

BRIBING FOR BRITAIN



**GOVERNMENT COLLUSION IN
ARMS SALES CORRUPTION
GOODWIN PAPER #5
BY TIM WEBB**

Campaign Against Arms Trade (CAAT) was set up in 1974 and is a broad coalition of groups and individuals working for the reduction and ultimate abolition of the international arms trade, together with progressive demilitarisation within arms-producing countries.

Published in the UK by
Campaign Against Arms Trade
11 Goodwin Street, London N4 3HQ

October 2007

ISBN 978-0-9543329-8-3

Cover: www.eurofighter.com/medialibrary

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Introduction

A newcomer to the British defence industry would soon discover that it is quite unlike civil manufacturing, or any other commercial enterprise. Its mechanisms are thoroughly rigged, through a combination of public subsidies, national protectionism, political and military forecasts (often wrong) and a number of other devices. The government spends over £10 billion a year on buying military equipment. This outlay of public money might be considered worthwhile if it produced modern, appropriate and effective hardware that arrived on time and served some purpose. However, the history of UK defence production is a catalogue of wrong specifications, rapid cost escalation and deliveries so late that the designated enemies had ceased to exist by the time the equipment arrived.

Much is said about how defence production supports thousands of skilled and professional jobs. In the 1980s, it seemed to offer an exciting long-term career path for the brightest graduates and qualified engineers, with generous government funding for research and development (albeit at the expense of the civil sector). When British Aerospace made both commercial and military aircraft, the latter always took priority. If the civil aircraft factories were short of work, production would not be transferred from the busy military side because the internal charging systems were so different. Cost controls were far looser on contracts from the Ministry of Defence, as public money was plentiful and commercial constraints were absent.

The present situation is very different. Staff know that their jobs are insecure, even during a current manufacturing contract, and are aware that new orders no longer mean an increase in numbers employed.

Despite the lack of job security and billions wasted, we are still hooked on defence. BAE Systems, Britain's largest producer of manufactured goods, devotes its efforts solely to supplying military needs. Foreign companies make the products that fill our shops and showrooms.

People who campaign against the government's emphasis on arms exports are often depicted as misguided idealists. They are not. They have a firmer grip on reality than those who defend the lead balloon of an industry that, puffed up by ridiculous amounts of taxpayers' money, operates in a world where any sense of financial logic has been driven out. The excellent skills of the industry's workforce could be deployed more usefully in productive areas of the economy.

The business of selling weapons has probably attracted more chancers, crooks and con men than any other major enterprise. One of the founding fathers of the modern British

military suppliers was Sir Basil Zaharoff. Born in rural Turkey, he worked as a brothel tout, counterfeit currency dealer, banker, private arms trader and, finally, the respected director of Vickers, the British armaments manufacturer that was the forerunner of BAE Systems. He spared no effort in sabotaging his competitors' products, bribing foreign military leaders and arming both sides in a war. Britain made him a baron and he died in 1936, laden with honours.

Zaharoff's spirit was kept alive and well within the Defence Export Services Organisation (DESO), the sales arm of the Ministry of Defence. Created in 1966 by a Labour government, one of its fundamental principles was that bribery should be an integral part of its marketing effort. People in the department worked closely with their friends in defence suppliers – and often moved across to join them on retirement – promoting the companies' expensive products. Many of their customers were poor countries that lacked decent schools, hospitals, roads and water supplies but whose rulers demanded (and were offered) backhanders as incentives to sign the arms contracts. If these people were unreliable payers, then the British government would step in to reimburse the suppliers with taxpayers' money. Government thus became both sales agent and underwriter for the military manufacturers.

Bribery is inefficient, adds to costs, and can threaten the future of businesses. The large financial investors recognise this and mark down companies that attract such negative publicity as bad risks. The success of winning orders in free and open competition provides an incentive for employers and employees to create good products. The knowledge that a contract may go to the people who offer the largest bribes can, by contrast, only breed cynicism. The old arguments that if we don't bribe, others will, or that jobs depend on slipping money into a sheikh's bank account, are false. International anti-corruption agreements now demand transparency and the globalisation of the arms business means that competitors (particularly the US) are increasingly watchful and ready to take punitive measures.

Agents and their commissions exist in many areas of business, but corruption can creep in when they become a major factor in the transaction. A contract should reflect the buyer's genuine requirement for the product plus the supplier's commitment to provide it at a non-inflated price, in good time and to the correct specifications. These simple business principles were missing from many of the weapons deals promoted and supervised by DESO.

After years of exposure of DESO's methods by CAAT and other organisations, the British government announced in July 2007 that it would be shut down. The decision demonstrated how a long-running and determined campaign, based on financial, moral and political logic – and organised mainly through volunteers – could persuade government to retreat from a previously entrenched position. It was a welcome move, but, by itself, will not eliminate corrupt arms deals. Even without the camouflage and

endorsement of DESO, exporters of military equipment may still be tempted to offer their traditional inducements to foreign customers. The emphasis must be on tighter domestic laws and their enforcement to ensure that UK companies comply with Britain's international anti-corruption obligations.

Tim Webb

October 2007

Bribing for Britain

‘Tackling corruption wherever we find it – whether here or abroad – is essential to send a strong message to those who choose to extort, corrupt and deceive that it will not be tolerated’

Hilary Benn, Secretary of State for International Development, on International Anti-Corruption Day, 9 December 2006

‘Our relationship with Saudi Arabia is vitally important for our country... that strategic interest comes first’

Tony Blair, after cancelling the investigation into bribes allegedly paid to Saudi officials, 15 December 2006

Labour won the 1966 British general election. In the same year, Prime Minister Harold Wilson declared a national state of emergency during the seamen’s strike, the USA bombed Hanoi and shelled Cambodia, General De Gaulle kicked Nato bases out of France, China launched its first nuclear missile, Henrik Verwoerd, the leader of apartheid South Africa, was stabbed to death in parliament, President Nkrumah of Ghana was overthrown, England won the World Cup and the Beatles had a hit single with Yellow Submarine.

Denis Healey, Secretary of State for Defence, was also thinking about submarines, as well as tanks, planes, ships, missiles and all the other machines used for waging war. Like the rest of government, he was worried because the economy was in trouble and the cost of maintaining Britain’s commitment to the West’s confrontation with the Soviet Union was proving too expensive. The military budget was larger than those for health and education. During the previous 20 years the cost of naval frigates had doubled, while army equipment and military aircraft costs had increased fourfold and tenfold respectively.¹ Much military manufacturing was then state-owned and these costs were a direct drain on the national exchequer. Being trapped in the permafrost of the Cold War was exacting a high price.

Healey had a plan. He’d figured out that the relatively short production lines of military equipment meant that each item was extremely expensive. If other countries could be persuaded to buy the products, however, the vast outlay on research, development and production could be offset and the unit costs reduced. An element of financial sense could be introduced into an industry known for its waste of taxpayers’ money and of weapons that were obsolete before they could come into service. Healey was an aggressive politician and a vociferous opponent of peace campaigners. He had strong links with US military think-tanks and the Pentagon well before his appointment as Defence Secretary.

The Americans had created a weapons marketing body called 'International Logistics Negotiations', headed by Henry Kuss, a Pentagon salesman who marketed his products with 'missionary zeal'.² In 1965, Healey asked Sir Donald Stokes, the head of Leyland Motors, to enquire into the possibility of establishing a sales body for British weapons. Stokes duly complied and, unsurprisingly, recommended such an organisation. Healey then appointed Raymond Brown of Racal as the first boss of the Defence Sales Organisation. Brown didn't like the clarity of the name and suggested 'Export International Relations', a deliberately obscure title. His point was taken some years later when 'sales' became the bland 'services' as the department was re-named the Defence Export Services Organisation (DESO).

The internal discussions at the MoD following Stokes' feasibility study arrived at one clear conclusion: bribery and corruption were to be at the heart of Britain's arms sales as a matter of policy, with baksheesh on offer from day one. Sir Henry Hardman, the top civil servant at the MoD, said: 'Sir Donald Stokes had indicated that it was often necessary to offer bribes to make sales.' The myth that Britain only reluctantly, and relatively recently, entered into such practices, 'because other countries do it', or, 'the Saudis insisted', is floated regularly in the media as a half-excuse. But Stokes was quite clear and Hardman continued: 'The commercial technique was to gather intelligence on the right people who controlled sales and purchases. When the right person was found, effort would be concentrated on him and, in time, a sale would be effected. Sir Donald stressed that a great many arms sales were made, not because anyone wanted the arms, but because of the commissions involved en route.'

Stokes also said: 'Good commercial agents ... are better placed than an official to dispense the less orthodox inducements.' Another civil servant added a comment to Hardman's memo: 'He (Stokes) suggested, for example, that it is very good business on occasion to make someone the gift of a motor car or to provide his wife with a free holiday in Bermuda!' The official goes on to state the obvious: 'We made it clear that it would be very difficult to provide for this sort of thing from monies voted by Parliament.' A Treasury person also intervened: 'It would defeat the whole object if the recipients of "gifts" had reason to fear that the transactions would in due course become public property and the object of critical comments in the British Parliament and the press.'³

It's easy to imagine the clash of cultures encapsulated in that exchange: the hard-headed businessman, who had sold Leyland trucks to Cuba in the face of US opposition, spelling out his reality to civil servants nervous about the reaction of British taxpayers to their money being pressed into the hands of untrustworthy Johnny Foreigner. They needn't have worried. A useful piece of legislation was at hand and available to be used in such difficult and morally repugnant circumstances: the Official Secrets Act would prevent all servants of the Crown from responding to awkward questions about arms exports. Sir Donald had laid down the guiding principles for DESO. Politicians, industrialists and civil servants complied with them for the next 40 years. The policy was updated – but

not changed – in 1999 in an internal DESO document: ‘In certain parts of the world it has become commonplace for special commissions to be paid. This is a matter for DESO, to whom all requests for special commissions should be referred.’⁴ It goes on to say that contracts staff at the MoD may need to provide the means of payment.

From its inception in 1966, DESO was to play a key role in the MoD’s activities. It received disproportionate financial and political support from central government compared with the amount offered to civil exports. In 2007 the organisation employed 400 people in London with a further 100 in other countries. In his statement to Parliament in January 1966, Denis Healey said, ‘While the government attaches the highest importance to making progress in the field of arms control and disarmament, we must also take practical steps to ensure that this country does not fail to secure its rightful share of this valuable market.’⁵ It wasn’t long before arms control and disarmament were forgotten and the justification for arms sales became incorporated into anti-Soviet rhetoric.

Healey now seems to regret his decision. He made only a three-line reference to it in his 1989 autobiography and, in an interview with John Pilger for a Channel 4 programme *The War Machine* in 1995, said he didn’t feel ‘all that happy’ about the organisation. But by then it was far too late to have regrets. DESO had grown enormously, British foreign policy had been restrained from criticising important customers – regardless of human rights abuses – and bribery was an integral part of this country’s drive for arms sales. Governments treated DESO as if it were the best hope for the survival of the UK defence industry. Every effort was made to boost its efforts, with royal tours overseas often the outward show cloaking frantic behind-the-scenes sales promotions for a UK military product (recently the Eurofighter Typhoon) and Foreign Office ministers and diplomats briefed to raise the issue when meeting overseas counterparts.

When New Labour came to power in 1997, the Foreign Secretary, Robin Cook, declared that there would be an ‘ethical dimension’ to the country’s foreign policy. Cook had made a name for himself when he forensically picked apart the excuses made by Conservative ministers during the Commons debate on the Scott Report on British military exports to Saddam Hussein. The arms-to-Iraq affair exposed the tension between the Foreign Office, which took a cautious view, and the Ministry of Defence, which wanted to sell regardless of the consequences. The Department of Trade and Industry (DTI) merely saw it as good business. In the end, the British taxpayer – through the Export Credits Guarantee Department – reimbursed the private suppliers when Saddam refused to pay.

Cook found it harder than he expected to put his ethical promise into effect. He faced opposition from the MoD and the DTI, who were backed by the Defence Manufacturers’ Association. His prickly personality and sharp intelligence had not won him many allies among his more obedient Cabinet colleagues.

Cook backed off. There were loud protests by campaigners and Labour backbenchers when he allowed the sale of Hawk aircraft to Indonesia. President Suharto, who ruled that country, had massacred over a million of his fellow citizens when he seized power in 1965. Over 30 years later, he was waging a vicious war against an independence movement in East Timor. Cook said he supported the delivery of the Hawk for two reasons. Both were spurious. He said he had taken legal advice and, although the previous Conservative government had signed the contract, it was binding on New Labour. It was clear that he had asked for, and got, that opinion from government lawyers, but independent legal sources said that there were genuine reasons, justifiable on humanitarian and other grounds, that could be used to cancel it. In any case, arms contracts are frequently torn up, merely on grounds of cost.

Cook also claimed that the Indonesian government had assured the Foreign Office that the planes were only training aircraft and would not be used against the people of East Timor. The Hawk was originally developed as a trainer but was also marketed by British Aerospace for use as a cheap ground attack plane. The Hawks were delivered to Indonesia and used to bomb villages in East Timor. Cook was demoted by Tony Blair after expressing reservations about the intelligence being used to justify the proposed military action against Iraq. He resigned from government in 2003 in protest against the invasion and died in 2005.

The oil kingdom

The purchaser of weapons can become the dominant partner in the relationship with the supplier as the latter becomes increasingly dependent on new orders. A classic example of this is the arrangement between Britain and Saudi Arabia. The Saudi regime has had Britain over a barrel for over 20 years and the barrel contains oil.

Ibn Saud and his Ikhwan allies created Saudi Arabia in 1932 after a prolonged military campaign. The British supported him and secretly provided arms and finance. Around 400,000 people, including women and children, were killed in massacres of the tribes opposed to him.⁶ He was an absolute monarch who ruled with an iron fist and imposed the extreme Wahhabi version of Islam. He allowed no other religions or debate about alternative forms of Islam – a policy that continues today.

The country was poor, oil not yet having been discovered in any great quantities. A British company, the Eastern General Syndicate, held the first oil concession but did little to exploit it. The Americans soon moved in and Standard Oil of New Jersey took over with a bid of \$250,000. In 1950, the US oil company Aramco concluded a deal with the ruling family that split the oil revenues between them. America became the largest exporter of military hardware to the kingdom, constrained only by the pro-Israeli lobby

in the US. Even that was ignored when really large orders were up for grabs. However, those restraints did allow some leeway for Britain and Ronald Reagan encouraged the Saudis to buy arms from his friend Margaret Thatcher. That led to the 1985 Al-Yamamah agreement and, from then on, British governments turned a blind eye to the human rights abuses in Saudi Arabia, where beheadings, the hacking off of hands, floggings and torture are normal practice. In 2002, 15 schoolgirls died when religious police stopped them from leaving a burning building because they were not wearing correct Islamic dress.⁷ Innocent British citizens have been arrested and subjected to cruel and degrading treatment with not a peep of protest from the Foreign Office, fearful as it is of risking future business deals.

Even America's Central Intelligence Agency (CIA) describes its main ally in the Middle East in less than glowing terms:

'Saudi Arabia is a destination country for workers from South and Southeast Asia who are subjected to conditions that constitute involuntary servitude, including being subjected to physical and sexual abuse, non-payment of wages, confinement, and withholding of passports as a restriction on their movement. Domestic workers are particularly vulnerable because some are confined to the house in which they work, unable to seek help; Saudi Arabia is also a destination country for Nigerian, Yemeni, Pakistani, Afghan, Somali, Malian, and Sudanese children trafficked into Saudi Arabia for forced begging and involuntary servitude as street vendors.'⁸

It's also a much shakier regime than Britain and the US like to admit. Osama bin Laden created al-Qaeda in Saudi Arabia to overthrow what he believed were corrupt rulers that had strayed from the true path of Islam, objecting, above all, that they allowed foreigners to be permanently based in the kingdom. The refineries are particularly vulnerable and any reduction of oil supplies would have an extremely damaging effect on the Saudi economy, as well as those of its customers. One unsuccessful attack by suicide bombers at the Abqaiq complex in February 2006 was foiled only after a prolonged gun battle. Almost two-thirds of the country's oil is processed for export at this complex and Al-Qaeda has said that it is planning to strike again. A US specialist in energy supplies said: 'Washington must be keenly aware that Saudi oil production remains extremely vulnerable to sabotage. At particular risk also must be the estimated twelve thousand miles of pipelines in the kingdom.'⁹

Foreigners working in the country are increasingly targeted. The BAE boss, Mike Turner, has recognised this, saying that his company will be upgrading secure compounds for its employees.

It's highly likely that the arms contracts with Britain would be cancelled in the event of the collapse of the House of Saud. When the Shah of Iran was deposed in 1979, the new

Islamic rulers terminated the order for 1,500 Chieftain main battle tanks from the Royal Ordnance Factories and other military equipment, causing a loss of jobs in the British factories. All such contracts are also a risk in that they identify Britain with repressive rulers and as an enemy of those who seek to oust them.

Bribes or ‘commissions’, as British exporters usually call them, are the norm in Saudi Arabia. Said Aburish, an expert on the country, has explained how the system works, outlining three key methods.

The most common transaction is one where the supplier makes payments to his agent in the kingdom. The agent could be a Saudi or a British person with good contacts in the country’s hierarchy. The money is passed from the agent to his mentor or key decision-maker within the royal family.

Another method involves indirect payments, such as an offset arrangement in which a contract is placed with a Saudi company for, say, maintenance, food or housing for those working at an airbase. This will be charged to the overseas military contractor – with his consent – at often double the real cost. The middlemen will rake in the difference between the two prices.

Finally, there are barter agreements, such as Al Yamamah, where military hardware is exchanged for oil. A delivery of 400,000 barrels, as agreed by the parties, will be transferred to the military supplier’s agent in Rotterdam. However, a delivery of 440,000 barrels will be recorded in the Saudi accounts. The extra 40,000 barrels will be diverted and sold by the Saudi dealer and his associates for their own profit.¹⁰

Many more ingenious scams can be improvised around these main themes. It’s crucial to their success that the governments involved in the sale cover the tracks of those who are skimming the contracts. Arms exports are conducted on a government-to-government basis and defence ministers are aware of the dishonest arrangements, although some pretend to turn a blind eye. The British governments of Mrs Thatcher and John Major knew about these practices in the Al Yamamah contract, as did Robert Sheldon, the Labour MP and chairman of the House of Commons Public Accounts Committee. The National Audit Office conducted a three-year investigation into the deal, but Sheldon suppressed its 1992 report and refused to reveal the findings to his committee. His nervousness was explained in part by documents discovered in 2006 under the Freedom of Information Act. A Whitehall memorandum prepared by MoD officials in 1992 said: ‘In particular, MoD has introduced special accounting arrangements for Al Yamamah ... to ensure that Saudi confidentiality is preserved. If the normal rules had been followed, Saudi transactions would appear each year in the department’s published appropriation accounts, laid before Parliament; and we need to avoid this.’ The creative accounting processes were kept away from MPs’ prying eyes.

An MoD spokesman, deliberately missing the point, said: 'The British government has not employed agents in this deal and has not paid commissions.'¹¹ That was true. It wasn't the job of the government to deal with the dubious part of the business. It was for the supplier, in this case British Aerospace, to find the agents and finance the commissions. But the people in the MoD knew about it, even though their fingerprints were not on the money that changed hands. A former defence minister, Lord Gilmour, told the BBC, 'It's not something you emblazon or are particularly proud of. It just happens to be the terms of trade. If you are paying bribes to high-up people in the government, the fact that it's illegal in Saudi law doesn't mean much.'¹²

The huge Al Yamamah arms deal was signed in 1985 by the governments of Britain and Saudi Arabia. It gave British Aerospace (now BAE Systems), the lead company, over £40 billion worth of business, according to Mike Turner, the company's CEO. The contract provided for the supply of Tornado aircraft, helicopters, tanks, armoured vehicles, missiles, minehunters and base facilities. It also included the provision of technicians to service the aircraft because Saudi Arabia, despite being oil-rich, only has a very basic system of education and cannot provide enough skilled workers from among its own people (22 per cent of the adult population are illiterate). BAE has around 4,600 employees in the country.

Some of the Al Yamamah equipment was far from state-of-the-art. The F3 Tornado was a particularly poor performer. Engineers working at the Dhahran airbase joked that the only Tornado they could keep in the air was the one on a plinth outside the main gate. But the plane didn't need to be effective. As Sir Donald Stokes noted back in 1965, much of the expensive whizz-bang hardware sold around the world has no genuine military purpose. The Saudis have always depended on the Americans to fight their battles for them, in return for cheap oil. It has since become obvious that the deal was riddled with bribes, sweeteners and facilitation fees that benefited just about everybody who had a piece of the action. The people of Saudi Arabia and Britain were kept in the dark over what should have been a transparent and openly discussed contract. The lack of any Parliamentary monitoring became obvious only years later.

More evidence of the shady side of Al Yamamah came to light in 2006 when the Campaign Against Arms Trade discovered some confidential memos from 1985 stored at the National Archives in Kew. These contained information on the sale of 72 Tornado and 30 Hawk combat aircraft and 30 Pilatus PC9 training planes. One could easily conclude from those memos that the price of the Tornados had been inflated artificially to provide commissions for Prince Sultan, the chief negotiator for the Kingdom of Saudi Arabia. The original contract had stipulated a price of £16.3 million for each Tornado but when the deal was finalised, it was shown as £21.5 million, an increase of 32 per cent. The value of the total contract had risen from £3–£4 billion in the original secret memorandum of understanding – signed by Prince Sultan and Michael Heseltine in September 1985 – to £5 billion when it was finalised four months later.¹³

British Aerospace, the manufacturer, and Mrs Thatcher's government were party to the arrangement. The person handling the deal in Mrs Thatcher's office was her adviser, Charles, now Lord Powell. BAE later put him on its payroll. Powell continued to thrive under New Labour and was appointed by Tony Blair as his personal emissary to the Sultan of Brunei, the autocratic ruler of another oil-rich country. His brother, Jonathan, became Blair's chief of staff in 1995.

The briefings for UK government ministers prepared by Mr Richard Mottram, the top civil servant at the MoD in 1985, were also interesting. After advising them to stress that the deal was a 'highly visible demonstration of close relations between our two countries', he went on to say: 'The regime is authoritarian and highly undemocratic... they have not the slightest doubt of their right to rule, and to go on ruling, as long as native wit, the distribution of oil wealth and an effective internal security and intelligence service can keep them in power.'¹⁴ Mr Mottram seems to have had no illusions about the people with whom his government was dealing. Apparently then, British ministers knew full well that the leaders of Saudi Arabia were a deeply unpleasant bunch that repressed their own population. In 2006, Mr Mottram would intervene again in the Saudi arms affair, but in a very different capacity.

In December 2005, John Reid, then Defence Secretary, announced that Saudi Arabia had agreed to buy up to 72 Eurofighter Typhoon aircraft for around £5 billion. The *Financial Times* reported that Reid had struck up 'a great rapport' with King Abdullah and that the relationship echoed the 'high point' in UK-Saudi relations of 20 years earlier. The proposed sale came as a huge relief to BAE and the government. Tony Blair had flown out to meet Prince Sultan in July 2005 to press the case. Apart from the project partners – Britain, Italy, Spain and Germany – the only other country that had agreed to buy the plane was Austria, and it was having second thoughts after its new government discovered the cost. Doubts were further increased when it was discovered that a Eurofighter consortium lobbyist had paid 87,600 euros to a company controlled by the wife of Austria's air force chief. Greece had cancelled the order it had placed for 24 planes in 2004 and Singapore had turned it down. Brazil and Turkey did not have sufficient funds.

And so it was, yet again, that the Saudis were extracting Britain from a deeply embarrassing situation and, as usual, BAE was to be the chief beneficiary. The new contract would mean that Saudi Arabia would account for 21 per cent of the company's earnings in 2007, with the US contributing an estimated 47 per cent and the UK only 27 per cent.¹⁵ There are two main differences between the original Al Yamamah deal and the Eurofighter sale. Payment for the latter will be made in cash, not oil, and some work will be carried out in Saudi Arabia instead of Britain.

The Ministry of Defence had always insisted that Eurofighter Typhoon was crucial to Britain's defences and that the plane was needed immediately. However, it changed its mind swiftly when the Saudi order was announced, agreeing to switch deliveries from the

RAF to the Royal Saudi Air Force. The Saudis say they cannot wait because they are worried about an air threat from Iran. This does not make sense. The Iranian air force flies ageing F-14 Tomcats, supplied by the US to the Shah of Iran 30 years ago. They were in service when the Saudis ordered the F3 Tornados through the Al Yamamah contract in the 1980s. Why did Saudi Arabia, when its government was threatened by internal dissent rather than by an external enemy, again decide to buy an aircraft that was not necessarily the best in its class and was unlikely to be flown in anger?

At about the time the lobbying for the sale of the aircraft to Saudi Arabia began to intensify, the British government started to conceal the plane's costs for what it said were 'commercially sensitive' reasons. The price the oil kingdom will pay will not necessarily be reflected accurately in the Saudi accounts. The cost to the kingdom's exchequer of taking care of the middlemen could be millions more. It can reasonably be assumed that one of the main reasons for the Saudis to buy the 72 planes was the same as it was for Al Yamamah: massive bungs, bribes and commissions could again be on offer. Corrupt practices are the norm. John Hakes, the former boss of Thorn-EMI Defence Systems, a company that was part of Al Yamamah, said: 'Commissions make the world go round ... I don't know of a Saudi royal who'll get out of bed for less than five per cent.'¹⁶

Shopping and procuring

Prince Turki bin Nasser, a senior member of the Saudi royal family, was involved in Al Yamamah and was someone that BAE needed to keep happy on a permanent basis. The company delegated part of this task to Peter Gardiner, the boss of a small travel agency called Travellers World. Gardiner didn't need to rely on package tours to Torremelinos or stag nights in Bratislava for his business, as BAE provided him with money to look after its Saudi customers, especially Prince Turki. Mr Gardiner says he arranged for a £170,000 Rolls Royce to be delivered to the Prince's wife, Nura. Her husband received an Aston Martin shortly afterwards. A video of their daughter's wedding cost £200,000 and the son got a £99,000 skiing holiday in Colorado. When the family came together for a three-month holiday in 2001, Mr Gardiner alleged that he paid out £2 million from the BAE fund. Wing Commander Tony Winship of BAE oversaw Mr Gardiner's activities and approved the payment of a bill for £987,365 when the latter arranged accommodation for the royals.¹⁷

Princess Nura probably wasn't present when Prince Turki entertained his special guests in the £12,000 a night penthouse suite at the Carlton Tower hotel where a personal butler poured Cristal champagne as a three-piece band, flown in from the Middle East, played the Prince's favourite tunes. Two women, one a former lingerie model, the other a self-styled actress, were regular visitors to these soirees. One was paid around £11,000 in one month, including £2,019 for 'council tax', £2,337 for 'Abbey National' and £326 for a

‘language course’. Tony Winship allegedly picked up these and many other tabs on behalf of BAE.¹⁸ Investigative journalists estimated that BAE has paid £17 million to Prince Turki in benefits and cash.¹⁹ Mr Gardiner also said that when the daughter of Prince Bandar (another Al Yamamah beneficiary) married Prince Turki’s son, he was told by BAE ‘to give them the very best’. This turned out to mean a honeymoon in five-star hotels in Singapore, Bali, Australia and Hawaii, costing almost £250,000. ‘Who says that big business doesn’t have a heart?’ Mr Gardiner observed.²⁰

Edward Cunningham operated slightly downmarket from Gardiner and Winship. His job was to look after Saudi pilots when they came to London on Al Yamamah business. He paid up their credit cards and arranged prostitutes for them. This caused him some concern because he was a Labour councillor and some of the young women he procured came from his area. ‘It was very embarrassing for me,’ he said.²¹ There was no record of visits to mosques. BAE denied the allegations and said that it ‘operates in accordance with the laws of the United Kingdom and all other countries in which it operates.’ This could be true, as Mr Gardiner’s operations took place in the 1990s when UK law was totally relaxed about corporate corruption. BAE and other major companies have always lobbied vigorously – and effectively – against transparency and tighter laws. Robin Cook said: ‘In my time I came to learn that the Chairman of British Aerospace appeared to have the key to the garden door to Number 10. Certainly I never once knew Number 10 to come up with any decision that would be incommoding to British Aerospace.’²² Anti-corruption legislation was introduced in 2001 – under pressure from the US – but as a counter-terrorism measure and not to expose the grubby underbelly of British arms transfers.

Evidence had been mounting for some time that the undercover payments to the Saudis by BAE were not one-offs paid from petty cash, but were drawn from a permanent fund, estimated at £60 million, that had been earmarked for the sole purpose of keeping its biggest overseas customer happy. Rosemary Wright was head of the Serious Fraud Office (SFO), the body that investigates serious and complex fraud in the UK. In 2001, she wrote to Sir Kevin Tebbitt, Permanent Secretary at the Ministry of Defence, to express concern that the SFO had received allegations about what may have been fraudulent activities directly connected with arms sales. The document was marked ‘Strictly Private and Confidential’. It was alleged that some BAE executives might have been thrusting their hands into a pot of money created by the company to keep the Saudis sweet and that BAE Chairman, Dick Evans, had been informed of the allegation but had done nothing about it, i.e. that the company was, according to the allegations, ‘either prepared to tolerate it or, conceivably, is in some way complicit’.²³

Much more interesting than the allegation that BAE employees had pocketed some loose change was the revelation about how the fund had been used. Investigative journalists pieced together a remarkable story from the SFO document and other legal files. There were two main sources: files passed over to the SFO by an ex-employee of a company called Robert Lee International (RLI) and a 1996 BAE internal security report. The

activities funded by RLI were termed 'visitor support'. RLI was formed as a front for BAE to pay for the entertainment of the Saudis and it received over £8 million from the manufacturer over a period of 20 months. Its bills were reimbursed by BAE and its managing director, Robert Sharp, was paid a 15 per cent commission on all money spent. In November 2005 BAE confirmed to the Serious Fraud Office that 'support services' were paid for and provided to Saudi officials as part of the Al Yamamah deal.²⁴ Edward Cunningham, the Labour councillor who found women for sex games with the Saudis, was an employee of RLI and later cooperated fully with the SFO. A tape recording of Cunningham and a former BAE senior executive revealed them discussing the fact that his job included 'bunting the Saudi embassy'. The officials in that building were always choosy, Cunningham said. He offered them canteens of gold or silver cutlery costing £1,000 each. 'I was inundated by everyone who was of any standing in the embassy. They all wanted gold. They wouldn't take the silver ones'.²⁵

The fraud farce

The Serious Fraud Office decided to start investigating the bribery allegations surrounding the Al-Yamamah contract in 2004, years after stories about the Saudi demands, BAE's generosity and the government cover-up had appeared in the media. So much detail had emerged by then that they had no option but to take some action. The SFO has never had much of a reputation for effectiveness and, since the Anti-Terrorism, Crime and Security Act was passed in 2001, it had failed to recommend the prosecution of a single company. The United States, in contrast, has launched 50 such cases since 1999.²⁶ UK law covering the bribery of foreign public officials had been brought in only reluctantly by the New Labour government after pressure from the Organisation for Economic Cooperation and Development (OECD) and, crucially, Washington. Britain was a signatory, but an inactive one, to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

There is no single definition of 'corruption'. The OECD, the Council of Europe and UN conventions don't attempt to define it, but establish a range of corrupt offences. The OECD concentrates on the offence of bribing foreign public officials. The Council of Europe also deals with trading in influence and the bribery of domestic officials. It also refers to 'peddlers who abuse their influence', a term that could be an accurate description of the former ministers and civil servants who now work as lobbyists for the military suppliers. The UN Convention covers embezzlement, misappropriation of property and obstruction of justice.²⁷ Popular usage is more direct and descriptive: 'backhander' or 'bung' (UK), 'graft' or 'kickback' (US), 'graisser la patte' – to grease the paw (France). Whatever the definition, no one could confuse the activities of the Saudis and their British partners with honest and open business transactions.

The OECD Working Group on Bribery, which monitored progress, drew attention to the apparent lack of effort by the UK and asked why this was the case when the City of London was the hub of huge numbers of business deals, takeovers and new listings on the Stock Exchange. Other countries with far less financial activity had taken action. The obvious reason was that the Labour government was anxious not to upset corporate Britain. The SFO was understaffed and short of funds. It employs only 290 people full-time, together with 80 agency and consultancy staff, hardly sufficient to strike fear into the hearts of potential fraudsters.²⁸ It was clear from the outset that the possibility of a vigorous and forensic examination would be hampered by the SFO's lack of resources, an uncooperative company and a government that was distinctly unenthusiastic, not to say hostile, to achieving a successful outcome. It could also have been predicted with confidence that the Saudis would play every trick in the book, including blackmail, to prevent their bank accounts being examined.

Even prior to the launch of the investigation, former SFO director Rosemary Wright had received allegations that some BAE executives may have taken money from the alleged £60 million slush fund intended for the Saudis and stuffed it in their own wallets. That could well have been illegal under the old laws – prior to the 2001 legislation – because if any part of the £1 billion a year that the UK government pays BAE for supplying its weaponry went into the slush fund and was filched by individuals for their own ends, it would undoubtedly have constituted a fraud on the public purse. However, neither Dick Evans, the boss of BAE, or Sir Kevin Tebbitt, the top civil servant at the MoD, were interested in pursuing the matter. We do know that when Ms Wright wrote the letter in confidence to Sir Kevin in 2001, adding that Dick Evans had been accused of personal complicity, Tebbitt rang the BAE chairman to tell him of the allegation. Sir Kevin didn't reply to her letter and two years later told her successor, Robert Wardle, that he had forgotten, 'due to a move of office location and changeover of private secretaries'.²⁹ With those evasions as the background, the investigators, now armed with the extra powers of the 2001 Anti-Terrorism, Crime and Security Act, started to ascertain whether BAE executives had bribed foreign officials in relation to the Al Yamamah contract.

Despite their lack of resources, it seems that the SFO investigators went about their work diligently. Dick Evans was interviewed and released without charge. Tony Winship, the ex-BAE employee who allegedly signed off company money to Peter Gardiner's travel agency in exchange for 'support' of Saudi visitors, was questioned — as was Mr Gardiner, who became something of a whistleblower. Peter Wilson, BAE managing director of international programmes, and Damien Turner, managing director for the Middle East, were arrested, interviewed and later released.

The investigators realised that it was not sufficient merely to probe the activities of BAE personnel, as senior people at the Ministry of Defence could also have been complicit. It was essential that they check this because of the way the Matrix Churchill trial had collapsed during the arms-to-Iraq scandal. The accused businessmen in that case proved

that they had acted with the authority of government ministries. The SFO didn't want a repeat of that fiasco. They visited Bill Jeffrey, the man who had replaced Sir Kevin Tebbitt as the top civil servant in the ministry and interviewed dozens of former and serving MoD officials. They also saw Alan Garwood, head of DESO, before he returned to his regular employer, BAE.

They then moved on to look for evidence at the root of the Al Yamamah corruption: the money received by the Saudis. They went to the Swiss banks and asked to see the accounts of those named as the recipients of the bribes and commissions. Traditionally, the Swiss have been notoriously secretive and amoral about who stored money in their vaults (they were known as 'Hitler's Bankers' during the Second World War), but in recent years have relaxed their rules to allow access to accounts in criminal investigations. They indicated that they would be prepared to cooperate with the SFO and allow the access they required to information including the accounts of several Saudi royals.

Riyadh started to step up the pressure in 2005. One of the things the Saudi rulers dislike most is for their own people – particularly influential religious leaders – to learn how they divert large amounts of the country's wealth into their own pockets. They are especially paranoid about the activities of two dissidents – Dr al-Mas'ari and Dr al-Fagih – who are based in Britain and regularly communicate the latest indiscretions and spending sprees of the princes and their relatives back to the kingdom. The Conservative government of Mrs Thatcher tried to expel them and there is no doubt that Labour ministers would like to too, but they have not broken any British laws.

The Al Yamamah contract price had been artificially inflated so that those involved in the deal could pilfer the difference between the invoice submitted by BAE and the larger amount shown in the Saudi accounts. Any such evidence would have sent more ripples of discontent through the kingdom. The Saudis therefore called in the British ambassador, Sir Sherard Cowper-Coles, and told him that the SFO investigation must be called off.

If they had any understanding that the SFO was supposed to be independent of government, they showed no sign of it. Later events proved them right in believing that Downing Street could, and would, intervene. The hapless Robert Wardle, career civil servant and head of the SFO, was pressed three times by the Prime Minister, three times by the ambassador and once by BAE. BAE's legal director also wrote to Lord Goldsmith asking him to prevent the SFO from enforcing the notices it had served ordering the company to release the names of its Saudi agents. The former permanent secretary to the MoD, Richard Mottram, who worked with Michael Heseltine on the original Al Yamamah order in 1985, also intervened to warn against the continuation of the investigation, part of which could have covered his role in the deal. Mottram, who has since been knighted, spoke as the man responsible for co-ordinating intelligence and security in the Cabinet Office. He had attracted some publicity in 2002 when he was at the Department for Transport: regarding the furore around adviser Jo Moore's e-mail

describing 9/11 as a good day to bury bad news, he allegedly reacted, 'We're all fucked. I'm fucked. You're fucked. The whole department is fucked.'³⁰ Only a cynic would question his impartiality but it would be understandable if he had wanted the SFO inquiry to be terminated in order to avoid yet another such painful experience.

Mr Wardle stood his ground for a while. In September 2006, the SFO got the consent of the Swiss to gain access to the accounts of Wafic Said, a business manager for Prince Bandar, son of the Saudi crown prince. Syrian-born Said was a key middleman in the Al Yamamah negotiations and subsequently donated £20 million to Oxford University for the foundation of a business school in his name. Payments by anonymous Panama entities into Swiss banks were believed to have been linked to Said and another arms intermediary, a Lebanese politician named Mohammed Safardi.³¹ At the same time as the backstairs bullying of Mr Wardle was going on, BAE was briefing the media that if the Saudis cancelled the Eurofighter Typhoon order, thousands of jobs would be lost and the economy of north-west England would be damaged. Local MPs jumped on the bandwagon to relay the same message and the trade unions joined with the employers of the National Defence Industries Council (NDIC) to write to Cabinet ministers urging them to hurry the SFO investigation to an early conclusion. They could not quite bring themselves to demand that it be terminated before completion, as that would have been improper. But that was what the NDIC wanted.

It's worth looking at the 'lost jobs' argument in a little more detail. At the end of the Cold War in the early 1990s, the number of jobs in defence manufacturing went from 550,000 in 1991 to 395,000 in 1995 – a fall of almost 30 per cent.³² When Labour came to power in 1997, the number was down to 340,000. By 2005, it had fallen to 310,000. Despite arms exports worth £45 billion between 1997–2006, employment dependent upon such shipments had declined from 110,000 to 65,000.³³ The main reasons for the decrease were the relaxation of East-West tension and the consequent reduction in the rate of increase of MoD spending, new technologies, particularly the use of electronics and composite materials and ruthless US competition. In 1997, I asked Dick Evans, then Chief Executive of British Aerospace, who or what the Eurofighter was intended to combat, given that the Soviet Union had been broken up. He replied that he didn't bother thinking about such matters, being too busy fighting an enemy that was always trying to snatch orders away from him: the Americans.

One fact conveniently forgotten by those predicting doom if the contract was lost was that Britain had ordered 232 Eurofighter Typhoons. By 2006, when the Saudi row came to the boil, only 35 had been delivered to the RAF. Almost another 200 were due eventually, including a ground attack version that the RAF said it needed urgently. There was still plenty of work to be done on building the planes and it was clear that the cancellation of the Saudi order for a further 72, with deliveries spread over the years ahead, would not have had a major impact on employment in the short to medium term. It would have affected future work, not curtailed existing production.

A report commissioned by the Eurofighter consortium stated that there were 'over 5,000' jobs in BAE Systems directly allocated to the aircraft.³⁴ Rolls-Royce is scheduled to supply the engines but the report said that these constituted only about 15 per cent of its total business. It also stated that many of the Typhoon's labour skills were highly transferable. Smiths Group (now GE of America), Cobham and other suppliers also provided employment, although not to the same extent as BAE. Media reports of 20,000 or even 50,000 lost jobs were based on unchecked 'facts' fed to them by those who wanted the SFO inquiry called off. However, the concern of the unions was understandable. The days of exciting job opportunities and secure employment with the defence manufacturers were long gone.

That innate insecurity goes some way to explaining the job loss hype over the Saudi Eurofighter contract. In the past, the unions had strong policies on defence diversification. That concept, which had been thoroughly discussed and analysed throughout the industry, would have allowed the technologies locked inside military research, design and production to be released into the civil sector.³⁵ It would also have provided new opportunities for skilled and professional workers to use their talents in industries with better job prospects than defence. It was not a panacea or a guarantee of employment, but it would have eased the current difficulties. The Labour Party adopted the idea in its 1997 election manifesto and, when in government, established the Defence Diversification Agency (DDA). When it came to power, however, the unions dropped diversification as a live issue and waited for implementation of the agreed policy. They waited in vain. The agency was never properly funded or structured and achieved little. On 1 April 2007, a junior defence minister announced its closure. The fact that the best potential hope of alternative employment for their members had been abandoned attracted no public protests from the unions. It may have escaped their notice.

The pressure from the Saudis, BAE, MPs and the unions paid off. On 14 December 2006, when the Swiss were on the verge of sending the relevant Saudi bank documents to London, the Attorney General, Lord Goldsmith, announced in the House of Lords that the SFO inquiry was to be dropped. It was another good day to bury bad news. The media were focusing on the police questioning of the Prime Minister about another matter of possible corruption, the cash-for-honours scandal and the police were also reporting on their investigation into the death of Princess Diana. The reason Goldsmith gave for dropping the inquiry was extraordinary, particularly for a lawyer, even one whose reputation had been shredded by his (unpublished) advice over the legality of the invasion of Iraq: 'It has been necessary to balance the rule of law against the wider public interest.' By this he meant that the plug had been pulled for reasons of national security. In effect, the government's top lawyer was saying that the rule of law could be ignored if it conflicted with the Prime Minister's definition of a threat to the nation. He could not plead economic reasons (Eurofighter) or that cancellation would damage a relationship with a foreign government (the Saudis) as the provisions of the OECD convention on bribery and corruption specifically ruled out those justifications.

The government believed that it had found an all-purpose trump card that could not be tested in law or against international agreements. It was a tactic that had first been suggested by BAE's lawyers. Goldsmith alleged that the Saudi government had threatened to withdraw all cooperation on intelligence matters, thus making Britain more vulnerable to terrorism. That was not plausible. Intelligence is interchangeable and the Saudis depend on British information – particularly in relation to Iran – at least as much as MI6 relies on messages from Riyadh. The bluff could have been called easily had the government been willing to do so. MI6 refused to back the government's assertion of Saudi threats to intelligence. Sir John Scarlett, head of the service, and previously party to the Iraq 'dodgy dossier', let it be known that the Saudis had never issued those warnings to their British counterparts.³⁶ He insisted on the removal of such a statement from a document that the government was about to submit to the OECD.

Goldsmith also produced a secondary reason. He said that Robert Wardle, the head of the SFO, had told him that it was unlikely that the continuation of the investigation would have led to a successful prosecution of BAE personnel. Wardle disagreed. 'There is no question that charges will be brought until you've completed an investigation ... so I had perhaps a different view', he said, undermining Goldsmith's assertion that the SFO wanted to halt its searches.³⁷ An SFO official, who was not part of the Saudi investigation, told me that the organisation's staff were somewhat demoralised when their work was cut short but were reassured by the knowledge they had other BAE cases to keep them occupied.

Tony Blair showed none of Goldsmith's subdued demeanor. He took full responsibility and didn't try to shuffle it off to the SFO. He said he knew he had 'done the right thing' and made it sound like a tough decision taken by a strong leader, rather than a spineless surrender to Saudi blackmail. He denied that it had anything to do with the threatened cancellation of the Eurofighter, although he never failed to emphasise that issue when questioned, stating, for instance: 'Had we allowed things to go forward, we would have done immense damage to the true interests of this country, leaving aside the fact that we would have lost thousands of highly-skilled jobs and very, very important business for British industry.'³⁸ This was the spin of a Prime Minister who wanted to be seen to be standing up for British interests rather than complying with some obscure international obligation.

The backlash

There was an interesting reaction from an unexpected quarter. Although BAE's shares bounced upwards after the announcement, Hermes, Britain's biggest pension fund, wrote to Tony Blair saying that halting the probe had threatened the UK's reputation as a leading financial centre and that it would have a high long-term cost for business and

markets. F&C Asset Management, an investment company with £51 billion at its disposal, told Lord Drayson, defence procurement minister: 'Bribery and corruption distort and destabilise markets ... disadvantage non-corrupt companies and reduce transparency for investors seeking investment opportunities.'³⁹ Speaking at a Department for International Development/TUC seminar in May 2007, Robert Barrington, the head of F&C Asset Management, said that his company made no moral judgments, it was solely interested in making money, but investment funds now track companies' records in relation to corruption very carefully, as adverse publicity has a negative effect on their share price over a period of time. Even one of BAE's investors, Morley Fund Management, expressed worry. The *Financial Times* didn't pull any punches. In a leading article, headed 'A Damaging Cave-In', it said:

'To give in to Saudi pressure is tantamount to issuing a general invitation to blackmail. It has been Britain's policy that governments cannot interfere with the course of enquiries or meddle with the rule of law. What will they say now when, for instance, Moscow demands the return of Chechen dissidents or Riyadh objects to BBC broadcasts? Britain's sermons about transparency and good governance, as well as adherence to anti-bribery conventions, will be blown away by gales of derision – and rightly so.'⁴⁰

Worse was to come. In January 2007, diplomats from 35 countries expressed 'serious concern' at the UK's discontinuance of the BAE Al Yamamah investigation. Two months later, they said that OECD inspectors would visit Britain to question those involved in the decision and accused Britain of dragging its feet in introducing promised new legislation that would block existing loopholes. The other countries urged the British government to do this 'at the earliest opportunity'. They said that the OECD's previous recommendation reflected 'deficiencies in UK laws on foreign bribery' and they again expressed serious concern at the government's failure to act.⁴¹ Britain was isolated and received no support at the meetings. The Home Office responded by saying that it would introduce the new Corruption Bill 'when Parliamentary time permitted'. It had been drafted as long ago as 2003 but no progress had yet been made.⁴²

The British government reacted badly to the OECD criticisms and set out to get rid of Professor Mark Pieth, a Swiss citizen and the chair of its Working Group on Bribery. British diplomats accused him of being too outspoken and manoeuvred behind the scenes to undermine his authority to ensure that he would not be reappointed in January 2008. An OECD source said: 'The UK's representatives were sent to Paris to emasculate (the watchdog) and ensure they did not say anything publicly. They failed and were not pleased. They behaved in a way which would not have been out of place in a boxing ring.'⁴³ Professor Pieth knew what was going on: 'I am aware that the British ambassador was asking for action to be taken against me', he said.

French foreign policy is often used as a justification for British shady practices, on the basis that if we don't bribe the potential customer, the unprincipled Frogs will move in and grab the business. In fact, the OECD gives France a glowing progress report in awareness raising and implementing anti-bribery measures. The French authorities have also prosecuted company executives. In 2006, eight cases were heard and by mid-2007 a further nine were underway. The OECD said that its Working Group: 'noted the very positive development that prosecuting authorities have demonstrated their commitment to enforce the French law transposing the Convention.' Unlike Britain, all previous OECD recommendations had been 'implemented or dealt with in a satisfactory manner'.⁴⁴

Tony Blair had always made a virtue of standing shoulder to shoulder with George Bush, so it must have come as a nasty shock when the United States, a country even more committed to the 'war on terror' and a staunch supporter of Saudi Arabia, launched a formal protest to Britain against the halting of the inquiry. They stated that the British action ran sharply counter to principles of the US 1977 Foreign Corrupt Practices Act. Over the past five years the US Department of Justice has averaged five completed cases a year involving breaches of the act. The legislation had been enacted in response to a series of scandals in the 1960s and 1970s, mostly involving Lockheed, which had bribed, among others, Prince Bernhard of the Netherlands in order to procure orders for the Starfighter, an aircraft that had a tendency to fall out of the skies. Over 100 had crashed and the Germans called it the 'widowmaker'.

The Americans now take a strong stance against corruption, not out of high moral principle but to ensure that their companies are not at a disadvantage when they compete in overseas markets. Washington had been the main architect of the OECD convention and was obviously none too pleased that its junior partner had flouted its provisions. Clearly the Americans did not believe the British excuse and said they wanted to hear a full explanation. An official said: 'What we are really asking is how do we protect the integrity of the Convention?'⁴⁵

The House of Commons Foreign Affairs Committee – chaired by a government loyalist – also weighed in. It said the decision 'may have caused severe damage to the reputation of the United Kingdom in relation to corruption'. President Thabo Mbeki of South Africa accused the British government of double standards. He said that his authorities were cooperating fully with the SFO, which was investigating allegations of corruption in relation to the sale of BAE Hawk aircraft to South African, and complained that Britain had treated Saudi Arabia differently. In particular, he queried whether the 'strategic influence' factor should apply only to one country.⁴⁶

The Swiss then re-entered the fray. Their Federal Prosecutor launched an official investigation into BAE for money laundering. Allegedly, BAE had set up a slush fund called Novelmight in Geneva with the help of the Swiss branch of Lloyds TSB bank. It

was used to pay agents and store secret files that were sent there from BAE HQ in Farnborough, England.⁴⁷

It should be stressed that BAE has consistently denied any wrongdoing.

Other cases

Ripping off the Romanians

The former Communist country of Romania is now a paid-up member of Nato and the European Union. Consequently, the UK Defence Export Services Organisation (DESO) had designated it as a 'Priority Market' for arms sales. During 2002, DESO had been pressurising the Romanians to buy two clapped-out British Type 22 frigates, Coventry and London, which were lying in the scrapyards awaiting disposal by the MoD's clearance unit. BAE, ready to pick up a lucrative contract for refurbishing the old ships, was also prominent in the many visits to Bucharest.

The frigates had cost UK taxpayer around £250 million in 1989 but the MoD sold them to BAE for scrap value of about £100,000 each.⁴⁸ In 2003, Romanian officials agreed to pay £116 million to BAE to modernise the ships, which were to be renamed Regele Ferdinand and Regina Maria. The British government arranged for the deal to be underwritten by the DTI Export Credits Guarantee Department (ECGD) on a loan from Deutsche Bank. The arrangement meant that if the Romanians defaulted, any outstanding amount would be paid from UK public funds. BAE therefore bore no risk and the Ministry of Defence was not acting as a government ministry protecting the financial interests of the British public but as an intermediary for a private corporation.

So how did the UK government and BAE manage to persuade the Romanians to pay a lot of money for two warships rescued from the scrapyards? The company's agent was Barry George, whose Romanian-born wife Georgiana was running a consulting company in Bucharest. The Commercial Court in London had found previously that they had committed a fraudulent conspiracy in 1999 by assisting in obtaining bank loans for another Romanian ship purchase.⁴⁹ The Serious Fraud Office discovered that BAE had paid Mr George £7 million, some of which had been passed to various unnamed Romanians in 'commissions'. Under the headline 'BAE – Royal Sponsor', the Romanian press reported that Mr George was a donor to the Princess Margarita Foundation, a charity run by a member of the former royal family.⁵⁰ The Princess is married to a man called Radu Hohenzollern Veringen Duda, aka Prince Radu. Once a lowly army reserve officer, he received meteoric promotion to full-time colonel for allegedly showing 'extraordinary merit' in lobbying for Romanian membership of Nato. Although the prince agreed that he had met BAE on many occasions, he said that he never discussed the issues

surrounding the sale of the frigates with the company. Radu Duda is a close friend of the Minister for Armaments, Gheorghe Matache, a key player in the frigate deal.

The SFO moved swiftly with the MoD police to arrest Mr George and his wife for questioning. It also seized £20,000 found in their Chelsea flat. The Romanian government had meanwhile started to re-read the contract they had signed. It contained an anti-corruption clause stating that if any Romanians were found to have received bribes, the amounts paid would have to be refunded by the British government (not BAE). This was highly ironic given that the Romanians had received stern lectures from British politicians, including the Prime Minister, telling them to clean up corruption in their own country as a condition of EU membership.

Romania's Chief of Naval Operations, Victor Blidea, declared that his government had been fooled. He said that the Dutch navy had offered two surplus frigates for £40 million. That was £76 million less than the amount paid to Britain. He also said that they were better equipped and still in action. It was clear that the British ships could not have been bought on the basis of value for money but that influence had been exerted on the Romanian government to swing the decision towards certain UK-based interests.

In September 2007, the Romanian government announced that BAE was in breach of the part of the agreement that stipulated that the company would buy services and products worth £116 million from Romania to offset the cost of the ships. It said that only seven per cent of the amount had been bought, four years after the deal had been agreed. It accused the British of prolonging the negotiations in order to starve the Romanians of spare parts so that they would have to accept inferior terms. The Romanian Minister of Defence said that if matters were not settled by the end of the year, 'we would have to think of other options to find spare parts for the frigates, and at the same time bring BAE Systems to court.'⁵¹

Dealing with the dictator

General Augusto Pinochet seized power in Chile in 1973 through a military coup backed by the US. British-made Hawker Hunter jets, ordered into action by his fellow conspirators in the air force, attacked the residence of the democratically elected President, Salvador Allende. After Allende died during the assault, Pinochet went on a rampage of terror, murdering, torturing and imprisoning those whom he considered to be his opponents. Over 28,000 people were killed, tortured or 'disappeared'. He was removed from power by popular plebiscite in 1990 but he remained Commander-in-Chief of the country's armed forces until 1998, a role that gave him considerable influence over the purchase of military equipment.

British Aerospace considered Pinochet a valuable customer. Ignoring his bloody record, the company invited him to Britain on a number of occasions and treated him almost as

though he were still president. It was well known in Chile that Pinochet was extremely rich, yet it was far from clear how he had acquired his wealth. His annual salary was \$90,000. A Chilean judge ordered an investigation into his many bank accounts secreted in offshore tax havens and in 2005 it dug up some incriminating bank records.⁵² These showed that BAE had paid the general over £1 million since 1997, through a front company, Red Diamond Trading, set up in the British Virgin Isles, a well-known safe haven for tax evaders' money. One of the banks that received Pinochet's money was Coutts, bankers to the Queen and many senior figures in the British establishment. Coutts said it did not know who was behind an offshore shell company set up by Pinochet's financial adviser.

Pinochet had bought the Rayo multiple rocket launcher system made by the BAE subsidiary, Royal Ordnance. Rayo can deliver cluster bombs over a wide area and is used mainly as an anti-personnel weapon. BAE also benefited hugely from the sale of HMS Sheffield to Chile in 2003. The British government managed to extract £27 million from the Chilean government and promptly handed over £24 million to the company for the 'upgrade and refurbishment' of the old ship, leaving the UK taxpayer, who had originally paid many millions for the ship when new, with only £3 million. When the Pinochet payments came to light in September 2005, the company said: 'We at BAE Systems have clear and rigorous policies which govern the conduct of our relationships with third parties. We require all our employees to adhere to these policies and comply with the law'. If the company was so confident that it had never acted illegally, why did it persist in squirreling millions of pounds away in obscure accounts in the name of front companies based in secretive tax havens?

Tanzania

In 2001 Tony Blair pushed a deal through Cabinet for BAE to supply Tanzania with an expensive air traffic control system. Clare Short, International Development Secretary and Gordon Brown, the Chancellor, were opposed to the sale, as Tanzania had no need for a £28 million system, particularly when it was asking for \$3 billion debt relief. The World Bank pointed out that it was basically a military system and Tanzania didn't even have an air force. However, influential individuals in the African country's government and BAE were pressing for the deal to be approved. It was reported that Dick Evans, BAE chairman, had been to Downing Street and once again had played the 'lost jobs' card. About 280 people were employed at the company's Isle of Wight factory.

It was later revealed that BAE had paid commissions of around 29 per cent of the contract price into an agent's Swiss bank via its offshore front company Red Diamond, and Lloyds Bank. The agent, Sailesh Vithlani, admitted that \$12 million had been paid into his account.⁵³ After Tony Blair had interceded, the deal went through and was then forgotten. The Prime Minister had assured everybody that it was above board. But in November 2006, Clare Short said that she had been contacted by the SFO and had

reiterated her original opposition to the sale: 'It stank', she said. 'It was always obvious that this useless project was corrupt.'⁵⁴ The SFO continued to investigate the ultimate destinations of the money. The MoD police were also involved.

Bouncing the Czechs

In 2002, the Parliamentary defence committee of the Czech Republic voted against spending £1 billion on buying the Gripen fighter. The plane, designed and manufactured in Sweden, was marketed under a joint arrangement between SAAB and BAE Systems. Britain's DESO promoted the Gripen, even though it was mainly Swedish, because it contained British components and, of course, BAE was involved. The chairman of the Czech parliamentary committee then received an anonymous phone call from someone offering to pay £1 million into his party's funds if he changed his mind. Other members of Parliament were also offered financial inducements to get the proposal accepted. None accepted and the deal collapsed.

There were severe recriminations afterwards, as the Americans were also in the race for the proposed contract and were furious at the methods used by their rivals. Anthony Wayne, US Assistant Secretary of State, confronted Sir Kevin Tebbitt, Permanent Secretary at the MoD, to complain about the underhand tactics of BAE. His views were based on information received from the CIA. Sir Kevin played a straight bat and replied: 'Unless you have any information to provide in the form of firm evidence, we need to draw a line under this subject.' He didn't get around to mentioning it to the British police, who should have been asked to investigate what were possible criminal offences under the UK anti-corruption law.

BAE were fined £6,000 by the Czech authorities for illegally advertising in a newspaper to promote their bid.⁵⁵

South Africa

On 26 June 2006 the SFO wrote to the South African authorities requesting mutual legal assistance in connection with an investigation into a £1.5 billion sale of Hawk and SAAB Gripen aircraft. It named four BAE executives, including former chairman Dick Evans and current CEO, Mike Turner, saying: 'There is reasonable cause to believe that all the above-named persons have committed offences of corruption.' The SFO document itemised alleged payments of around £80 million to South African agents. Most payments were made through the BAE offshore company, Red Diamond, the same one used for donations to General Pinochet. It also named 'a highly secret unit within BAE' known as HQ Marketing. It stated that: 'The whole system is maintained in such secrecy that there is a legitimate suspicion concerning the real purpose of these payments.'⁵⁶

BAE refused to reveal the names of the agents and the DTI said that it did not know who was to receive the payments, even though it had had underwritten the deal with British taxpayers' money. In the past, BAE has had close links with Joe Modise, former leader of the armed wing of the African National Congress and later defence minister in the post-apartheid government. Modise, who died in 2001, was accused of receiving bribes from a German company for the supply of submarines and he had intervened to stop the aircraft contract being awarded to the Italians, who were offering the MB339FD, a much cheaper option than the Hawk.

The national champion

Many British firms are involved in the arms business, but BAE Systems is the one that's usually in the news. The reason is quite simple: the company dominates UK defence production. The Ministry of Defence awards it around 50 per cent of all military contracts but refuses to reveal how much these cost the public exchequer. All we are told is that it is more than £1 billion a year. BAE is also the largest European military supplier and the sixth biggest US defence company. It employs 96,000 people worldwide (36,000 in the UK, including joint ventures⁵⁷), and its annual sales are over £15 billion. Operating profits were £1.054 billion in 2006 and £643 million for the first half of 2007. Its boss, Mike Turner, received £2.4 million in pay and bonuses in 2006, a rise of 50 per cent over the previous year. It has swallowed up UK competitors and is growing rapidly through takeovers in the United States.

However, it nearly went bust in the early 1990s. It had made huge investments in property and was caught short when the boom years collapsed into recession. One of the factors in its recovery was its 20 per cent shareholding in the multinational Airbus business. French, German and Spanish companies (now grouped together in EADS) were its partners and the business was profitable. The Airbus family of aircraft had taken on and often beaten its American competitors in terms of world orders. McDonnell Douglas was forced to merge with Boeing and Airbus came out on top in many of the head-to-head contests with the Seattle giant. That investment, and the income from Al Yamamah, propped up British Aerospace until it was able to recover.

In 2006, BAE decided to sell its share in Airbus in order to concentrate on Pentagon contracts. The company's decision to abandon Airbus made the international company's UK staff much more vulnerable to job cuts, as they are now controlled by foreign directors over whom the British government has little influence. BAE has been seeking further acquisitions, particularly in the armoured vehicle sector, but all of these have been abroad. It clearly believes that it has now cornered the British market and is looking mainly to America for future opportunities. BAE's finance director said: 'We are looking at more acquisitions in the US, wherever strategic. Our strong cash performance means

that we have the capacity.⁵⁸ So despite wrapping itself in the Union Flag to get New Labour to give it a competitive advantage in the UK (based on the government's 2005 Defence Industrial Strategy⁵⁹) many commentators believe that it will move its HQ to the United States. It has already changed its name from 'British' Aerospace to BAE Systems in order to get rid of the one-country image. It knows from bitter experience that the US defence market is extremely tight and has decided to market itself there as an American company.

For such a powerful organisation with so many friends in high places, BAE seems remarkably paranoid about peace campaigners. In 2003 the *Sunday Times* reported that the company had conducted 'a widespread spying operation' against the Campaign Against Arms Trade (CAAT). 'Bank accounts were accessed, computer files downloaded and private correspondence with members of Parliament and ministers secretly copied and passed on.'⁶⁰ In February 2007, a judge ruled that BAE must disclose full details of how the company received a copy of a CAAT e-mail containing legal advice in relation to its challenge to the government decision to abandon the SFO inquiry. It transpired that BAE had been paying £2,500 a month to a man who regularly spied on campaigners and who had links with the Conservative Party.

Still, the company does have a more caring side. In keeping with the spirit of contemporary corporate awareness of environmental issues, BAE has started work on designing green munitions, lead-free bullets and rockets with reduced toxins. It said: 'Lead used in ammunition can harm the environment and pose a risk to people.'⁶¹ The company doesn't make jokes and of course they're right. Nobody wants to be shot with a bullet that pollutes the air it passes through or to be blown apart by a missile that contains toxic substances.

The turbulence increases

At the end of 2006, BAE boss Mike Turner might have been forgiven for cracking open a bottle of champagne as he flew across the Atlantic to BAE Systems US headquarters in Rockville, Maryland. The Saudi inquiry had been abandoned, BAE was now part of the Pentagon family of suppliers and the awkward Europeans (especially the French) of Airbus had been dumped. During the following months, however, there were some worrying signs for the company. Negative reaction to the UK government's cave-in to the Saudis continued, the OECD was still on the case, US politicians were questioning the company's integrity, the SFO investigators were looking at its deals in other countries and the Swiss were probing Saudi bank accounts.

Then came the revelations of 7 June 2007. The BBC Panorama programme and *Guardian* journalists David Leigh and Rob Evans made specific allegations about Prince

Bandar, the former ambassador to the US, close friend of George Bush and son of Prince Sultan, the Saudi crown prince. Their main accusation was that BAE Systems had paid Bandar £1 billion over a period of 10 years. The payments were made to the Riggs bank in Washington, the same institution that stored the money passed to General Pinochet. The government, through DESO, had authorised the arrangement. The journalists also said that Lord Goldsmith, the Attorney General, had ordered the SFO not to reveal the payments to the OECD, the world organisation investigating Britain's anti-corruption record.

Bandar denied any impropriety and said that the money in the bank was held in the name of the Saudi defence ministry and was not in his personal account. However, he did say that he was a signatory to the account and it was revealed that £8.6 million had been released from it to pay for the refurbishment of one of his palaces.⁶² BAE had also given him an Airbus, which he decorated in the colours of the Dallas Cowboys football franchise. Goldsmith said that he did not order investigators to conceal payments from the OECD and, he emphasised, it was up to the MoD to deal with the problem. The ministry stated that it was bound by the rules of confidentiality within the Al Yamamah contract and had nothing to add. Goldsmith also refused to say whether he knew about the payments, but did not deny the assertion by one of his officials that some information had been withheld from the OECD. Everyone was acutely aware that if money had been paid to Prince Bandar after the UK anti-corruption legislation was passed, those responsible might have to face criminal charges. The discredited Attorney General resigned a few days before Gordon Brown took over as Prime Minister. Tony Blair wrote to him: 'You have shown an unwavering commitment to the importance of the rule of law and human rights.'

In an attempt to head off more criticism, BAE announced that it had appointed the former Lord Chief Justice, Lord Woolf (fee: £6,000 per day) to lead an independent committee that would scrutinise its ethical standards. However, in the time-honoured British tradition of setting extremely narrow terms of reference for sensitive inquiries, it would look only at current and future practices. The whole series of alleged improper payments in the past would not be examined. In another gesture to public opinion, BAE said that it was reducing the number of its agents from 240 to 100.

Unfortunately for the company, more bad news arrived within days. The US Department of Justice announced that it was to hold an investigation into whether BAE had complied with anti-corruption laws in its sales to foreign countries, including Saudi Arabia. It was equally disquieting for the British government, as BAE can plead that those were government-to-government contracts and the Ministry of Defence had laid down or approved the ground rules for any actions the company took, including the payment of 'commissions'.

Back home, BAE suffered a severe shock at the end of the Parliamentary session in July 2007 when the government announced the closure of DESO. Some of its functions were to be transferred to the DTI, now re-named the Department of Business, Enterprise and Regulatory Reform (BERR). In a letter to the Prime Minister and passed to the *Daily Telegraph*, Chief Executive Mike Turner reacted with anger to the decision. Said to be ‘seething’, he accused Gordon Brown of ignoring his own promises by not consulting with the industry. He complained that BERR could not offer any benefits to ‘outweigh the lost excellence of the DESO operation.’⁶³

It’s easy to understand his feelings. During the Blair years – as Robin Cook noted – the company had only to ask and government granted its every wish. Then a new Prime Minister arrived and, within less than a month, the publicly funded body that has fronted the private manufacturers’ export drive for 40 years was scheduled for closure. It was a major setback for the military equipment producers but a welcome change of policy for the taxpayer and for those who believe that the country should concentrate less on making weapons and more on creating products that people need and want to buy.

Conclusion

The story of British arms sales is one of deception, resource waste and successive governments subsidising military production in sharp contrast to their refusal to assist other industries. Conservative and Labour governments have deliberately promoted the sale of weapons by corrupt methods and the Defence Export Services Organisation (DESO) played a key role in the bribing of foreign officials. Britain has consistently evaded its international obligations on combating corruption and major arms customers with appalling human rights records have directly influenced UK foreign policy. In the field of international aid, where British efforts have largely been positive, it will no longer be possible to tell governments of developing countries that they must give priority to the elimination of corruption. After the Saudi debacle, any such demand would be met with incomprehension. The dominant company, BAE Systems, has had such an armlock on government that UK defence procurement has been skewed to meet its requirements rather than those of the public.

It would be in the public interest for the government to take the following steps:

- Re-open the Serious Fraud Office investigation into the sale of arms to Saudi Arabia.
- Implement in full the OECD guidelines and comply immediately with its outstanding requests for specific actions to be taken by Britain.

- Make directors of exporting companies sign an anti-bribery pledge and hold them personally responsible for any breaches of the law.
- Withhold public contracts from companies found guilty of corruption.
- End subsidies for arms exports through the Export Credits Guarantee Department.
- Subject all contracts for military equipment exports to Parliamentary scrutiny before they are confirmed.
- Restore the original purpose of the Defence Diversification Agency, in consultation with trade unions, employers, universities, local authorities and other interested parties.

These measures could be part of a wider review that would seek to reduce the current emphasis on the production of weapons. The money could be better spent elsewhere, as the defence of Britain is not merely a military matter. It also involves the protection of the national frontiers of health, education, public services and the environment, particularly in relation to the damage caused by climate change.

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ISBN 978-0-9543329-8-3
£3.00

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