

BAE SYSTEMS in the news

As always, BAE Systems has been in the news a lot this past year. Here are some of the lowlights...

Documents suggest system of false accounting covered £60m payments to leading Saudis

BAE chief linked to slush fund

Guardian 5/10/04

The BBC's Money Programme (5th October 2004) named Steven Mogford, BAE Systems' chief operating officer, as the man behind the company's alleged 'slush fund' which made £60m worth of corrupt payments to Saudi officials, and included payments to provide prostitutes, Rolls-Royces and holidays. Mr Mogford was also accused of giving orders to suppress an internal investigation into the slush fund.

The Guardian published documents which it alleges suggest that BAE Systems used an "elaborate process of false accounting to make huge payments", many of them to the top Saudi official responsible for arms purchases, Prince Turki bin Nasser. One month's file lists 23 payments, totalling almost £1m, made for the benefit of top Saudis in August 1995. These include cash paid into American Express accounts, the hire of a yacht and stays at luxury hotels.

The payments were made by a 'front' private travel agency and listed on a monthly invoice to BAE Systems' customer relations executive, Wing Commander Tony Winship. The invoice was then rewritten on a single sheet of paper, stating 'accommodation services and support for overseas visitors'. Winship sent the bill to Mogford at BAE Systems where he approved it and the following month BAE Systems' finance department paid £987,365.03 into the travel agency's bank account.

Peter Gardiner, who ran Travellers World and acted as whistleblower, told the BBC that he personally handled corrupt payments of up to £7m a year through a BAE Systems front company throughout the 1990s and up to 2002.

At the time of the programme, BAE Systems was making no comment about the allegations except to say it had not broken the law.

SFO to investigate BAE contracts

news.bbc.co.uk/1/hi/business (3/11/04)

Guardian (4/11/04)

On 3rd November 2004 the Serious Fraud Office and MoD police conducted raids at eight locations in London and the south of England. Two men were arrested, including Wing Commander Tony Winship, BAE Systems' former customer relations executive. The action came less than a month after articles in the Guardian and the BBC Money Programme alleged the existence of a BAE Systems slush fund. Beneficiaries included Prince Turki bin Nasser, who was responsible for overseeing the Al Yamamah arms deal between Saudi Arabia and the UK, which made billions of pounds for BAE Systems.

"The Serious Fraud Office has commenced an investigation into suspected false accounting in relation to contracts for services between Robert Lee International, Travellers World and BAE Systems in connection with defence equipment contracts with the government of Saudi Arabia," the SFO said.

In response to the programme BAE Systems published a statement categorically denying the existence of a slush fund. "Neither had BAE Systems or any of its officers or employees been involved in false accounting," the company added.

The following day, BAE Systems' shares fell and were down 7.5p, or 3%, by mid-afternoon.

SFO investigation widens scope to BAE contracts

Financial Times 18/11/04

Two weeks after its former customer relations executive was arrested and released, BAE Systems was told by the Serious Fraud Office that it was now part of a widening investigation into possible false accounting in its contracts with two marketing and travel companies. These companies worked for BAE Systems on its highly profitable Saudi Arabian contracts, known as Al Yamamah.

The disclosure, reported in the Financial Times, raised the likelihood that executives at BAE Systems, who until then had not been questioned as part of the inquiry, would face interrogation by the SFO. When the SFO launched its inquiry two weeks earlier, BAE Systems had said it did not believe it was a target of the investigation. Instead it claimed that BAE Systems itself

might have been a victim of fraud following allegations that employees who worked with the travel companies were siphoning BAE Systems money to enrich themselves. People who had been questioned by the SFO, however, had said that the inquiry was much broader.

BAE Systems welcomed the scrutiny and said: "We have nothing to hide."

A former BAE Systems security official who was questioned by the SFO accused Mr Mogford, the company's chief operating officer, who oversaw the Al Yamamah business for six years, of attempting to stifle his internal investigation into BAE Systems' relationship with the travel companies. BAE Systems denied the allegations.

Bribery rules too tough for Rolls, Airbus and BAE

Guardian 17/11/04

Days after the SFO launched its inquiry into BAE Systems' alleged slush fund, the Guardian reported that the company had threatened to boycott the government's export guarantee scheme unless tough new rules over bribery and corruption were relaxed.

John Weiss, deputy director of the Export Credits Guarantee Department (ECGD) told MPs from the Commons trade and industry committee that following lobbying from BAE Systems and other major companies

the rules were being changed to address their objections.

Companies would no longer have to guarantee that their affiliates or joint venture partners were not involved in bribery. The ECGD also dropped a requirement that all employees and agents of the company must have no record of corrupt practice – this would now only apply to directors. The ECGD also agreed that it would not ask for audited accounts in the run-up to an application unless allegations of bribery were brought to its attention.

Negative ratings watch for BAE

Financial Times 19/11/04

In November 2004, following BAE Systems' announcement that it had become part of a Serious Fraud Office inquiry into contracts connected to the company's business in Saudi Arabia (Al Yamamah), BAE Systems has been placed on a 'negative ratings watch' by the debt rating service, Fitch.

Fitch noted that Al Yamamah accounted for 42% of BAE Systems' profit in 2003 and said that the negative watch was unlikely to be resolved until the SFO investigation was over. It also said that a ratings downgrade could come before the end of the inquiry.

'Fitch is concerned that the allegations, if proven, could undermine BAE's ethical and reputational standing, in addition to having a medium-term impact on its sizeable commercial ties with the Kingdom [of Saudi Arabia] and potentially with the UK Ministry of Defence,' the agency said.

DTI backs down on bribery rules

Financial Times 14/1/05

In January, a legal challenge from an anti-corruption group, Corner House, forced the government to retreat on its plans to water down proposed rules on bribery in overseas contracts. Industry thought it had persuaded the government to dilute the regulations in December, after intensive campaigning led by BAE Systems, Airbus and Rolls-Royce.

Patricia Hewitt, Secretary of State for Trade and Industry, agreed a

deal after eleventh-hour negotiations in the High Court, reported the Financial Times. Corner House had threatened to mount a judicial review, arguing that the minister had acted unlawfully by overriding her civil servants and instigating a one-sided consultation that excluded anti-bribery groups.

In the agreed settlement, Corner House withdrew its demand to revert to the original rules in return for government agreement to hold a public consultation (without

admitting any breach of a duty to consult more broadly). The consultation means business is facing months of uncertainty and could see the reintroduction of tougher anti-bribery measures. It could also shine an unwelcome light on government willingness to bow to big business lobbying.

Referring to evidence disclosed to it during the case, Corner House said the 'devastating' documents demonstrated clearly that the initial decision to water down the controls had been 'a political decision'.

Secret £1bn deal to insure Saudi arms contract

Guardian 14/12/04

It was revealed by the Guardian in December 2004 that the government had secretly agreed to pay BAE Systems £1bn in the event that the Saudi regime collapses. The insurance arrangement was made through the Department of Trade and Industry's Export Credits Guarantee Department (ECGD) and is not detailed in any public documents. If the Saudi royal family fell and a successor refused to pay its debts, BAE Systems would be compensated by the government.

BAE Systems has nearly 5,000 staff in Saudi Arabia and the Saudi income – £1bn worth of oil every year – is

believed to provide more than 20% of its profits. The ECGD has promised in recent years to be more open about the guarantees it issues. However, in its annual list of deals and the companies and countries they benefit, the BAE Systems deal with Saudi Arabia appears on the list only as 'other insurance'.

The ECGD insures export deals which are too risky for the private market to touch. BAE Systems appears to have paid a steeply increased premium last year, approximately £35m, as compared with less than £9.5m three years earlier. This may represent fears of an increased risk of instability in Saudi Arabia.

BAE says no to anti-bribery seminar

Guardian 15/06/04

BAE Systems failed to attend a government-backed initiative to stamp out bribery in the arms trade. The Department for International Development funded the high-level three-day seminar run by Transparency International (TI), a respected anti-corruption organisation, in June 2004. Mark

Pyman, a former senior Shell executive who is now a TI project leader, said one of the purposes of the seminar was to encourage arms companies to sign up to a voluntary code outlawing bribery.

It was attended by US and European arms firms, including the French-owned Thales and the major US company Lockheed, but

BAE Systems declined its invitation to attend. A BAE Systems spokesman said: "There are many conferences and seminars to which BAE Systems are invited. It is clearly not possible to attend all." He added that the firm had a "robust stance" on corruption, and "specific measures in place designed to ensure that corruption forms no part of our business".

Indonesia calls inquiry into British arms firm payment

Guardian 11/12/04

In December 2004 anti-corruption investigators in Indonesia launched an inquiry into allegations that a British arms company Alvis, now owned by BAE Systems, paid £16.5m to ex-president Suharto's daughter over a deal to sell light tanks.

The deputy head of the independent anti-corruption commission said: "It appears the state budget may have been used

to buy these tanks and that the deal may have contained irregularities. If that's the case and it caused losses to the state, it's corruption and cannot be tolerated."

In London, the national criminal intelligence service (NCIS) was asked by the trade secretary, Patricia Hewitt, to investigate the claims surrounding Alvis, which had widened to include BAE Systems. The high court was told by Philip Shepherd QC: 'BAE were

also trying to sell Hawk aircraft to Indonesia...They also shared information and eventually were both apparently using the same Indonesian local agents.'

The agents also acted for Royal Ordnance, which has since been absorbed by BAE Systems. The British taxpayer may end up picking up much of the tab for the Hawk transaction, along with the Alvis deal.

BAE Systems refused at the time to comment on the allegations other than to say it did not break any laws or commit any wrongdoing.

BAE cuts jobs as military orders slow down

Financial Times 28/1/05, Daily Telegraph 28/1/05

In January 2005 BAE Systems announced it was cutting nearly 1,400 jobs at 13 sites across the UK because of a fall in military orders in several of its domestic businesses. In January 2004 the company cut 2,000 jobs; the year before it cut 4,000. Compulsory redundancies have not been ruled out.

The redundancies cover three operating divisions and one joint venture. The biggest job cuts will be in its avionics division, where 430 jobs will go at four sites. John Wall, national secretary for aerospace at the

Amicus trade union, said the job losses were part of BAE Systems' shift away from the UK. BAE Systems is expected to sell a major part of its avionics business to Finmeccanica of Italy, while looking to buy similar businesses in the US, Mr. Wall said. He said: "This is a fairly lucrative and an extremely high-tech end of the business. That's the type of businesses that BAE Systems is looking at in North America."

BAE Systems denied any decline in commitment to the UK but said expansion in the US was a priority for Dick Olver, the company's new chairman. More acquisitions in North America are believed to be in the works.

'Everything's up for grabs' – BAE

Financial Times 24/2/05

Since taking over as chief executive of BAE Systems three years ago, Mike Turner has made no secret of his desire to expand the company's US operations quickly. But until recently, the US push had not been accompanied by a European withdrawal, reported the Financial Times. Turner and BAE Systems' new chairman Dick Olver have insisted they remain committed to the European market, especially the UK. Yet in February, BAE Systems officials acknowledged they are looking to sell off European assets to raise cash for US acquisitions. "Everything's up for grabs," said one BAE Systems executive. Gone – or diminished – are 'two of BAE's most important European joint ventures', one with Italy's Finmeccanica (as indicated above) and one with Sweden's Saab to sell Gripen fighter aircraft. Competitors report that other European business lines are also being offered for sale.

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May 2005

