

NARRATIVE REPORT ON LIBERIA



PART 1: NARRATIVE REPORT

Liberia: America's outpost of financial secrecy

Liberia's secrecy jurisdiction is an example of where state sovereignty has been outsourced, almost wholesale to foreign interests. In setting up the registry, the Liberian government have effectively privatised a key function of the state and even it appears some parts of Liberian law itself.

The result is that Liberia permits the establishment of some of the most powerful secrecy instruments in the world, which is reflected in its secrecy score of 80.

Although Liberia's reputation as a secrecy jurisdiction has threatened to cause substantial damage to the reputation of country abroad, very little is known about Liberia's tax haven role in the country itself. Its offshore corporate registry is located and managed in the United States.

The History of the Liberian Secrecy Jurisdiction

The Liberian corporate registry was developed alongside the Liberian Shipping Registry. The story goes that the US Secretary of State, Edward Stettinius visited Liberia on his way back from the Yalta Peace Conference following world war two, and saw the potential of the country.

In 1947 he formed Stettinius Associates and set up a number of development projects in the country, the shipping registry being one of them.

The US had an interest in the establishment of a shipping registry in a neutral country, which would allow world trade to carry on unhindered in times of war.

With the help of lawyers from Esso and the State Department, Stettinius Associates drafted Liberia's first maritime law. To reassure potential clients it was written into the law that the registry must be located in the United States, and managed by a US citizen. Throughout the history of the registry, the company operating the Liberian registry has been staffed by retired US generals and former employees of the US coast guardⁱ.

After its foundation in 1948 Liberia's shipping registry grew quickly. In 1949 the country had just five ships registered under a Liberian flag. By 1955 it had overtaken Panama, the then leading flag of convenience in terms of tonnage registered. By 1965 it had surpassed the United Kingdom, the historic leading nation in terms of shippingⁱⁱ.

The popularity of the Liberian registry was driven by its status as a flag of convenience, which is a kind of tax haven for ships. A flag of convenience is when a ship owner will register their vessel in a country other than their home country in order to take advantage of favourable tax rates or other regulations. Flags of convenience have been controversial for as long as they have existed, particularly due to their impact on labour standards.

Rank: 39

Chart 1 - How Secretive?

80
Secrecy Score

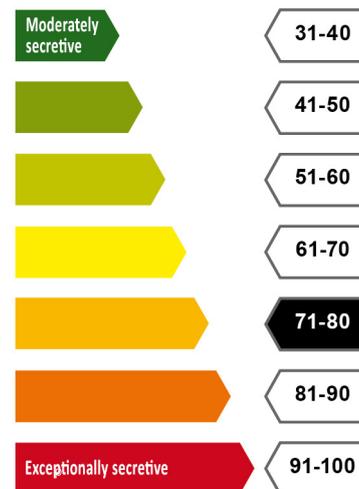
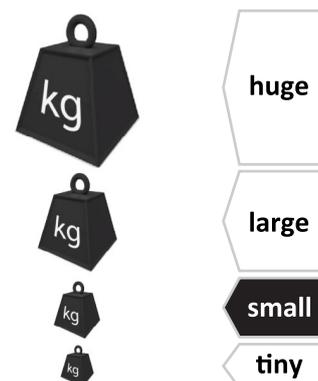


Chart 2 - How Big?



Liberia accounts for slightly over 0.1 per cent of the global market for offshore financial services, making it a small player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data on Liberia is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financial-secrecyindex.com>.

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Alongside the shipping register developed the Liberian Corporate Registry. The Corporate registry allowed ship owners to set up a Liberian company to own their ships. This in turn allowed ship owners to avoid corporation tax on the profits generated from their shipping activities and to keep the ownership of the vessels secret.

Since 2000 the contract to operate the Liberian registry has been owned by LISCR, the Liberian International Shipping and Corporate Registry, based in Vienna, Virginia, a suburb of Washington D.C. in the USA. LISCR is itself registered in the tax haven of Delaware, United States.

The fees collected by LISCR are transferred to the Liberian government through a special account at the US Federal Reserve.

In return for hosting this outpost of financial secrecy, the Liberian government gets to keep 67% of the net revenues collected by LISCR on its behalf. Funds raised by the company accounted for 75% of the government's annual revenues during Charles Taylor's rule, according to Taylor's head of maritime affairs, Benoni Urey. During the first Liberian Civil War, revenues from the registry (which was then managed by a different company) accounted for 90% of government revenue.

In addition, under the Taylor administration the Bureau of Maritime Affairs (BMA), a Liberian government agency that oversees the work of LISCR, took 10% of the revenue from the maritime programme for its running costs.

This was off the government's balance sheet, and the UN alleged that Urey used the agency to make off-budget arms purchases during the civil war in violation of UN sanctions.

In a Liberian Radio interview in 2015, Urey claimed that the money granted to the BMA was used for legitimate running costs. He said his agency was audited four times and on each occasion he was cleared of wrongdoing.

According to news reports, an agreement signed in 2016 between LISCR and the Liberian government grants the Liberian Maritime Authority, which has taken over from the BMA, 25% of revenues to meet its running costs. There appears to be little scrutiny

of where the money goes, although there is no evidence that it is used for inappropriate expenditure. Liberian non-resident corporations

Liberian non-resident corporations

Non-resident corporations are a particular form of corporate entity offered by the Liberian government to foreign citizens. They are not available to Liberian citizens and can not carry on any trade in Liberia itself. Liberian citizens must set up a company with the domestic corporate registry.

Registered with the Ministry of Foreign Affairs, they have no liability to pay taxes in Liberia, and no obligation to declare who owns them or file annual accounts.

They can also issue "bearer shares", a legal instrument banned in most countries because of the ease with which they can be used for tax evasion and money laundering. Bearer shares are unregistered certificates of ownership which can be physically transferred, changing ownership of a company without any record being kept. They are companies in cash form.

The loose requirements on both ownership and accounting records caused Liberia to be added to several tax haven blacklists.

In June 2015 the European Union released a consolidated list of tax havens drawn from its member states – and Liberia was included by Bulgaria, Greece, Croatia, Latvia, Lithuania, Poland, Portugal, Slovenia and Spain.

As of 2016 Brazil listed Liberia as a "privileged tax regime". Argentina has produced a white list of countries that are not tax havens, and Liberia is one of the few that is not included.

In 2012 Liberia failed the OECD Global Forum Phase One peer review process, at the time only eight states – Liberia, Vanuatu, Trinidad and Tobago, Nauru, Lebanon, Micronesia, Guatemala and Kazakhstan – had failed to make it past phase one.

To remedy this, in 2016 Liberia passed new legislation on corporate formations, this reiterates companies' obligation to keep internal accounting and ownership records but does not oblige them to file

those records with the corporate registry.

For the first time the law gives the Liberian authorities power to request documents from the companies themselves, however failure to comply with the law results in relatively minor fines. Failure to comply with a request for documentation results in a minimum fine of \$1,000, while the fine for not keeping records is capped at \$5,000.

Despite the legal changes enacted in 2016 Liberian companies continue to be allowed to issue bearer shares, which can make attempts to discover the ownership of companies extremely difficult.



Liberia's domestic business registry, near Broad Street, Monrovia. The domestic registry services Liberian company and looks run-down compared to LISCR's shiny offices.

The Size of the Liberian Corporate registry

It is unclear exactly how many offshore companies Liberia has established. The Liberian government does not publish official figures, and little is known about the registry even inside the Government of Liberia.

When a journalist from Finance Uncovered visited Monrovia in December 2015 to find out more about the registry, he interviewed the then minister in charge of the Liberian domestic business registry, Cyril Allen, Mr Allen was unaware that Liberia had a non-resident corporate registry.

The few Liberian officials in the know repeatedly stonewalled requests for information, citing "commercial confidentiality". Binyah Kesselly, former commissioner of the Liberia Maritime Authority

(LMA), which has oversight of the corporate registry, said in answer to e-mailed questions that the number of companies registered is kept confidential because of competition in the maritime industry. LISCR themselves also cited commercial confidentiality in response to questions.

At the ministry of Foreign Affairs, The then-deputy minister for legal affairs, Boakai Kanneh, ordered journalists out of his office when questions were asked about LISCR.

Price Waterhouse Coopers is the only member of the "big four" accountancy firms with an office in Liberia, and is listed as a "certified service provider" on the LISCR's website. They refused to answer any questions about the registry or their dealings with it.

Liberia's former auditor-general, John Morlu, told the journalists from Finance Uncovered in an email: "The Presidency has managed to conceal the corporate registry in the infamous maritime registry with 99% of the Cabinet, 99% of the legislature, and 99% of the Liberian people having no clue what a corporate registry is. "Many Liberians know that the Maritime Programme is lucrative, and since it has always been the prerogative of the presidency no one dares bother to poke into it."

Despite this circle of secrecy, a few scraps of information can be found. Information obtained by the UK investigative magazine, Private Eye, revealed that over half a billion pounds of high-value London property was registered to Liberian offshore companies.

An OECD report from 2013 on Liberia's tax and transparency laws which states that 55,000 companies are registered in that country. Most are understood to be non-resident corporations.

In 2009 the trial of former Liberian president and convicted war criminal Charles Taylor heard that the offshore corporate registry had registered 40,000 companies.

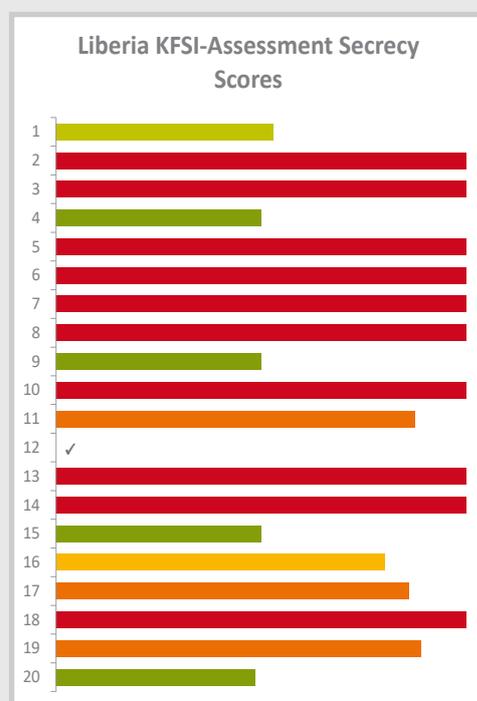
The Liberian government claims that the maritime programme and the registry are not secret and that President Ellen Johnson Sirleaf usually reports on the activities of the registry in her annual State of the Union address.

No mention of the registry could be found in the previous two State of the Union addresses. When asked in 2016, the President's spokesperson was unable to produce details of when the registry was last mentioned in a State of the Union address.

ⁱ Page 94, in: Picciotto, Sol 2011: Regulating global corporate capitalism, in: <http://www.lavoisier.fr/livre/notice.asp?ouvrage=2556722>; 27.7.2013.

ⁱⁱ Carisle, Rodney, Rough Waters: Sovereignty and the American Merchant Flag.

PART 2: LIBERIA'S SECRECY SCORE



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 80 per cent has been computed as the average score of 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each KFSI is explained in more detail by clicking on the KFSI on the right.

A grey tick indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 30.09.2017.

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To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.