

## Anonymous Companies Fuel Illicit Commerce

Anonymous companies allow counterfeiters and internet pirates to traffic and smuggle illicit goods — undercutting legitimate commerce, markets, and financial systems. Further, illicit trade threatens critical national industries and local economies, placing consumers at risk and harming the market reputational value of American brands and companies.

The Organization for Economic Cooperation and Development (OECD) and European Union Intellectual Property Office (EU IPO) estimate that the value of imported counterfeit goods worldwide was US\$509 billion in 2016, amounting to 3.3 percent of world trade.

### [Anonymous Companies Jeopardize the Health of U.S. Citizens](#)

Anonymous companies are used to import and sell to U.S. consumers counterfeit medicines from India and China worth hundreds of millions of dollars. These counterfeits include fake versions of Arimidex, a breast cancer treatment, Lipitor, for cholesterol, Diovan, for high blood pressure, and others such as illicit OxyContin, Percocet, Ritalin, Xanax, Valium, and NS Ambien.<sup>2</sup> Misbranded food poses a similar risk: In 2017, criminals were indicted for peddling 3.7 million counterfeit 5-Hour Energy products made in unsanitary, unregulated facilities.<sup>3</sup>

**“Illicit commerce thrives, in large part, because the current rules allow criminals to exploit vulnerabilities and gaps in our laws to further criminality and hide behind anonymous companies... This secrecy means bad actors are able to compete with legitimate businesses with impunity. The unfettered corruption disrupts markets, harms businesses, injects uncertainty which can impede capital formation, undermines the integrity of our financial system, and imperils our national security.”<sup>1</sup>**

— Letter to Senate Leadership from the U.S. Council for International Business, Safeproof Foundation, the National Foreign Trade Council, and the B Team (June 2020).

### [Anonymous Companies Disrupt the Integrity of U.S. National Security Supply Chains](#)

Anonymous companies assist in selling knock-off parts to the Pentagon that cost the U.S. military tens of millions of dollars. In 2011, the U.S. government awarded more than \$1.6 million to individuals that defrauded the Department of Defense. An investigation revealed that two anonymous Wyoming companies won four contracts and sold knock-off parts to the Pentagon. In one case, the government found that other firms “knowingly supplied air and fluid-filtering kits for military tractor-trailers between 2001 and 2005 that were reverse-engineered in Turkey to look like they were made by Parker Hannifin, the required manufacturer.”<sup>4</sup>

### [Anonymous Companies Undermine the Competitiveness of U.S. Products](#)

Anonymous companies helped criminals evade \$34 million in tobacco taxes. A three-year investigation exposed systematic and widespread fraud and tax evasion in the distribution of some tobacco products in California. To evade taxes and undercut competitors (honest, law-abiding companies), illicit distributors set up businesses outside of California, then smuggled tobacco into California using anonymous shell companies to receive the products, false documents to understate the amount of tobacco received, and untraceable cash sales to transfer money.<sup>5</sup>

## Anonymous Companies Damage the Reputation of U.S. Brands

Anonymous companies have helped criminals across the United States sell in recent years several billion dollars in fake and counterfeited luxury handbags and apparel accessories branded as Burberry, Louis Vuitton, Gucci, Fendi, Coach, and Chanel, as well as sportswear and gear from the NFL, NBA, and MLB including Nike, Adidas, and Under Armour, among many others. Anonymous corporations helped one criminal network import \$300 million in retail-value worth of luxury counterfeited goods: handbags, sneakers, cigarettes, and other items.<sup>6</sup>

## The U.S. Is the Easiest Place to Establish an Anonymous Company

A 2014 academic study found that the U.S. is the easiest country in the world for terrorists and criminals to open anonymous shell companies to launder their money with impunity.<sup>7</sup> While Delaware has become infamous for its ability to recruit companies to register there, no state collects the names of the true ('beneficial') owners of companies.<sup>8</sup> Indeed, in every state, it requires less information to open a business than to get a library card.<sup>9</sup>

## There Is a Bipartisan Solution

Two bipartisan measures — the Senate **Anti-Money Laundering Act** (S.Amdt.2198 to S.4049) and the House **Corporate Transparency Act** (H.R. 2513) — would require U.S. companies to disclose their beneficial owner(s) to the Treasury Department when they incorporate, and keep their ownership information up-to-date. Both bills have Administration support. A final version incorporating these provisions is under negotiation by the House and Senate and may be voted on as part of the "must-pass" FY2021 National Defense Authorization Act (NDAA).

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**"In too many places around the world, criminals have built their illicit empires on dirty money and laundered funds that are used to infiltrate and corrupt government institutions. In this shadowy, illegal economy traffickers and narcotics kingpins act as CEOs and venture capitalists to finance instability, jeopardize public health and safety, emaciate communities' human capital, erode our collective security, and destabilize fragile governments."**<sup>10</sup>

— David M. Luna, Former Chair, OECD Task Force on Countering Illicit Trade

<sup>1</sup> Letter to Senate Leadership, June 26, 2020, <https://bit.ly/3n5dGcG>.

<sup>2</sup> U.S. Attorney's Office, Eastern District of Texas, Press Release, "Sherman Jury Finds Pakistani National Guilty of International Drug Conspiracy and Money Laundering Crimes," U.S. Department of Justice, May 22, 2015, <https://www.justice.gov/usao-edtx/pr/sherman-jury-finds-pakistani-national-guilty-international-drug-conspiracy-and-money>.

<sup>3</sup> U.S. Attorney's Office, Northern District of California, "Counterfeiters Sentenced For Convictions In Nationwide Conspiracy To Distribute Fake 5-Hour Energy Drink," US Department of Justice, June 21, 2017, accessible at <https://bit.ly/2HGYyIB>.

<sup>4</sup> Brian Grow and Kelly Carr, "How Two Shell Companies Duped the Pentagon," Reuters, June 28, 2011, <http://reut.rs/mNuVbA>.

<sup>5</sup> California Attorney General Xavier Becerra, "Investigation Leads to Arrest of 15 Individuals who Evaded \$34 Million in Tobacco Taxes," August 2010, <https://oag.ca.gov/news/press-releases/investigation-leads-arrests-15-individuals-who-evaded-34-million-tobacco-taxes>.

<sup>6</sup> U.S. Attorney's Office, District of New Jersey, "Twenty-Nine Charged in New Jersey for Related, International Schemes to Import Counterfeit Goods and Drugs, Launder Profits," US Department of Justice, March 2, 2012, <https://bit.ly/3joJMON>.

<sup>7</sup> Findley, Michael et al., "Global Shell Games," Cambridge University Press (March 24, 2014), Page 74, <http://bit.ly/2uTLptQ>.

<sup>8</sup> Kelly Carr and Brian Grow, "A little house of secrets on the Great Plains," Reuters, June 28, 2011, <https://reut.rs/2PUcJUo>.

<sup>9</sup> *Global Financial Integrity*, "The Library Card Project," March 21, 2019, <http://bit.ly/2VvOxvN>.

<sup>10</sup> OECD (2016), *Illicit Trade: Converging Criminal Networks*, OECD Reviews of Risk Management Policies, OECD Publishing, Paris, <https://doi.org/10.1787/9789264251847-en>.

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