



THE
CORNER
HOUSE

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BAE terminates Government insurance for controversial Saudi arms deals

BAE Systems, the UK's largest arms company, has cancelled all its public insurance for its controversial arms sales to Saudi Arabia.

The company's decision has come to light only as a result of legal correspondence between CAAT and The Corner House with the UK Export Credits Guarantee Department and subsequent parliamentary questions tabled by Vince Cable MP. Journalist Peter Marshall reported on the subject on BBC2's *Newsnight* programme on Thursday 28 May 2009.

BAE's arms deals with Saudi Arabia have been underwritten by the UK's Export Credits Guarantee Department (ECGD) for more than two decades. The contracts (known as the Al Yamamah agreements) have been highly profitable for the company but have been shrouded in secrecy and attracted allegations of bribery and corruption since they were first agreed in the mid-1980s.

ECGD's total liability for BAE's Saudi Arabian exports was £750 million as of 31 March 2008 -- the Department's largest by far and accounting for nearly half its portfolio. Yet BAE terminated its insurance cover for these deals with effect from 1 September 2008.

The cancellation came just weeks before the publication of a damning report from the Anti-Bribery Working Group of the Organisation on Economic Co-operation and Development (OECD) in October 2008. This report was highly critical of ECGD's continuing support for BAE's Saudi Arabian arms contracts. It also queried why ECGD had not acted on evidence that BAE had allegedly made bribery-related fraudulent misrepresentations when it requested insurance cover from ECGD. The Serious Fraud Office had handed this information over to ECGD as part of its corruption investigation into BAE's contracts with Saudi Arabia.

In addition, the OECD report raised probing questions as to why ECGD had extended further insurance to BAE at a time when the recipient of the underwritten exports, Saudi Arabia, was known to have interfered with the UK's criminal law proceedings (the Serious Fraud Office's BAE-Saudi investigation).

BAE's termination of its public insurance support after 20 years is all the more surprising given that many non-military companies are now turning to the ECGD for

state support because private sector insurance cover for exports has dried up as a result of the "credit crunch".

CAAT spokesperson Kaye Stearman says:

"For years BAE has been able to operate with confidence because it has bought government-backed insurance for its arms sales to repressive or unstable regimes. In fact, it was by far the ECGD's largest customer. Now it has covertly cut loose from ECGD – and we can't help but wonder why."

Nicholas Hildyard of The Corner House says:

"By cancelling its contracts with ECGD, BAE has let the ECGD off the hook in relation to possible legal action over its support for the Saudi deals. But the need to investigate ECGD's handling of the BAE contracts remains as strong as ever. The UK cannot use termination of the contracts to wriggle out of answering the OECD's criticisms of its inaction."

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BBC Newsnight

"Suspensions over BAE termination of government contract", 28 May 2009,

<http://news.bbc.co.uk/1/hi/programmes/newsnight/8073797.stm>

Notes

1. **Campaign Against Arms Trade (CAAT)** works for the reduction and ultimate abolition of the international arms trade. www.caat.org.uk
The Corner House aims to support democratic and community movements for environmental and social justice through analysis, research and advocacy. www.thecornerhouse.org.uk
2. The **Export Credits Guarantee Department (ECGD)** is the UK's export credit agency, a government body that provides companies with taxpayer-backed insurance against the main commercial and political risks of operating abroad.
3. The UK government signed various arms contracts with Saudi Arabia from the mid-1980s onwards to supply BAE's Tornado fighter and ground attack aircraft and associated products and services; the deals were called the Al Yamamah agreements but are now known as the Saudi British Defence Co-operation Programme. In September 2007, another contract, known as Project Salam, was signed for BAE to supply 72 Eurofighter Typhoons.

For more information, go to: <http://www.caat.org.uk/issues/bae/> and <http://www.caat.org.uk/issues/saudi-arabia.php>

4. The **OECD Anti-Bribery Convention** is a multilateral treaty aiming to ensure that all 30 OECD countries, as well as seven other non-member signatory countries, present a combined and united front against bribery and corruption of foreign public officials. Its Anti-Bribery Working Group comprises officials from these countries and monitors implementation of and adherence to the Convention.

The OECD's October 2008 Phase *2bis* report on the UK found that the UK Government breached its obligations under the Anti Bribery Convention when the Serious Fraud Office cancelled its investigation into arms deals between BAE Systems and Saudi Arabia in December 2006.

<http://www.thecornerhouse.org.uk/pdf/document/pressOECD2bis.pdf>

<http://www.oecd.org/dataoecd/23/20/41515077.pdf>

5. In 2004, the **Serious Fraud Office (SFO)** began an investigation into alleged bribery and false accounting by BAE in relation to the Al Yamamah deals. In November and December 2006, it was widely reported that the Government of Saudi Arabia had threatened to suspend diplomatic ties with the UK and cancel a further proposed order for 72 Eurofighter Typhoon aircraft if the SFO investigation was not halted. On 14 December 2006, the SFO declared that it was ending its investigation into these bribery allegations on the grounds that continuing the investigation might lead to Saudi Arabia withdrawing diplomatic cooperation with the UK on security and intelligence. CAAT and The Corner House brought a judicial review of this decision on the grounds that it contravened the OECD Anti-Bribery Convention. For more information, go to: <http://www.controlbae.org>
6. Following the October 2008 publication of the **OECD Phase 2bis report** on the UK, solicitors Leigh Day & Co, acting for CAAT and The Corner House, wrote to the ECGD on 14 November 2008 asking what steps the ECGD was taking to review its cover provided for the Al Yamamah contracts in light of the evidence passed to it by the SFO and whether the Department intended to use its audit powers in relation to do so.

Patrick Crawford, ECGD's Chief Executive, responded on 10 December 2008 saying:

"I would advise you that the agreement under which ECGD provide cover to British Aerospace in relation to the Al Yamamah contract (known as the Saudi British Defence Cooperation Programme), and which contain ECGD's powers of audit in relation to that contract, was terminated by British Aerospace with effect from 1 September 2008."

Leigh Day sent a follow-up letter 8 December 2008 asking when the notice to terminate cover had been given and whether it applied to the Salam Project as well as the Saudi British Defence Cooperation Programme (SBDGP).

Steve Dodgson, ECGD's Business Group Director, wrote back on 30 January 2009 saying that BAE had given the contractual 30 days' notice on 1 August 2008 and that:

"It is correct that all ECGD cover which related to the SBDGP (formerly Al Yamamah) was the subject of one contract and it follows therefore that all that cover has now been terminated."

It remained unclear from this correspondence, therefore, whether the Salam Project cover had also been terminated. Clarification that BAE has indeed terminated its Salam Project cover was given in answers to two parliamentary questions from Vince Cable MP:

10 Mar 2009: Column 397/8W

Dr. Cable: To ask the Minister of State, Department for Business, Enterprise and Regulatory Reform:

(1) when the Export Credits Guarantee Department granted an indemnity for the Al-Yamamah Saudi-British Defence Co-operation Programme; and what the present status of this indemnity is;

(2) when the Export Credits Guarantee Department granted an indemnity for the Salam Project; and what the present status of the indemnity is.

Ian Pearson [Economic and Business Minister] [holding answer 23 February 2009]:

Since 1989 ECGD has provided consecutive insurances and indemnities to BAE System (Operations) Ltd in respect of the Al Yamamah programme (now known as the Saudi British Defence Co-Operation Programme), the last of which was a five year Indemnity issued in 2006, to which, in 2007, the Salam programme was nominated for cover in accordance with the terms of the Indemnity. The Indemnity was terminated by BAE Systems (Operations) Ltd with effect from 1 September 2008.

2 April 2009 : Column 1449W

Dr. Cable: To ask the Minister of State, Department for Business, Enterprise and Regulatory Reform pursuant to the answer of 10 March 2009, *Official Report*, columns 397-8W, on Saudi Arabia: arms trade, whether there is any extant cover for (a) the Salam Project and (b) any other BAE Systems' military sales to Saudi Arabia; and if he will make a statement.

Ian Pearson [*holding answer 30 March 2009*]:

ECGD currently provides no support for any BAE Systems contracts in Saudi Arabia.

7. Economic and Business Minister Ian Pearson MP stated in March 2000 that the ECGD has: "received a vast increase in interest in its support and in applications for its assistance". (Hansard, 16/3/09)