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Analysis

The Scottish firms that let money flow from Azerbaijan to the UK

Caelainn Barr

Billions of pounds came through two Glasgow-based companies using obscure structure that let owners hide identities



Glasgow, Scotland is an appealing jurisdiction for 'serious money' because the rule of law is predictable, said an international financial investigator. Photograph: Alan Copson/Getty Images

UK companies using an obscure Scottish business structure are at the centre of a multibillion-dollar operation to funnel cash out of Azerbaijan, an investigation by the Guardian has found.

Scottish limited partnerships (SLPs), structures originally established in the early 1900s for farm holdings, acted as shell companies to channel \$2.9bn (£2.2bn) from Azerbaijan into the UK where it was used to buy luxury goods and peddle political influence throughout Europe.

The money was moved through the Glasgow-based companies Hilux Services LP and Polux Management LP via an Estonian branch of Danske Bank between 2012 and 2014, according to bank statements seen by the Guardian as part of a cross-border collaboration with the Organized Crime and Corruption Reporting Project (OCCRP).

Why is Azerbaijan laundering money through the UK?

Azerbaijan was one of 15 states to emerge from the Soviet breakup in 1991. While some embraced democracy Azerbaijan succumbed to dynasty politics, ruled by Soviet-era leader Heydar Aliyev and, from 2003, his son Ilham. A well-connected elite shares in the spoils of an oil-rich economy which boomed in the 2000s, while opponents have been locked up and the media muzzled. Bank files now show the elites have siphoned billions out of the country, via lightly-regulated British-incorporated vehicles, to reward lobbyists, buy luxury items and launder cash into the European economy.

The companies, which have since been dissolved, benefited from loose national disclosure laws that allowed firms to hide the identity of their owners while enjoying the benefits of being a UK-registered company.

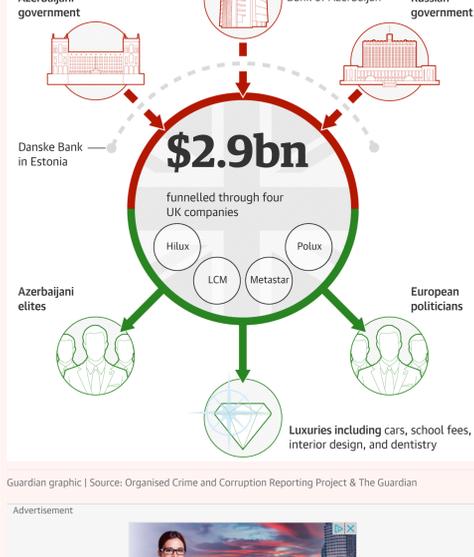
"One of the real attractions for serious money, however it has been obtained, is finding a jurisdiction where the rule of law is predictable," said L Burke Files, an international financial investigator.

"When it comes to jurisdiction, would you prefer to use a company in Scotland, under Scottish law, or some place like Burkina Faso or Algeria where the judges go to the highest bidder?"

"The [SLP] structure and how it was crafted into law also provides for an element of privacy," said Files.

Some of the billions moved through the letter-box companies were used to pay for legitimate lobbying work for Azerbaijan, luxury goods and the medical expenses of the Azerbaijani political elite. The Scottish companies have also been linked to a corruption scandal involving the alleged bribery of a member of the parliamentary assembly of the Council of Europe.

The Azerbaijani Laundromat sent billions of dollars through four UK companies



Guardian graphic | Source: Organised Crime and Corruption Reporting Project & The Guardian



Anti-money-laundering legislation was rushed through parliament in June to bring disclosure of the ownership of SLPs into line with EU law. However, there are still concerns the companies could be used as money-laundering vehicles.

"At the moment the combination of corporate partners, minimum filing requirements, and separate legal personality make the Scottish limited partnership particularly attractive to those looking to use it as one of the layers in a money-laundering scheme," said Duncan Hames, director of policy at Transparency International.

Two companies at the heart of the Azerbaijani money-laundering scheme, Hilux and Polux, were registered to a Mail Boxes Etc shop in Glasgow. The only trace of who may have controlled the laundering vehicles leads to the British Virgin Islands - another secrecy jurisdiction, where the registered partners are Solberg Business Limited and Akron Resources Corp.

The companies are among thousands of Scottish limited partnerships set up in the past decade. The number of SLPs increased rapidly following a tightening of the law elsewhere in the UK in 2006. The restriction prohibited private and limited companies from setting themselves up without a named individual as a director. However the change did not extend to SLPs and as a result it is still possible to register a company only disclosing corporate partners in an offshore jurisdiction.

The surge in the number of SLPs resulted in four times as many companies being created since 2006 as were established in the previous century.

The majority of the companies formed in the past decade are registered to a handful of locations, with thousands of SLPs at the same mailbox addresses. Of the new companies in Scotland, a report by Transparency International and Bellingcat found. More than 800 SLPs are registered to the mailbox address in central Glasgow that Hilux Services and Polux Management listed as their business address.

The structures have also played a role in other UK-linked money-laundering schemes. A number of SLPs were involved in the Global Laundromat, a large-scale money-laundering scheme that moved more than \$20bn (£16bn) out of Russia, reported by the Guardian in March. Over 50% of the money transacted through the Laundromat flowed through shell companies registered in London, Birmingham and Scotland.

Following new anti-money-laundering legislation all SLPs were required to register people with significant control by 7 August. However, a review of the disclosures filed after the deadline shows the vast majority of partnerships have not yet disclosed who controls the company, while more than half the partnerships who have filed statements stated that they did not know who controlled the company or were taking steps to find out.

"The initial responses really back up our suspicions about how many of these entities set up recently are being used," said Hames. "Of those who have declared their beneficial ownership, an analysis by Bellingcat showed that there are as many based in the UK as there are in Russia and Ukraine.

"Even the most recent information to come to light confirms the appetite for using this corporate vehicle in some high risk jurisdictions," he added.

The new regulation requiring SLPs to declare people with significant control will not apply to Hilux and Polux as they were dissolved in 2016, before it came into force.

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