

## Dark Clouds Close In on Utopian British Isle --- Sark's Corporate Secrecy and Lax Controls Draw World's Scrutiny

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SARK, Channel Islands -- Yes, says the lord of the island, relaxing one morning as a maid flicks a feather duster across the books in his den: Sark is something of a utopia.

Crime? "Just the occasional punch'em-up at the pub," he says. Taxes are almost nil. There is an abundance of fresh air and acres of fine farmland, but no civil servants among the 550 Sarkese. Michael Beaumont, the seigneur of Sark since 1974, likes that most of all. "We are blissfully free of bureaucrats," he says.

Yet all is not mellow on the Isle of Sark, where Europe's last feudal constitution holds sway on a high patch of granite and gorse between Jersey and Guernsey in the English Channel, far closer to the French mainland, 22 miles to the east, than to the coast of England, 75 miles to the north.

Malevolent winds are blowing Sark's way, making one of the world's smallest and most curious offshore havens a lot edgier than normal. Organizations from the United Nations to the World Bank have lined up recently to blast the secrecy and lax controls of the world's offshore centers, and even Sark, swathed in an antique world of its own, is feeling the pressure.

Among the locals who putter in their gardens or sip lager at the pub, at least 100 serve as stand-in directors for thousands of shell companies, many of which have gone bust or run afoul of the law elsewhere in the world. The Sark directors haven't been accused of wrongdoing and haven't broken any of the island's laws. But regulators in neighboring Guernsey call Sark a "pimple." A recent U.N. report describes it and similar islands as "proceeds-of-crime havens." A British fraud investigator calls Sark "the ultimate front island."

Bruised, Sark is pushing to come clean, reflecting changes afoot in far vaster financial havens such as Switzerland and Cyprus that are also keen to burnish their image. But reform is sure to come more slowly to Sark, a possession of the English Crown since 1565. Even more so than other offshore oddities such as Anguilla, Vanuatu, Nauru and Niue, Sark is used to changing at its own pace.

"In another couple of years Sark will come into the 20th century," says Peter Crook, director-general of the Guernsey Financial Services Commission, 45 minutes west of Sark by boat.

Sark remains self-consciously sunk in the days of Shakespeare and the Spanish Armada. The island is a British dependency, but isn't part of the United Kingdom or the European Union. It creates its own rules with little meddling from London or anywhere else.

Sark isn't exactly a thriving offshore center. It has no international banks or secret numbered accounts on offer. Nor can it offer the visitor a taxi ride up the hill from where the ferry ties up. The island has a few dozen tractors and hundreds of bikes, but no cars. A tractor pulls people up the hill in a covered cart.

What Sark does offer is that extra layer of confidentiality so crucial to the offshore world. On paper, the island's two square miles are a thriving corporate center. But only on paper. All of the companies with Sark directors are registered elsewhere. The "vast majority," says Mr. Crook, are in Panama, the British Virgin Islands and the Isle of Man. Having directors in Sark or anywhere else allows a company to exist as a nonresident corporation, thus lowering its tax load.

But officials say it allows for a lot more than that. A recent U.N. report says the proliferation of international shell companies has "few commercial or financial justifications" except to "provide an impenetrable layer of protection around the ownership of assets." While dozens of Sark residents hold directorships in hundreds of companies, many others hold directorships in several thousand. But few of these directors have any idea what the companies registered under their name actually do, according to Mr. Crook, various law-enforcement officials and some of the directors themselves.

"Basically, these people are being used by much larger forces," says Mr. Crook. "I wouldn't call what they do directing."

John Moscow, deputy chief of investigations at the Manhattan district attorney's office in New York, runs up against the phenomenon all the time. "Suppose I encounter a company in Liberia that's incorporated on the Isle of Man with its directors in Sark, its bank account in the British Virgin Islands, and its lawyers in London. Now where do you start? And how far am I likely to get? That today is the face of the shadier side of international business."

Sark directors have caused the island plenty of embarrassment in recent years. One father-son team found themselves as directors of a company on the Isle of Man that was smuggling arms to Rwanda during the massacres there in 1994. Other companies with Sark directors have been caught up in pornography rings and various forms of financial fraud, rarely if ever with the knowledge of the directors.

"People are aggrieved," says Dennis Hurden, a retired engineer who moved to Sark 20 years ago. "The island's reputation is besmirched, and those of us not involved in the business do not benefit from it at all."

Up at the north end of Sark, Michael Doyle runs the Sark Offshore Consultancy from behind a house with a view over rugged Saignie Bay. His Internet homepage calls the firm "the most professional offshore company in Sark."

This morning, Mr. Doyle isn't feeling well. "I had a late night last night -- too much brandy," he says, opening the door to his house, wearing a pair of baggy plaid pants and a wrinkled shirt.

A lean 30-year-old with close-cropped black hair, Mr. Doyle came to Sark from London in 1994, he says, "to have a crack at the offshore business." He says he has between 5,000 and 6,000 clients, mostly from Eastern Europe and Russia. "Business is flying," he adds.

Mr. Doyle offers to form companies, to direct them, to open "world-wide bank accounts," to provide mailing addresses and board members. "Whatever is needed," he says.

With the heat on, few of Sark's directors like to talk these days about what they do. Mr. Doyle isn't so shy. Sark offers "maximum confidentiality coupled with the utmost in tax efficiency," his home-page says. "No one can walk onto my land and come up to my office and demand to see anything," he says. "They would have no jurisdiction."

But that comfort zone may narrow soon. The British Home Office this year ordered an in-depth review of the financial laws and regulations in the Channel Islands, and sent an emissary, a former treasury director named Andrew Edwards, to visit Sark for a day last month. His report should be finished by early autumn. Officials in Jersey and Guernsey predict they will come out clean, but the shell-company business, they say, could take a beating, especially the services offered in Sark.

Jonathan Brannam, a hotelier, offshore director and member of the island's parliament, is defensive. But he is also working hard to set right Sark's tarnished image. "We figure that a good offense is the best defense," he says, sipping coffee in the library of the family's Dixcart Hotel. "After all, those of us who are honest would like to stay in business."

Mr. Brannam also heads the 47-member Sark Association of Corporate Administrators, formed last year to clean up the directorship business. Under the association's code of conduct, members must pledge to know their customers, to keep detailed records and to direct the companies in their charge as would any real director. He is also pushing to create a law both in Guernsey and Sark to license and regulate the directorship business. That law alone, he figures, will wipe out half of the Sark directorship trade.

Just who is and isn't involved in directorships is a hot topic in Sark. Being a stand-in director can pay \$150 a year or more, which adds up if you have thousands of companies in your roster. Mr. Beaumont himself has "a dozen or so" to his name, he says, explaining that "it's a good way to stay active and engaged."

Cynics argue that upwards of 70% of all Sark adults are in on the trade. Mr. Doyle of the Sark Offshore Consultancy says he wouldn't be surprised if Sark had connections to "100,000 companies or more

around the world." Were the number just a quarter of that, the directorships could still reap more than \$3.5 million a year for an island whose annual budget rarely exceeds a tenth that much.

Philip Perree, one of the island's largest landowners, shakes his head. He doesn't get it. At 75, he still helps his son farm their 99 acres of grass, hay and oats. "But who else has time for this any more?" he says. "It seems that these days everyone's off doing much easier work."