

New York Times (Feb. 6, 2010)

BAE Settles Corruption Charges

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BAE Systems, Europe's largest military contractor, agreed on Friday to plead guilty to two criminal charges and pay nearly \$450 million in penalties in the United States and Britain to end long-running investigations into questionable payments made to win huge contracts overseas.

Under its settlement with the Justice Department, BAE will pay a \$400 million fine and plead guilty to one count of conspiring to make false statements about having an internal program to comply with antibribery laws. The Justice Department's charge related to just a small part of the billions of dollars in payments that BAE is thought to have made to Saudi Arabian officials over a 20-year period, and to more than \$200 million of business that the company won in arms deals involving the Czech Republic, Hungary and other countries.

BAE, which is based in Britain, made the payments through a network of middlemen and Caribbean and Swiss bank accounts to win contracts for fighter planes and other equipment that American military companies were also seeking, the Justice Department said.

BAE said it would also plead guilty in London to an accounting violation for failing to properly record commissions paid to a marketing consultant involved in its sale of a radar system to Tanzania in 1999. BAE said it would pay about \$50 million in Britain in fines and a charitable payment to Tanzania.

The investigation began in Britain. But Tony Blair, the prime minister at the time, halted the British efforts to investigate the deals with Saudi Arabia in

2006, after Saudi leaders threatened to stop providing the British government with tips on terrorism, according to documents later discussed by a British court.

Still, the inquiries have long represented one of the most prominent efforts by prosecutors in both countries to investigate claims that many large companies have passed bribes through middlemen to win overseas contracts.

BAE, which had previously denied any wrongdoing, said in a statement that it “very much regrets and accepts full responsibility for these past shortcomings.”

The company said that the last of the illegal activities had taken place in 2002 and that it had since changed the way it did business.

British press reports last fall had said that Britain’s Serious Fraud Office had pushed for hundreds of millions of dollars in penalties in return for any settlement. But BAE had rejected that offer.

Richard Alderman, the director of the Serious Fraud Office, described the \$50 million settlement as a “pragmatic” one that would allow BAE to put the investigations behind it and allow his office to redeploy investigators to other cases.

But British advocacy groups that had fought several unsuccessful court battles to force authorities in Britain to investigate the company for corruption in arms deals involving Saudi Arabia and other countries criticized the settlement.

“This settlement means that the truth about these serious allegations against BAE will never be known,” said Nicholas Hildyard, a campaigner for the Corner House, a social justice advocacy group. “The U.K. fine may well be unprecedented, but it may easily create the perception that alleged bribers can simply pay their way out of trouble.”

Liberal members of Parliament also complained that with the company's guilty plea, the full details of the British government's role in supporting its arms sales may never be known.

The Serious Fraud Office also announced later on Friday that it was dropping charges against Alfons Mensdorff-Pouilly, an Austrian count who acted as a marketing consultant to BAE in helping to arrange leases for fighter planes in the Czech Republic and Hungary.

Justice Department officials said that while the guilty plea would end their investigation of BAE, they were continuing to investigate some of the individuals involved in the case. The department has stepped up its investigations in recent years of possible violations of the Foreign Corrupt Practices Act, and prosecutors believe that some of the convictions have helped deter business executives from paying bribes.

BAE also generates a significant amount of its revenue in the United States, where it is one of the Pentagon's largest contractors. The criminal information filed by the Justice Department said the company's American subsidiary was not involved in any of the illegal activities.

The criminal information document said BAE had set up a network of "marketing advisers" and encouraged them to organize offshore shell companies to disguise the identities of any foreign officials to whom they passed money. It said BAE itself set up an entity in the British Virgin Islands to conceal its relationships with the agents. BAE then paid about \$225 million to the agents through that entity without formally tracking what they did with the money. But the company's activities in Saudi Arabia, where it had an \$80 billion contract since the 1980s to supply fighter jets and other military hardware, have long attracted the most interest.

It has been reported that BAE made payments to Saudi officials, including \$2 billion that it deposited into bank accounts of Prince Bandar bin Sultan, the kingdom's former ambassador to the United States. Peter Gardiner, a crucial witness in the case, has also identified Prince Turki bin Nasser, who controlled the Saudi air force, as a recipient of BAE's money favors.

The criminal information did not name either of the princes, and neither of them have ever been charged with any wrongdoing. But the document described substantial benefits for an unnamed Saudi official that Mr. Gardiner said on Friday closely matched the company's relationship with Prince bin Nasser, who has never commented on the deals.