

The Corporate Vehicles Changing International Commerce



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10-20-2024 ~ The unchecked rise of financial entities designed to conceal wealth and questionable activity has created a global, collaborative ecosystem. It is fueling corruption and crime while allowing those involved to escape accountability.

On September 17, 2024, thousands of pagers belonging to Hezbollah members simultaneously exploded across Lebanon, killing dozens and wounding thousands, including civilians. The pagers were licensed by Taiwanese company Gold Apollo from the manufacturer [BAC Consulting](#), a Hungary-based company registered in 2022. BAC Consulting is suspected of being an Israeli front company, working alongside Israeli shell companies that facilitated transactions with Gold Apollo and Hezbollah entities. The operation shows Israel's use of "[corporate vehicles](#)" to launch the attack and obscure responsibility.

After growing in use during the Cold War, the rise of the internet and global finance has made corporate vehicles easier to establish and operate. Though some serve legitimate purposes, the [massive growth in new companies](#) over the past two decades has masked the growing use of entities used for questionable purposes. Governments, corporations, ultra-wealthy individuals, organized crime, and militant groups use them to obscure their activities and assets. Their sophistication continues to evolve in an increasingly interconnected ecosystem.

The success of a front company hinges on its ability to appear legitimate. They

engage in genuine business activities to blend in, making them particularly useful for intelligence operations. In the 1980s, for instance, Israeli intelligence established a [resort and scuba business](#) on the Sudanese coast to secretly smuggle Ethiopian Jews to Israel. But while this was a rare case with a humanitarian goal, intelligence agencies more often rely on corporate vehicles for less altruistic reasons.

In the 1960s, the CIA [created several front companies](#) to acquire Soviet titanium for the SR-71 Blackbird program. Later, in the 1980s, it used front companies to hide [its role](#) in the Iran-Contra affair, during which the U.S. sold weapons to Iran and funneled the profits to Nicaraguan rebels. The CIA then [used a front company](#) to quietly purchase the screen rights to the scandal to prevent a movie from being made about it. The role of CIA front companies in [building black sites in Europe](#) in the aftermath of 9/11 also raised concerns.

In 2020, Swiss authorities launched an investigation into the Swiss-based global encryption company Crypto AG after it was revealed that U.S. and (West) German intelligence [had operated it for 50 years](#). [More than 120 governments](#) were spied on. The U.S. sold its remaining shares in 2018.

Other front companies are created for more short-term operations. [In 2018](#), the FBI and the Australian police launched an encrypted messaging platform, ANOM. [Marketed to criminal groups](#), it allowed international law enforcement to monitor communications and arrest 800 people across more than a dozen countries before being dismantled in 2021.

Conversely, criminal groups [frequently establish](#) front companies of their own to launder money and evade law enforcement. Common examples include construction companies, dock-loading enterprises, casinos, restaurants, and car washes. [Throughout 2024](#), for example, thousands of pounds of cocaine have been discovered hidden in shipments of bananas throughout Europe.

U.S. adversaries also utilize front companies, with China increasingly [employing them](#) to access sensitive technologies and intellectual property in sectors like computers, aerospace, AI, semiconductors, and telecommunications. These front companies can also gather economic and industrial data and embed themselves into critical supply chains.

Western sanctions have also increased the use of front companies. Since 2022,

Russian front companies have been used to [transport natural resources](#) and [obtain Western technologies](#), similar to strategies long used by countries like North Korea, Syria, and Iran. Iran's and Hezbollah's use of [front companies](#) has often come with assistance from major Western financial institutions. Reports from 2024 indicated that two of the UK's largest lenders, Santander UK and Lloyds Banking Group, provided bank [accounts for Iranian front companies](#).

Front companies are commonly used by other companies as well. The Coca-Cola Company has employed front companies such as the Center for Consumer Freedom (CCF) and Global Energy Balance Network (GEBN) [to lobby](#) for its interests while minimizing the appearance of any connections. Pharmaceutical companies have similarly [set up front companies](#) to pressure health care providers and legislators to adopt their products.

In contrast to the more open nature of front companies, shell companies thrive on their subtlety. Typically registered in tax havens like the British Virgin Islands, Cyprus, or U.S. states like Delaware, these entities lack any assets or operations and exist solely on paper to store wealth and facilitate financial transactions. They can be established in lawyers' names, with figureheads serving in official positions to mask true ownership.

Shell companies are easy and inexpensive to create, and are useful tools for tax evasion, generating false invoices and consultancy fees, and money laundering. Non-publicly traded companies often serve as shell companies, but the introduction of limited liability companies (LLCs) in the U.S. in 1977 expanded their use by offering greater anonymity, limited liability, and fewer regulatory burdens. Similar entities [exist in Europe](#), and according to 2024 data from Moody's, the UK leads globally, with nearly [5 million "suspect companies."](#) Meanwhile, the EU accounts for 4 million, largely in France and Cyprus.

The role of shell companies has been increasingly exposed over the last decade through leaks and whistleblowers. The [Panama Papers](#), released by the International Consortium of Investigative Journalists in 2016, unveiled years of records from Panamanian law firm Mossack Fonseca, which created shell companies for various clients. [Little attention](#) was paid to who its clients were, which [included Mexican drug cartels](#).

Politicians lack the will to combat this issue, as many are complicit. The fallout

from the Panama Papers led to the resignation of Icelandic Prime Minister [Sigmundur Davíð Gunnlaugsson](#), who had hidden millions of dollars in an offshore shell company despite campaigning on financial justice. The [Paradise Papers](#), released in 2017 and primarily sourced from Bermuda law firm Appleby, similarly implicated corporations, government officials, and other high-profile individuals from around the world.

This data highlights only two firms, but the globalization of finance has spread the issue worldwide. Former Pakistani Prime Minister [Nawaz Sharif](#) also resigned due to revelations from the Panama Papers. The [Pandora Papers, published in 2021](#), meanwhile exposed secret offshore accounts held by dozens of former and current world leaders. Additionally, an [ongoing scandal in India](#) has revealed how the current Chairperson for the Securities and Exchange Board of India (SEBI) and her husband had hidden assets in Bermuda and Mauritius. These funds were also used by Vinod Adani, India's richest person, raising concerns over a conflict of interest in the prosecution of Adani Group for financial crimes.

While personal use of shell companies is common, corporations remain the main driver behind them. [A 2017](#) report by the U.S. PIRG advocacy group revealed that 366 of the Fortune 500 companies have subsidiaries in offshore tax havens, largely in the form of shell companies. These corporations held over \$2.6 trillion in offshore profits and owed an estimated \$752 billion in back federal taxes.

Fearing financial and legal repercussions stemming from its role in the opioid crisis, Purdue Pharma family members began shifting billions of dollars out of the U.S. [in 2007](#), much of it funneled through shell companies to hide the money's trail. Many of these funds were then placed into trusts, another corporate vehicle where assets are held by a trustee, making them harder to seize as they are no longer considered part of the settlor's personal estate. A trial began in 2019, and [by 2022](#), they were ordered to pay \$6 billion, [though legal battles continue](#).

Financial misconduct aided by shell companies can be difficult to prove. [A 2019 whistleblower report](#) by Harry Markopolos, who previously had exposed Bernie Madoff's Ponzi scheme, claimed that General Electric has underfunded its long-term care insurance reserves and established shell companies to take on its losses and lie about its true financial health. The year before, British defense company BAE Systems was reported to have used shell companies in the British Virgin Islands to send more than [£135 million](#) in bribes to public officials in Saudi Arabia

and elsewhere. Both companies denied the allegations.

The 2020 FinCEN files meanwhile exposed how banks globally have been complicit in enabling the abuse of shell companies, despite consistent warnings and red flags. Political action targeting this problem is likely to remain slow—in [2023](#), Representative James Comer, who led an investigation into Hunter Biden’s alleged financial irregularities, including the use of shell companies, was himself implicated in using a shell company.

Front and shell companies are often set up quickly for specific purposes, but growing scrutiny has increased the appeal of [shelf companies](#). These pre-registered, inactive companies can be sold or used immediately, allowing owners to bypass the registration process. Some even come with bank accounts, websites, and credit cards. Shelf companies can also be “[warmed up](#)” by conducting business with other shelf companies, building [a transaction and credit history](#), and can function as both front and shell companies.

Though available globally, [the UK and the U.S. lead in shelf company offerings](#). Ownership transfer can happen in a day, allowing immediate movement of money or assets. Selling shelf companies in itself is a huge business—new shelf corporations can sell for a few hundred dollars, while “[aged corporations](#)” can cost up to \$10,000. In September 2024, a U.S. man was fined \$75,000 [for creating nearly 16,000 shelf companies](#) in Colorado, exploiting the state’s discounted filing fees.

The long-term use of front companies, often in tandem with other corporate vehicles has become evident in high profile cases. [In 1998](#), Nigeria’s oil minister, Dan Etete, awarded the rights to a large offshore oil block, OPL 245, to a shelf company he owned called Malabu. In 2011, Western energy firms Shell and Eni purchased the rights for \$1.3 billion from Malabu, sparking a major anti-corruption investigation.

The case gained further attention in 2018, when Drumcliffe Partners, a Delaware-incorporated investment fund based in Washington, D.C., became involved. Through its shell company, Poplar Falls LLC, Drumcliffe Partners was poised to receive 35 percent of recovered assets, well above Nigeria’s traditional 5 percent limit. The fallout from the deal [remains ongoing](#).

Other corporate structures have also become common. Holding companies, for

example, own shares of assets of other businesses. The International Holding Company (IHC), based in the United Arab Emirates, saw its market capitalization grow from \$215 million in 2018 [to \\$240 billion by 2023](#). While rapid growth isn't inherently controversial, the lack of transparency around IHC's financial practices and its political connections to the Abu Dhabi royal family have brought attention to how holding companies can quickly accumulate value and serve as a vehicle for market manipulation and potential corruption. [Charities and other types of nonprofits](#) are also convenient vehicles for money laundering, hiding assets, and political influence, all while maintaining an air of legitimacy and goodwill.

International finance is now characterized by corporate vehicles, used by powerful individuals and corporations in ways that most can't. The problem is institutional, with politicians often looking the other way or directly benefiting from these entities. Previous legislation, such as the U.S. Foreign Account Tax Compliance Act, the Corporate Transparency Act, and the EU's 5th Anti-Money Laundering Directive have all failed to stem the problem. The United States' refusal to sign the [OECD Common Reporting Standard](#), designed to give automatic exchange of tax data, highlights the lack of real political commitment. Until that changes, corporate vehicles will remain an increasingly useful tool for hiding wealth, wielding influence, and dodging accountability.

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