

Senate Caucus on International Narcotics Control

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# Opaque Shell Companies: A Risk to National Security, Public Health, and Rule of Law

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Chairman Whitehouse, Ranking Member Grassley, and esteemed members of this caucus, I am honored to be here today to discuss the Corporate Transparency Act and the important work to abolish the opaque corporate structures that facilitate transnational criminal activity, undermine accountability, and threaten U.S. national security.

Secrecy is the greatest ally of both the criminal and the kleptocrat. Leveraging financial secrecy has allowed terrorists, drug kingpins, and dictators to launder billions of dollars through the United States financial system — money that is being invested in operations to kill Americans, weaken U.S. national security, and foment war and chaos around the globe. More than 100,000 Americans — often children and young adults — die yearly from fentanyl and other synthetic opioids. Those deaths occur because drug cartels make money — money that is only valuable because it is laundered through our powerful but unguarded financial system.

No financial tool has aided the drug cartels, the corrupt oligarchs, and the enemies of America more than the anonymous shell company. The anonymous shell company is the gold standard of secrecy — allowing dirty money to move effortlessly across state lines and over national borders without any risk that the underlying actors are identified.

In 2021, Congress passed the Corporate Transparency Act outlawing American anonymous shell companies by requiring all U.S. companies to provide information about the beneficial owners — the real persons behind the corporate form. This beneficial ownership information is vital to addressing the drug epidemic and other dangers to the homeland. Indeed, **we cannot successfully counter drug, terror, corruption, or other illicit threats to the United States without reliable beneficial ownership information.** Until we permanently close the beneficial ownership loophole with proper regulation, criminals, state sponsors of terrorism, narco-traffickers, money launderers, and other illicit actors will continue to exploit this vulnerability.

An effective system for collecting, verifying, and utilizing beneficial ownership information at home also brings the United States in compliance with international standards — as other countries around the world address the same challenge. Money, by its nature, is liquid and fungible — crossing borders and evading detection with relative ease. Coordinating beneficial ownership information across allied countries is a critical means to disrupt global adversaries, rogue regimes, and transnational criminal enterprises.

As a member of the Financial Action Task Force (FATF), the United States has a concrete foreign policy obligation to collect critical beneficial ownership information to mitigate the risks of money laundering and terror financing. As the FATF explained, tough beneficial ownership standards “will help prevent the organised criminal gangs, the corrupt and sanctions evaders from using anonymous shell companies and other businesses to hide their dirty money and illicit activities.”<sup>1</sup>

Reliable beneficial ownership information provides a critical boost to law enforcement, allowing investigators to truly follow the money — rather than chasing endless strings of shell companies, trusts, offshore entities, and disguised owners. The Corporate Transparency Act replaces the proverbial law enforcement dead end with a critical door to essential information. Rather than tying the hands of law enforcement officials, we should empower them with the tools and data they need to protect our country.

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<sup>1</sup> “Guidance on Beneficial Ownership for Legal Persons,” *Financial Action Task Force*, March 10, 2023. (<https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-Beneficial-Ownership-Legal-Persons.html>)

Absent a viable means of collecting beneficial ownership data, even the federal government is powerless to address the national security threats posed by anonymous shell companies. In 2017, for example, the Government Accountability Office (GAO) revealed that at least 26 U.S. government agencies leased commercial real estate from foreign-owned companies, some of which was used “for classified operations and to store law enforcement evidence and sensitive data.”<sup>2</sup> The GAO further noted that it “was unable to identify ownership information for about one-third of [the government’s] 1,406 high-security leases as of March 2016 because ownership information was not readily available for all buildings.” Congress ultimately addressed this vulnerability in December 2020 by passing the Secure Federal Leases from Espionage And Suspicious Entanglements Act, which requires federal government agencies to identify the beneficial ownership of any building in which it leases space and report whether the building is owned by any foreign parties.<sup>3</sup>

We must ensure that similar national security risks do not proliferate from an inattention to the risks of anonymity.

Drug trafficking operations have long exploited anonymous shell companies to launder money and aid in the transport of deadly narcotics into the United States. If we want to stop the flow of fentanyl and similar drugs into America, we must stop the flow of cash heading back to the cartels — and that starts by cutting off their anonymized access to financial tools.

Drug trafficking organizations have been relying on anonymous shell companies with tremendous success. In addition, for every case that we uncover, it is reasonable to assume that there are countless cases where the successful use of anonymous vehicles stymies law enforcement and the case is never closed. In other words, the examples that follow are likely just the tip of the financial iceberg for an illicit industry that is estimated to generate as much as \$650 billion a year globally.<sup>4</sup>

In February 2022, a New York man, Da Ying Sze, pleaded guilty to laundering \$650 million of drug proceeds through anonymous shell companies, sending the funds to both domestic entities and foreign entities in China and Hong Kong.<sup>5</sup>

In 2018, Chinese nationals Fujing Zheng and Guanghai Zheng were indicted for operating a global synthetic drug trafficking organization, which shipped fentanyl analogs and over 250 other drugs to 25 countries and 35 states within the United States, often relying upon shell companies for distribution and money laundering. The drugs sold by Zheng’s organization are confirmed to have resulted in at least two known fatalities in Ohio.<sup>6</sup>

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<sup>2</sup> “Federal Real Property: GSA Should Inform Tenant Agencies When Leasing High-Security Space from Foreign Owners,” *U.S. Government Accountability Office*, January 30, 2017. (<https://www.gao.gov/products/gao-17-195>)

<sup>3</sup> Secure Federal Leases from Espionage And Suspicious Entanglements, Pub. L. 116- 276, 134 Stat. 3362, 40 U.S.C. §585. (<https://www.congress.gov/bill/116th-congress/senate-bill/1869/text>)

<sup>4</sup> “Transnational Crime,” *Global Financial Integrity*, accessed April 4, 2024. (<https://gointegrity.org/issue/transnational-crime>)

<sup>5</sup> United States Attorney’s Office, District of New Jersey, Press Release, “Queens Man Admits Orchestrating \$653 Million Money Laundering Conspiracy, Operating Unlicensed Money Transmitting Business, and Bribing Bank Employees,” February 22, 2022. (<https://www.justice.gov/usao-nj/pr/queens-man-admits-orchestrating-653-million-money-laundering-conspiracy-operating>)

<sup>6</sup> U.S Department of Justice, Office of Public Affairs, Press Release, “Two Chinese Nationals Charged with Operating Global Opioid and Drug Manufacturing Conspiracy Resulting in Deaths,” August 22, 2018. (<https://www.justice.gov/opa/pr/two-chinese-nationals-charged-operating-global-opioid-and-drug-manufacturing-conspiracy>); Indictment, *United States of America v. Fujing Zhen*, No. 1:18 Cr. 474, (N.D. Ohio). (<https://www.justice.gov/media/967116/dl>)

American drug-related deaths are tragically common and shell companies are playing a critical role in those lost lives — anonymizing drug purchases and the money laundering that funds these drugs of death. In Idaho, a victim paid thousands of dollars to an online website called “Pharmacy Website” that purported to sell prescription drugs. In reality, the pills contained other substances, including fentanyl and its analogs. The Drug Enforcement Agency extradited a Dominican citizen for trafficking narcotics through the “Pharmacy Website” but only after the Idaho victim died of an opioid overdose in 2017.<sup>7</sup> Consistent with what we see across drug trafficking networks, the extradited suspect had used shell companies to launder money from the website. Just last month, a Las Vegas man, Christopher Housley, was sentenced to eight years for importing, processing, and distributing hundreds of thousands of opioid pills.<sup>8</sup> How did he pay for the drugs and launder the proceeds from their sale? Not surprisingly, it was shell companies.

Anonymous shell companies have presented longstanding money laundering risks, including in the drug trafficking context. In 2013, 18 defendants across four states were convicted for their role in an oxycodone trafficking operation that was run across Massachusetts, Nevada, Texas, Florida, Georgia, Utah, Colorado, New York, Washington, Alaska, Pennsylvania, and Oregon from 2008-2011.<sup>9</sup> At least one of the defendants used numerous anonymous shell companies to mask the drug ring’s profits.

Anonymous shell companies are not only a threat in the United States; they represent an essential part of the global drug crisis. In late 2023, Spanish police arrested nine suspected members of a drug trafficking organization that was using shell companies in the United Kingdom and Belgium to launder funds from the sale of narcotics and stolen cars.<sup>10</sup>

The trafficking of narcotics has, for decades, wreaked havoc on our homeland — killing Americans, fomenting gang violence, and tearing families apart. Too often, however, we forget that drugs are sold and lives are lost in the pursuit of money. If we follow that money, we have the opportunity to find those responsible for this terrible plague.

Unfortunately, through anonymous shell companies, we have tied our own hands — gifting drug cartels and their money launderers a magic curtain to shield their identity and hide their wealth. Piercing that veil of secrecy is a vital national security imperative — both here at home and around the globe. The United States should be a leader in collecting beneficial ownership information and unleashing law enforcement resources necessary to follow the threads of cash that the information reveals.

The national security risks of anonymity extend far beyond drug trafficking alone. Terrorists, kleptocrats, and America’s adversaries have been actively exploiting anonymous shell companies for decades to further nefarious plots and make America — and the world — less safe.

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<sup>7</sup> United States Attorney’s Office, Southern District of New York, Press Release, “Acting U.S. Attorney Announces Extradition Of Dominican Citizen For Narcotics Trafficking Through Sham Internet Pharmacy,” September 2, 2020. (<https://www.justice.gov/usao-sdny/pr/acting-us-attorney-announces-extradition-dominican-citizen-narcotics-trafficking>)

<sup>8</sup> United States Attorney’s Office, District of Nevada, Press Release, “Las Vegas Man Sentenced To Eight Years In Prison For Money Laundering and Importing, Processing, And Distributing Opioids,” March 18, 2024. (<https://www.justice.gov/usao-nv/pr/las-vegas-man-sentenced-eight-years-prison-money-laundering-and-importing-processing-and>)

<sup>9</sup> U.S. Drug Enforcement Agency, Press Release, “Nationwide Oxycodone Trafficking Ring Dismantled,” April 29, 2013. (<https://www.dea.gov/press-releases/2013/04/29/nationwide-oxycodone-trafficking-ring-dismantled>)

<sup>10</sup> “Spanish Police Bust International Drug Network; 9 Arrested,” *Organized Crime and Corruption Reporting Project*, October 23, 2023. (<https://www.occrp.org/en/daily/18155-spanish-police-bust-international-drug-network-9-arrested>)

No example illustrates this risk as concretely as Viktor Bout — the notorious international arms dealer who was convicted in 2011 for selling millions of dollars in weaponry to terrorist organizations that aimed to kill Americans as well as fuel conflicts in Africa, Latin America, and the Middle East. Bout leveraged an international network of anonymous shell companies to hide his activities, including at least a dozen U.S. shell companies set up in Texas, Florida, and Delaware.<sup>11</sup>

Bout is not alone in seeing the appeal of anonymous front companies. Vladimir Putin’s allies have used anonymous shell companies to buy \$15 million mansions in Washington, D.C., while the Iranian government has used anonymous companies to cover up its ownership of a Fifth Avenue skyscraper in Manhattan.<sup>12</sup> The terrorist group Hezbollah has used shell companies to purchase properties and businesses, dodging sanctions and continuing to enjoy access to the global financial system.<sup>13</sup> African dictators have used anonymous shell companies to buy Malibu mansions and Michael Jackson’s jewel-encrusted glove, while corrupt Malaysian officials used anonymous shell companies to help steal billions.<sup>14</sup>

Anonymous shell companies represent a profound threat to democracy, American security, and global peace. The shell companies that assist in flooding American streets with fentanyl are just as adept at funding terrorists and enabling the corruption that supports America’s adversaries.

Unless the United States addresses the risk of anonymity in our financial system, we leave ourselves vulnerable to manipulation, corruption, and attacks by illicit actors and rogue powers. Collecting beneficial ownership information on the companies that operate in America is a straightforward and powerful tool to defend the homeland. There is no legitimate reason to delay the implementation of the Corporate Transparency Act.

On behalf of the Foundation for Defense of Democracies, I thank you for inviting me to testify.

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<sup>11</sup> Stefanie Ostfeld, “Shell game: Hidden owners and motives,” *CNN*, September 11, 2012. (<https://www.cnn.com/2011/10/26/opinion/ostfeld-shell-companies/index.html>)

<sup>12</sup> Rosalind S. Helder and Alice Crites, “The Russian billionaire next door: Putin ally is tied to one of D.C.’s swankiest mansions,” *The Washington Post*, November 29, 2017. ([https://www.washingtonpost.com/politics/the-russian-tycoon-next-door-putin-ally-is-tied-to-one-of-dcs-swankiest-mansions/2017/11/28/15f913de-cef6-11e7-81bc-c55a220c8cbe\\_story.html](https://www.washingtonpost.com/politics/the-russian-tycoon-next-door-putin-ally-is-tied-to-one-of-dcs-swankiest-mansions/2017/11/28/15f913de-cef6-11e7-81bc-c55a220c8cbe_story.html)); Julie Satow, “Seizing Iran’s Slice of Fifth Avenue,” *The New York Times*, September 24, 2013. (<https://www.nytimes.com/2013/09/25/realestate/commercial/with-judges-ruling-seizure-of-650-fifth-avenue-grinds-on.html>)

<sup>13</sup> Yaya J. Fanusie and Alex Entz, “Hezbollah Financial Assessment,” *Foundation for Defense of Democracies*, September 2017. (<https://www.fdd.org/analysis/2017/12/07/terror-finance-briefing-book>)

<sup>14</sup> Stefanie Ostfeld, “Dictators’ Riches Are Stolen at Home, But Banked in the West,” *Freedom at Issue*, September 19, 2012. (<https://www.globalwitness.org/en/archive/blog-global-witness-stefanie-ostfeld-dictators-riches-are-stolen-home-banked-west>); Louise Story, “U.S. Targets \$1 Billion in Assets in Malaysian Embezzlement Case,” *The New York Times*, July 20, 2016. (<https://www.nytimes.com/2016/07/21/world/asia/1mdb-malaysia-us-assets-seized.html>)