations have started in several places.

As a final remark, I would like to show you this photo. It is a photo of a house outside Baku in Azerbaijan and, according to the company records that we have from Danske Bank, the man living in this modest house is a beneficial owner of two of the four LLPs. In other words, the man living in this house would have been in charge of companies with a money flow of more than a billion euro.

If Danske Bank had followed the Anti-Money-Laundering Regulation and known their customer, they would probably have been able to see quickly, as we and the Organised Crime and Corruption Reporting Project (OCCRP) did, that a man living here is not a millionaire or billionaire, but a man of limited means, hiding from the financial system who the real key players were.

1-057-0000

The Chair. – Thank you for the presentation, with the many examples you added. We have received a written statement from a lady who is mentioned in your overview – Karin Strenz, member of the German Bundestag. She said that she would not be able to come. As the Chair of the friendship group, she has listed their activities from 3 July 2014 to 29 March 2017. This shows – we have friendship groups here in the European Parliament too –, that of course some states attempt to gain influence in the parliaments by winning over members of parliament to represent their interests. We will still have to check which specific allegations should be put to Ms Strenz. I will only say, the documents that were distributed today are included as an attachment. We have no statement from any others – from Mr Lintner etc. –, including those named by you.

I would like to give my sincere thanks and now give the floor to Mr Dolan. Please go ahead.

1-058-0000

Carl Dolan, Director of Transparency International EU, Brussels. – Chair, thank you very much for the invitation to come here and present in front of this committee. My name is Carl Dolan, I am the Director of the Transparency International EU office, which is the EU office of

the global Transparency International (TI) movement that has been leading the fight against corruption around the world.

We have been doing this and raising awareness about the prevalence and impact of corruption for over 24 years now, through such tools as the TI Corruption Perceptions Index, which is a measure of how corrupt the public sectors of countries are perceived to be. Azerbaijan ranks number 30 out of 100. It scores 30 out of 100 on the Corruption Perceptions Index – a score which indicates rampant corruption. All of this is very well known and has been documented by anti-corruption activists, international organisations and independent journalists in Azerbaijan and abroad. The devastating consequences for the Azerbaijani people, and in particular the loss of basic political freedoms is very clear.

What is less well known is the spillover effect from corruption in Azerbaijan. We should also be aware of how corruption that is systematically exported by the Azerbaijani State undermines democratic institutions here in the West, such as the Council of Europe, but also undermines the integrity of financial and other markets in the EU. Indeed we might almost say that apart from oil and gas, corruption is one of the major exports from Azerbaijan. In my remarks, in what follows, I will focus on those spillover effects from the Azerbaijani Laundromat that have a direct bearing on the remit of this committee, namely how the EU financial system can facilitate money laundering.

The first theme I want to talk about is the role of shell companies. This is also been very clearly demonstrated in the preceding presentation. In the Azerbaijani Laundromat case, there were four UK-based shell companies that had bank accounts in Estonia. As a result, EUR 2.5 billion or 16 000 transactions of the Azerbaijani Laundromat could be secretly processed inside the European Union without facing any obstacle. No one asked any questions concerning the owners or the managers of the shell companies, nor about the 16 000 transactions on the accounts of those shell companies. Organised crime or corrupt officials do not have to bother with setting up shell companies in distant Caribbean or Pacific locations. They can enjoy the privileges of secret ownership from the comfort of the European Union.

The question we might ask ourselves is, could the Azeri Laundromat scheme happen again if someone wants to set up a similar scheme? The answer is clearly ‘yes’. Firstly, it is very easy to set up a shell company in a Member State, such as the UK – but we could mention other Member States, for example, the Netherlands as we have seen in the recent Paradise Papers revelations. The Azerbaijani Laundromat is not an isolated case then, as we can see. Our colleagues in Transparency International UK recently published a report entitled ‘Hiding in Plain Sight’, which shows how the UK is home to a thriving company formation industry that gives money launderers access to UK firms and the legal system. That report identifies 52 global corruption and money laundering cases, involving 766 UK companies.

There are a number of factors that make the UK particularly attractive. There is the low cost of starting a business, the ease and speed of starting a new firm and the UK’s respectable business reputation, which lends legitimacy to shell companies. Formation of UK companies is amongst the cheapest and the fastest in the entire world. It costs as little as GBP 12 and takes a matter of minutes to complete the relevant forms. By contrast, it costs GBP 1 009 and takes a number of days to set up a company in the British Virgin Islands. Secondly, there are very few controls and checks done by the responsible authorities – we have also heard that in the presentation from our Danish colleagues. Although the UK has been here a global leader in setting up a centralised beneficial ownership register, there is no verification of the registered data. Any owner or manager of any company can freely register false information. The UK Companies House explicitly says that they do not verify or investigate cases. This is an important lesson to be learned for revisions to the EU anti-money laundering legislation, which are imminent.

The second theme that I want to take up is the role of financial oversight and the banks. The Estonian branch of Danske Bank already had a track record of being involved in major tax fraud that the Russian whistle-blower, the Sergei Magnitsky, uncovered in 2008. It was used in the Russian Laundromat too – that is an earlier money laundering scandal that was exposed by the Organized Crime and Corruption Reporting Project that showed that at least USD 20 billion was siphoned out of Russia via corrupt courts and banks in Moldova and Latvia. Once in Latvia, the laundered money could be moved to anywhere in the world without difficulty. More than USD 1 billion were transferred to the Danish bank in the years 2011 through to 2014 by way of over 1 500 money transfers.

There are few signs that the Estonian or Danish authorities, or even the European Central Bank, noticed or intervened in this matter. The Organized Crime and Corruption Reporting Project summarises the situation as follows based on leaked emails: ‘the email discloses that both the Estonian and the Danish financial supervisory authorities were concerned about ‘Russian customers’ at the Estonian branch. Furthermore, the email states that the Estonian Financial Supervisory Authority allegedly approached Danske Bank about the topic and was disturbed that it did not take the problem ‘very seriously’.’

International law, EU law and domestic laws have very strict measures to sanction legal persons but they are very rarely applied, as we have seen. Financial supervisory and criminal justice authorities should take strong action against banks complicit in money laundering, for example criminal penalties, withdrawal of the banking license or ultimately shutting down the legal entity. In Latvia, six banks were involved in the case uncovered by Sergei Magnitsky and Latvia has been known to many as a banking hotspot for money laundering. One of the banks, Trasta Komercbanka, was also key in the Russian Laundromat, and its license was withdrawn in March 2016 by the relevant national authorities and the European Central Bank for ‘serious and sustained breaches of the anti-money laundering and counter-terrorist financing regulations’, among other issues.

Indeed, what we find is that sometimes entire banks are bought for money-laundering purposes. It is a lot more practical to own a bank when bribery and money laundering is part of the company’s standard business model. This was particularly apparent in the sprawling bribery and corruption cases uncovered as part of the Lava Jato Petrobras scandal in Brazil when Meindl Bank, an Austrian bank, sold 51% of its Antiguan branch to Odebrecht – that is the construction company at the heart of the scandal. The question arises: did it have any due diligence of its contractual partner before signing the contract? Did they follow what was going on in the bank, of which they still owned 49%? Did the Austrian financial supervisory authorities know or care? Has it opened an investigation into this matter since? All of these questions still remain unanswered.

What general lessons can be learned moving forward? We at Transparency International have a number of lessons that we have learned. This shows the need for, as we have heard, greater beneficial ownership transparency through the establishment of public registers, but crucially that needs to be assorted with strong verification and control mechanisms for the data in those registers. Secondly, it also highlights the need for greater controls and sanctions applied to banks and other professional intermediaries such as accountants and lawyers, etc. in case of failure to carry out proper customer due diligence checks. Thirdly, financial supervisory and criminal justice authorities should investigate and prosecute banks as legal persons, and indeed natural persons – their managers – as well as their parent banks in the case of subsidiaries laundering money.

Fourthly, banks should not face only administrative and civil proceedings but also criminal penalties in case of complicit behaviour and money laundering. I note that there has been a

breakthrough in this case in the Netherlands, where ING Bank is currently facing criminal investigations by the Dutch authorities for its role in a grand corruption case in Uzbekistan.

Fifthly, financial supervisory and criminal justice authorities should publish information on their enforcement actions as soon as possible.

Finally, the European Commission and the European Parliament should request all Member States and the European Central Bank to provide detailed statistics and case descriptions about anti-money laundering enforcement efforts and to publish these annually. These are our recommendations, and I would be very happy to elaborate on any of this in what follows and to take any questions.

1-059-0000

The Chair. – Thank you, Mr Dolan, also for the recommendations. What shocked me most was the picture painted by the journalists, concerning the question of ownership, which needs to be urgently clarified in our report. Because this also corresponds with what we have experienced ourselves in Panama, with the Panama Papers; that fictitious director's addresses cropped up thousands of times in banks, which is a huge sign of what is going wrong.

However, I do not want to comment on the two contributions, but would like to give our two co-rapporteurs the floor, starting with Jeppe Kofod. Please go ahead.

1-060-0000

Jeppe Kofod (S&D). – Mr Chair, thank you so much to the three Danish journalists and also to Transparency International. My first question goes to the journalists: you said that what you have uncovered so far is probably only the tip of the iceberg, there are still a lot of names, recipients of these funds, not uncovered or not verified yet – and this shows that we are witnessing a kind of corrupt elite of politicians and decision makers colluding with the Azerbaijani regime, the dictatorship, in painting a picture of the country which is at odds with reality. Can I ask you what is the way to proceed on this, how to uncover the rest of the scandal? Do you have any suggestions? What are you doing in the media world, and what can we do, from the political world? That was my first question.

My second question is to Transparency International. To start from the end, many of the recommendations are included in our work in the Committee of Inquiry into money laundering, tax avoidance and tax evasion (PANA). So firstly, in relation to the many opaque structures that we see, of corporations, trusts, foundations and so on in these multi-layered schemes, would it be an idea to have a mandatory obligation for any intermediaries to report on any corporate structure they create – and specifically the economic purpose of the structure?

What we see very often, as was revealed here, is that there is no economic purpose for these structures: they are all used for money laundering, tax evasion, circumventing sanctions, and so on. Is it an idea to make this reporting mandatory for intermediaries? Intermediaries include banks and lawyers, accountants and so on. You made the point very clearly. If there are to be much tougher sanctions on their behaviour if they engage in these illegal activities, what is your suggestion? How far should we go?

The USA is much tougher on this than we are in Europe. Do you see reluctance in European countries to take a harder line on intermediaries? They are the drug dealers. The drug users, as you know, are the ones who use these schemes but we need to crack down very much on the drug dealers, the intermediaries. How can we do that in a more effective way?

1-061-0000

Eva Jung, journalist, Berlingske newspaper, Denmark. – Thank you very much for a good question. We have spent months on trying to uncover these names and we must say that in some of the cases, with these offshores that are owned by other offshores, it has just been very difficult

to get any further. But we keep on getting more pieces for the puzzle – for instance, in the case you are interested in from Germany with Ms Karin Strentz.

Karin Strentz received money via a company called Line M-Trade that in turn got the money from the German politician we mentioned before, Mr Eduard Lintner. That also shows you the sort of creativity involved, to send the money through lots of different companies. Ms Strentz did not want to answer any questions from us in this case but it seems that Mr Lintner has had a very active role also in sending money to Belgian politicians, paying for their election observations in Azerbaijan.

After this story was published, Mr Alain Destexhe also stepped down from his seat in the Parliamentary Assembly of the Council of Europe. We will probably keep on seeing more stories coming from this material, and we will definitely keep our eye on it and try to find out more. That is a promise we can give you.

1-062-0000

Carl Dolan, *Director of Transparency International EU, Brussels*. – To take your first question: should it be mandatory for intermediaries, such as banks lawyers etcetera, to report on the economic purpose of these rather opaque and labyrinthine structures that they create?

In a sense it already is. If a client comes to you and asks for this sort of baroque structure, that clearly serves no economic purpose, that is a big red flag. Two things can be done by intermediaries in that case: they should either have a serious look at the structure, say that it serves no economic purpose and is probably a money-laundering scam and decline the business; or maybe they can go ahead and, if they have some concerns about it, they can make a suspicious transaction report.

Those obligations already exist under national and European law. The question is how well they are enforced. It is very clear from the limited statistics that we have – and I have to stress ‘limited’ because we do not have a full picture across the European Union – that there are very few reports coming from these sectors. In Germany, in one year, there were three suspicious transaction reports filed by the entire accounting profession in the country in that year. We have to look at what is going on, what is preventing these intermediaries and these professions from doing their job in reporting these suspicious transactions. Be it a low level of awareness, or be it issues to do with the legal system, or whatever the obstacles are, that is pretty fundamental. It may be a question of incentives as well, and that brings us to the question you raised about sanctions.

The issue is not the level of sanctions. Many countries, including the UK for example, do provide for criminal sanctions in cases where there are clear breaches of the Anti-Money-Laundering Regulation. The issue is really more whether the sanctions are applied: are national authorities doing enough to investigate this? Often it is down to a lack of resources. For example, in Denmark we see that the Financial Supervisory Authority looking at these cases of money laundering is staffed by three people. In the UK, they have to police four million companies with four staff. It is a question of resources for these authorities, which have to do their job.

We have to be careful, too, about the supervisory regime. In too many countries the supervision is actually done by the professional associations themselves, and what we see is that suspicious transactions reported to them are not being passed on to the authorities, so perhaps they are simply not up to the job of sanctioning their members properly.

1-063-0000

The Chair. – Thank you very much! This is something I can confirm from the Luxembourg case — 403 identifications in the Panama Papers including 103 banks; investigations were initiated against 67 banks; 300 lawyers, tax advisors and auditors, but only one case was

investigated there. This imbalance under the guise of self-administration is not sustainable in the long term, I can agree with you there.

Next we have Petr Jezek, and may I also welcome some guests. The guests are a group of students from the school of journalism in Tours in France. Welcome.

1-064-0000

Petr Ježek (ALDE). – Thank you very much for your revelations. I think this confirms clearly, among other things, that in some Member States there is a problem with information on beneficial owners, with how to verify them and how to rely on the information.

I would like to concentrate on the other part, which is the providing of money to European politicians, which is very alarming. At the core of the Laundromat it seems there are four shell companies registered in the UK, and I wonder whether representatives of Azerbaijan in the UK, such as diplomats, played a specific role. What is the pattern in the providing of that money? Is there is a single one, or what is the most common one? That is one question.

Regarding the names of European politicians who may be implicated in the future, when do you expect this could happen and how many of them do you envisage could be implicated, based on your current knowledge?

Transparency International called on the authorities of the Czech Republic, Denmark and Germany to investigate the role of shell companies with secret ownership. I wonder whether you have something more on this. Can you expand on that? It almost looks like this committee anticipated some trouble because we have a German Chair, and Danish and Czech rapporteurs.

(Laughter)

1-065-0000

The Chair. – That doesn't matter, but rather we are both interested in the explanation. For this reason, I would still be interested in the three cases in Germany that you just mentioned.

Who would like to answer? Mr Bendtsen, please.

1-066-0000

Simon Bendtsen, journalist, Berlingske newspaper, Denmark. – It is correct that the four core companies in the Azerbaijani Laundromat were registered in the UK and were LP and LLP registered companies. From the outside there were no links to Azerbaijan from these companies. The links to Azerbaijan came in the material from Danske Bank, from the accounts in Danske Bank. So, seen from the outside, there are no links to the regime in Azerbaijan and we do not have any knowledge of any diplomats playing a role in the UK. It was just the companies which had their accounts in the Estonian branch of Danske Bank.

Your next question was whether new revelations about European politicians would emerge. It is hard for us to say. It is a difficult matter because of all the shell companies. For instance, in the Italian case with Luca Volontè the payments were hidden behind a foundation with a different name. So when you go through these 16 000 transactions you cannot say what is behind these company names. There could be interesting people or organisations. We are still doing stories on this and it is difficult to establish any new links. That is why we are not able to say anything about possible new revelations regarding European politicians.

1-067-0000

Carl Dolan, Director of Transparency International EU, Brussels. – We do not have any more information about how much further this goes. We rely to a large extent on our colleagues in the Organised Crime and Corruption Reporting Project and other journalists to dig a bit further. What we have been doing, as an organisation, is following up on the revelations that are out there in the public domain.

We have been following up in the UK: our national organisation was asking parliamentary questions about some of the issues that came up. We have started a dialogue with German representatives of the Parliamentary Assembly of the Council of Europe about these allegations, which have been followed up by our chapter in Germany. And in the Czech Republic our chapter there has been calling for investigations into the weaknesses in the Czech regime.

It is probably worth pointing out that, at the centre of the scandal and these allegations is a matter of reputation laundering as well as money laundering. The reason that the bribes were paid was because Azerbaijan wanted to launder its reputation in the Council of Europe and elsewhere. That seems to be the main driving force, or agenda, behind this, rather than an attempt to weaken the money laundering regime or to change the money-laundering rules in Europe. The weaknesses there are for other reasons, and we do not have to look as far as Azerbaijan for that.

1-068-0000

Dariusz Rosati (PPE). – Mr Chair, I would like to thank all the speakers for a very interesting discussion. These criminal activities in the area of corruption and money laundering are not new, but still, each time I hear about a new case, I find it astonishing that this kind of criminal machinery could have worked in Europe. And we have seen not only money-laundering practices but also corruption at the highest political level in our countries.

I have two questions: the first maybe to our colleagues from Denmark. How was it possible that this kind of laundromat machinery could have been established and was working for some time? Was it a case of wrongdoing or negligence, or simply that there were loopholes in the existing laws, and where were the supervisory institutions? I am referring to Danske Bank, of course, because this is the key thing. The shell companies established in the UK show simply that the UK is also a very friendly place for this kind of arrangement, but banks are covered by strict obligations to report all these transactions. How was it possible that this was not spotted and that this process could have continued for so long? This is my first question.

The second question is perhaps more to Mr Dolan, but also to our Danish colleagues if they wish. I understand that the case has now been taken on by the national authorities, by prosecutors' offices and bank supervision authorities: to what extent are you satisfied with the progress in all those investigations? On the basis of the evidence at hand, for which we are very grateful to you, is it possible that these investigations can finally end quickly with some conclusions that would, first of all, punish those responsible, but would also help us somehow to improve the system of control of over the financial flows in Europe, and help in the process of spotting the most suspicious transactions?

1-069-0000

Michael Lund, *journalist, Berlingske newspaper, Denmark.* – These are great questions and also something that we have been wondering about.

There is no doubt that Danske Bank had severe breaches in respect of its email – so we need to look at email control, checking email payments for illegal money laundering. What they had been saying from the beginning was: 'Well, we were very bad at our supervision but there was no sign that anyone in the bank actually actively helped with this.' Then, later on, we were able to show that that was not the case: actually, people in the bank were actively helping, covering over these suspicious clients, actively closing their eyes to suspicious payments and hiding the clients from the authorities, especially the Russian authorities. So there was not only a lack of supervision. Obviously it was also, to some extent, a case of actively helping these people who were behind the whole scheme.

We also have to look at the authorities and to what extent they did what they had to do, and it's obvious that there is a problem here with a Danish bank which has a branch in Estonia, because it seems to us that the authorities in the different countries were a bit confused about who was actually in charge of supervising the branch, and definitely it was not done properly. The authorities in Estonia actually looked into some of these transactions in 2014 and the Danish authorities did so as well, but they concluded that, since the money was obviously gone, there was no need to start a proper investigation because it would be too difficult to find out what had been going on. So, yes, one of the things we have been wondering about is what really happened and who was in charge of supervising the branch in Estonia.

1-070-0000

Carl Dolan, *Director of Transparency International EU, Brussels*. – It is quite possible, as has just been said, that there was active complicity in this, but I think we should be clear that this goes beyond a few bad apples in the system; there are systemic weaknesses.

It is one of the paradoxes, actually, of Transparency International's Corruption Perceptions Index that some of the best countries, the best performers in that index, actually have the weakest systems when it comes to preventing money laundering.

Denmark actually occupies the number one spot, the best position in our Corruption Perceptions Index at the moment, and it will be hosting the International Anti-Corruption Conference next year. Yet – and you don't have to take our word for this – if you look at a very recent Financial Action Task Force (FATF) report on Denmark it makes for very, very, very uncomfortable reading – I would say – for the Danish authorities.

In the 40 areas of legal benchmarks which the FATF looks at, Denmark is not fully compliant in 36 of them – nearly all of them. On nearly half of them it is partially compliant and, of course, partially compliant is bureaucratic, FATF...

1-071-0000

The Chair. – Then how does it come in the top five on the Transparency International list? How is it then, if it does not comply with 36 out of 40 categories that it is still one of the five best countries in the world?

1-072-0000

Carl Dolan, *Director of Transparency International EU, Brussels*. – As I said at the start, what we are looking at in the Transparency International list is the perception of corruption in the public sector. So I think, in fairness, if you are dealing with Danish public officials there is very little risk of corruption, petty bribery or that kind of thing.

But, yes, the results of the report are devastating. As I said, nearly half are only partially compliant. And it goes on, and what it shows also is that the senior management in these banks – and this is a quote from the report – 'appeared to give a low priority to anti-money-laundering issues'. Again, this goes back to the investigations and the sanctions: there is very little risk that any of these banks will face anything more than a small fine. The fines are very low. In Luxembourg, fines for breaches of anti-money-laundering regulations could be as low as EUR 20 000 to 30 000.

So what we would recommend in these cases is that individuals are held liable, and are liable for criminal sanctions in cases where there are systematic breaches of anti-money-laundering regulations. In that situation you might then see senior management sitting up and giving a higher priority to these issues.

1-073-0000

The Chair. – Thank you very much! This makes me question a few things. Could it also be that other involved parties are taking it easy with regard to good placement in your own list, by Transparency International, and are no longer making an effort? If I remember correctly, the

top six in your list are Finland, Sweden, Denmark, Norway and Singapore. And doesn't Transparency International need to revise this list again? This is the conclusion from what you are saying.

1-074-0000

Ana Gomes (S&D). – Unlike my colleague Mr Rosati, I am not surprised because, indeed, I think that the problem is systemic. I have seen it in my own country, where kleptocrats from other countries have bought banks for the purpose of money laundering, and that was clear: they openly owned part of the banks, and until I started reporting it to the European Banking Authority, nobody cared, not even the European Central Bank, not to mention the national supervisory authorities.

I have questions, Mr Dolan. You mentioned that the fifth anti-money-laundering directive is imminent, but that is not true anymore because, although Member States were prompted to revise the directive because of the implications for terrorist financing, they actually blocked it two weeks ago when it came to the question of transparency on beneficial ownership of trusts – not just shell companies, but actually trusts – and the questions of sanctions on intermediaries, golden visa programmes, termination of business relationships with companies from outside who don't want to disclose the business, the beneficial owners, and so on.

So, I am using this opportunity to tell it all, because it is quite scandalous that this has been blocked by the Council, the European Parliament having done its work.

I also have a question for the journalists. What you have exposed actually shows that it is also democracy that is threatened, and the 'reputation laundering' that Mr Dolan alluded to as an effort by Azerbaijan actually reached the European Parliament. We know that, in 2013, a European Parliament delegation which was sent to observe elections in Azerbaijan, together with the Council of Europe, issued a statement with total disregard for the main conclusions of the Council of Europe mission, into which it was integrated with the Office for Democratic Institutions and Human Rights (ODIHR). At the time, this created a big scandal here. I wonder if you have investigated whether the particular Members of the European Parliament at that time, who might still be here, were involved. I remember one name and I will mention it, but there are more. One is Mr Pino Arlacchi, who is not in the European Parliament anymore.

My other question concerns the connection between Azerbaijan and Malta, which also came up with the murder of journalist Daphne Caruana Galizia, and specifically the so-called investors' programmes, another form of golden visa. Do you know more about that, and what can you tell us about it?

1-075-0000

Eva Jung, journalist, Berlingske newspaper, Denmark. – Yes, of course we are aware of this. When we started looking into this, we compiled a list of people to keep an eye out for – people who would speak against the general norm of what is, for the most part, thought of Azerbaijan. The people we have written about are the people that we can document as having received money. That is our role as journalists, so we will keep to that.

1-076-0000

Michael Lund, journalist, Berlingske newspaper, Denmark. – A few words about the Maltese case – I guess that was the case you were referring to. We tried, as my colleague also mentioned during the statement, to draw some parallels between the two cases but, as far as we can see, there are no names that appear in both cases: not names of companies, not names of banks and not names of politicians, payers or beneficiaries. So there are no obvious similarities between the two cases.

As we see the Maltese case, it was Dubai-based banks, Dubai-based companies, that sent the money to Panama-based companies owned by trusts in New Zealand ultimately owned by these

Maltese politicians. It is a similar set up to that in the Danske Bank case – which involved other banks and the British shield companies, as well as Danske Bank Estonia – so the cases look alike, but we do not see similar names of payers or beneficiaries.

So it seems you can ask yourself how many of these laundromats may exist. If we have these two cases that have no similarities, then perhaps there could be plenty of them: we don't know.

1-077-0000

The Chair. – Yes, the name of the Maltese Prime Minister's wife crops up in New Zealand.

Next to speaks Miguel Urbán from the GUE. Please go ahead.

1-078-0000

Miguel Urbán Crespo (GUE/NGL). – Mr Chair, I would first like to ask the Danish journalists about the caviar diplomacy case, and about one name in particular: Pedro Agramunt. I do not know if you will be aware of Pedro Agramunt, but he was President of the Parliamentary Assembly of the Council of Europe until October 2017. In theory, he resigned for personal reasons, but according to an investigation into caviar diplomacy that has appeared in several Spanish media channels, the PP senator is implicated directly in this case. Over 150 MEPs called for his resignation at the time.

I would like to know, and I would like to ask you – as you have mentioned a series of names and say that there are more – what proof you have of Pedro Agramunt's involvement in caviar diplomacy, and in the cases that you have exposed. I ask because, although Mr Agramunt stood down from his role in the Parliamentary Assembly of the Council of Europe, he is still a senator in Spain and I think it is important to know what information you have.

And lastly, I must mention the information provided by Mr Dolan on the issue of Azerbaijan, which is something we have discussed quite a lot in this committee. It reinforces an idea that we think is very important, and one that I would like to ask you about, which is the registration of beneficial owners. A register that is reliable. This is a vital element that we want to establish as a conclusion and recommendation of this committee, along with the matter of sanctions. Potentially dissuasive sanctions. What exactly is your view on dissuasive sanctions for intermediaries and enablers? We consider this to be an important aspect, particularly with regard to banks acting as enablers required for tax evasion and avoidance.

1-079-0000

Michael Lund, journalist, Berlingske newspaper, Denmark. – Thank you so much. We were also aware of Agramunt and we also read the ESI caviar diplomacy report, a very interesting report.

We checked all the transactions that went to Spanish companies or Spanish recipients and no names of any politicians appeared, as far as we could see. We could see a lot of money going to companies that sold, for instance, building materials in Spain, a lot of companies that sold luxury goods in Spain as well, but no names of politicians.

However, as we saw in the case of Karin Strentz, the money went through other people to her, through Eduard Lintner in her case. I am not saying anything except to repeat one of our points, which is that we cannot see many of the beneficial owners of these offshore companies. Interesting names could be behind them. I am not saying Agramunt is one of them, but I am just repeating that what we see here is definitely the tip of the iceberg.

1-080-0000

Miguel Urbán Crespo (GUE/NGL). – Do you know where the Spanish construction companies had their headquarters? Is it possible that some might have been in Valencia, for example?

1-081-0000

Michael Lund, *journalist, Berlingske newspaper, Denmark*. – I don't recall if there were any in Valencia, but we could find out – no doubt about that. I will check that for you.

1-082-0000

Miguel Urbán Crespo (GUE/NGL). – That would be very helpful, thank you.

1-083-0000

Carl Dolan, *Director of Transparency International EU, Brussels*. – I think I can be reasonably brief.

I agree with you wholeheartedly about what you said about the need for beneficial ownership registers, but of course the data needs to be verified; it needs to be reliable data.

On sanctions, at the risk of repeating what I said before, what clearly doesn't have a deterrent effect, given the amount of money laundering that goes on, are low levels of fines and merely a verbal slap on the wrist to some in the industry or some firms.

Two things would change the risk-reward equation, I think, for those firms. The first, as I already mentioned, is the possibility of individuals, managers, senior managers in banks facing criminal charges and being criminally liable in cases of systematic lapses in an anti-money laundering regime. There was something proposed in the UK – a senior managers' regime – which almost passed but didn't quite; something like that as a model would be helpful.

Secondly, there is the issue of the role of professional bodies in all of this. We heard that the professional intermediaries are drug dealers, but I would also say that in many cases they are the guardians and the gate keepers as well and they know their responsibilities in terms of anti-corruption, anti-money laundering, and are fully aware of them. So they need to discharge those responsibilities a bit better. They are on the front line in this war against corruption, after all.

So why don't we see more lawyers, accountants, etc. losing their professional licenses as a result of failures to enforce an anti-money laundering regime? I can think of – have never seen – hardly any case of an individual losing their professional license and losing the ability to work over a failure of this kind.

1-084-0000

The Chair. – Thank you very much! There are isolated cases but they are not proportional to the problematic cases.

Good. Jordi Solé for the Greens.

1-085-0000

Jordi Solé (Verts/ALE). – Last October, I initiated an amendment to a plenary report on corruption and human rights that called on Parliament to establish a comprehensive investigation into the Azerbaijani Laundromat relations and the influence exerted by other autocratic regimes.

That amendment was co-signed by dozens of MEPs from Groups across the political spectrum and, in the end, Parliament endorsed the amendment by a big majority.

So I am glad see that today we are discussing this case here in the PANA Committee, because the Azerbaijani Laundromat clearly shows the links between laundered money coming from autocracies and the influence they try to exert on decision-makers and politicians in order to improve the reputation of their own countries.

It also uncovers the direct linkage between what are called fake election observers and Azeri money. As Ana Gomes said, a number of MPs – for instance from Germany and Slovenia – are reported to have received money to positively assess fraudulent elections in Azerbaijan.

Here in the European Parliament we have also witnessed numerous cases of MEPs involved in fake observation missions in Azerbaijan. They came out with similar positive statements on the elections and also – as has already been said – former or current members of the Parliamentary Assembly of the Council of Europe are also involved in this case.

Yet I am afraid that this public hearing, even though necessary and very interesting, will not be enough. Parliament needs to set up a comprehensive investigation as soon as possible, because failure to do so would encourage such regimes to continue to try to corrupt our own House.

The truth is that while corporate capture has been regularly investigated here in the European Parliament, the influence of autocratic regimes has been largely overlooked.

So my question would be: do you have recommendations on how to address this very real and problematic potential source of corruption in parliaments, and especially in our Parliament?

1-086-0000

The Chair. – Thank you very much! I have to keep an eye on the clock, as time is moving on and we started a little too late.

The question was what recommendations do you have for the parliament? Parliamentarians are a cross-section of the population, I can only say. Representing interests – national, personal, economic, state –, that is indeed a preoccupation, but it is not in the foreground of parliamentary activity.

Please – recommendations. Who would like to respond? Mr Bendtsen?

1-087-0000

Simon Bendtsen, *journalist, Berlingske newspaper, Denmark.* – I am not sure we can give any certain policy recommendation. The problem for us in investigating a case like this is the huge layer of secretive shell companies which make this slush fund – this laundromat machine – possible. So from our perspective, one part of the problem is this whole secretive offshore world, which makes it difficult to investigate these cases and find the real owners.

Another problem we faced in this investigation was a matter of jurisdiction. In this case there is a huge Danish bank which is supervised in Copenhagen by the Danish authorities but has a branch in Estonia supervised by the Estonian authorities, and there seems to have been some communication over the years between the authorities in Copenhagen and those in Tallinn, but there also seems to be an issue about responsibility: who is investigating this? Who is looking into this matter, which seems to have been lost somewhere over the Baltic Sea, between the Danish and Estonian authorities? Because, of course, this is not a pleasant case to investigate, for any authorities. So, from a political point of view, we also observed some issues in terms of doubt about jurisdiction here.

1-088-0000

Carl Dolan, *Director of Transparency International EU, Brussels.* – I am aware of the case in the European Parliament that both the questioner and the Vice-Chair alluded to.

We should not give the impression that the European Parliament is at the epicentre of these allegations, but there is a question about how Parliament – any parliament – defends itself against these kind of activities and how it preserves its integrity.

What we see, across Europe, is that – no more than in the case of intermediaries, where self-regulation is the norm – there tends to be a reluctance to discipline and to sanction. That applies to parliamentarians as much as it does to lawyers, accountants or banks.

So what we would say is that we should embrace a trend that we see in Europe, in France and elsewhere, for independent bodies which supervise the ethics and the integrity of parliamentarians and parliaments. We would encourage the European Parliament and the European Union to look at that option as well.

I have one final point, which is to say that this is going to become more and more important, because we know from these revelations, but also from revelations in Russia and elsewhere, that our democratic institutions are being systematically attacked by foreign governments to undermine their purpose. That is something that we need to safeguard ourselves against very urgently indeed.

1-089-0000

The Chair. – My trust in the self-cleaning capacity of the democratic institutions is not yet extinguished. And if we have to draw a consequence, then this includes inspecting the role of our own friendship groups that we maintain worldwide, as in contrast to delegations, friendship groups are often financed by the respective governments. That would be a point on which I would fully agree with the colleagues from the Greens, to strengthen the rules for friendship groups – as in the case of Ms Strenz in the German Bundestag.

Now David Coburn and then lastly Dariusz Rosati, if he has another question. Please, David.

1-090-0000

David Coburn (EFDD). – As you said, sir, the UK has a low cost of starting a business. The formation of new companies: GBP 12. Well, why not? Good, and why not? In the UK, we call it democratic capitalism. We encourage people to set up a business, no matter how meagre their means or humble their birth. As far as that is concerned, it leads to a more democratic and dynamic economy, more jobs all round.

I see some people laughing here. Well, they are people who have rotten economies and a very great number of people unemployed. So that is very interesting. The more interference, the more expensive and the more it cuts out ordinary people from having a company.

In France, it costs a great deal of money to set up a company and a business. You have to put up a great deal of money. This is why more people earn their living directly or indirectly from the state in France, which is probably what the European Union wants to do: to go back to good old Soviet days. It also explains why France is less democratic and people are less well off. If you are employed by the state you have to obey the laws and the rules. You cannot disagree with the state. Some 60% of French people earn their living directly or indirectly from the state – almost as much as in the old Soviet Union.

Business is encouraged in the UK. It is not for the state to intervene in the private arrangements of citizens. We are not as paranoid as the EU that some poor soul might earn an extra pound or an extra euro. It is appalling if the European politicians are taking money, or whoever is taking money. That is bad and obviously should be punished. We, in England have an extremely robust press – the fourth estate – who take care of that generally. People have the right to protect their hard-earned wealth from rapacious, dishonest, undemocratic governments.

1-091-0000

President. – David, two minutes. Please finish the statement.

1-092-0000

David Coburn (EFDD). – It is not a statement, sir, it is answering these gentlemen's points, all of which seem to be having a go at free enterprise. Someone in this building has to stick up for free enterprise.

1-093-0000

The Chair. – Thank you for the explanation – we don't need a response to explanations. Now the question from Dariusz Rosati. No more? Then I can give both speakers another short opportunity to give a one minute conclusion. Mr Dolan, could you start please?

1-093-5000

President. – First Kofod, last one. We have only two minutes.

1-094-0000

Jeppe Kofod (S&D). – I just want to say that I think what we also heard today, from the journalists, is that we have only seen the tip of the iceberg and it is not uncovered yet. There could be plenty of laundromat systems out there.

This reveals one other thing, which is that we, the European Parliament, need to act. We need to follow suit. We need to expose. We need to look into all of these cases. I think we should work with that, and we will do that in our committee. I think that is very important.

I also have to say, Mr Coburn, sorry for the comment, but what you are suggesting is that every citizen should have their own tax-avoidance structure. I think that is not very democratic; it is just undermining fundamentally the trust in our society.

1-094-5000

David Coburn (EFDD). – Why should they not, sir?

1-094-7500

Jeppe Kofod (S&D). – I just want to say that I think we should take this more seriously. What we have heard today is serious – money laundering, corruption, reputation laundering – and we should act on it. Parliament should look into it.

I would also say to the journalists and to Transparency International that we will act on this. It is very important and it is our obligation, as citizens' representatives, to look into all of this, and we will do that. We have only started now, but we will continue this work.

1-095-0000

The Chair. – Thank you very much! This morning we spoke with the coordinators about what we intend to recommend to Parliament about continuing the work. We are agreed that this should not end, as it is a continuing process.

Mr Dolan, could you conclude for one minute, if you still have something to say.

1-096-0000

Carl Dolan, Director of Transparency International EU, Brussels. – Perhaps I can be even shorter than a minute. The failures of the system are clear. I think it is important to note that many of the solutions are actually within grasp, and the role of the European Parliament here is very important.

We talked – maybe I misspoke – about the 'imminent' conclusion of the revisions to the Anti-Money-Laundering Directive. I was being polite. But it is clear that what Parliament can do is to make sure that some of the measures that Parliament itself has voted for are in that final legislation: on beneficial ownership registers, on enhanced due diligence for politically exposed persons, and other measures. All that is within grasp if sufficient pressure is put on Member States, and I very much hope that Parliament will fulfil its role in that respect.

1-097-0000

Eva Jung, *journalist, Berlingske newspaper, Denmark*. – We have no final remarks, but everyone is welcome to come and ask any questions that they might have and we will try to answer them, afterwards.

1-098-0000

The Chair. – *Thank you very much*. Then I would like to close and thank the speakers. There is a reason why there were not so many colleagues still here at the end. Today we have important votes, like the energy package in the ITRE, and on many, many, other issues. The votes are always in the mornings, unfortunately we hold meetings in parallel.

I would like to thank you all. We will continue this afternoon at 15.00 with the Paradise Papers. Thanks you also to the interpreters, we have overrun by five minutes. The meeting is closed.

(The meeting closed at 12.36.)