

TRANSCRIPT

“Suspicious over BAE termination of government contract”

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(transcribed by The Corner House)

Jeremy Paxman, *Newsnight* presenter: BAE, the massive British arms company, the third biggest in the world in fact, is struggling to prove that it’s an ethical arms dealer, if such a thing exists. You may recall that a couple of years ago, the British government scotched a Serious Fraud investigation into BAE’s biggest deal of all with Saudi Arabia. Tonight, *Newsnight* can reveal that the company may have returned the favour. It stopped a billion pound insurance contract which tied the government to the Saudi business. The company’s critics smell a rat. Peter Marshall reports.

Peter Marshall, *Newsnight* journalist: BAE Systems, based in Britain, sell arms everywhere. And, right across the globe, they’re under investigation for sweetening deals with billions in alleged bribes. The biggest concerned 43 billion pounds worth of sales to Saudi Arabia. For 20 years, they depended on British government money to underwrite the Saudi business. Now, suddenly, BAE have terminated that UK government insurance.

Nicholas Hildyard, The Corner House, UK: From a corruption point of view, and particularly from the point of view of Britain’s so-called commitment to fighting bribery, the whole incident stinks.

Peter Marshall: Why?

Nicholas Hildyard: I think here you need to look at the timing.

Peter Marshall: The government’s Export Credits Guarantee Department, the ECGD, encourages companies to trade abroad by insuring their overseas contracts. So why after two decades has BAE quietly dropped this valuable backing for its arms trade to Saudi? Some say it left them vulnerable to a new corruption inquiry two years after the government stopped a Fraud Office investigation. It follows last autumn’s blistering report from the international anti-bribery watchdog [OECD], which demanded the ECGD act.

“The lead examiners are seriously concerned about the lack of evidence of any response by the ECGD to the serious allegations of bribery-related fraud.”

It concluded:

“ . . . the lead examiners consider that ECGD should make vigorous use of all of its powers to review the situation, including notably its audit powers.”

Nicholas Hildyard: The British government's record on fighting bribery and corruption is shameful.

Peter Marshall: Nick Hildyard, a legal campaigner, believes BAE may have cancelled its ECGD cover so both sides conveniently averted any audit of the Saudi deal.

Nicholas Hildyard: ECGD can now say 'there is no reason for us to act. There is no reason for us to take any action. We don't have to explain why we didn't take any action any longer.' So it has got Britain off the hook.

Peter Marshall: So you're saying this effectively closed off an area of investigation?

Nicholas Hildyard: That's precisely the point. And I think that there are really a lot of questions that arise about the timing. Was there collusion between BAE and ECGD? Did ECGD have a quiet word in BAE's ear and say, 'Look, it would help us if you got out of this contract'?

Peter Marshall: BAE declined requests for an interview, but said they adjusted insurance arrangements "to reflect changes in contractual terms . . . or new programmes". The chairman of the anti-bribery watchdog, Mark Pieth, told of the change by *Newsnight*, said it "raises important questions in the light of our earlier report" demanding an audit. He said the UK would be asked for an explanation.

At the offices of the Export Credits Guarantee Department in that tower block in London's Docklands, the loss of the BAE contract, three-quarters of a billion pounds annual cover, has been a huge blow.

At a stroke, the government department had lost half its income. Yet they say it wasn't fear of losing that money that had prevented them from taking the initiative and questioning the BAE-Saudi deal for themselves as demanded by the watchdog. No, they maintain it's because fraud was never proven, it was only alleged. But there's the catch: nothing could be proven once the government had killed the Serious Fraud Office investigation.

Given all the obstacles at home, the best hope of getting to the bottom of BAE-Saudi lies across the Atlantic where the FBI and the Department of Justice are far from giving up. America's where BAE now does most of its business and the continuing enquiries here have placed it under a cloud. The word is BAE haven't been as helpful as the US authorities might have wished. What's more, they're refusing to admit guilt.

Alexandra Wrage, Trace International, USA: I think there's a pretty strong indication that BAE has not been fully cooperative because they detained senior executives and seized their electronics at an American airport. That's a pretty good indication of non-cooperation.

Peter Marshall: And that's unusual?

Alexandra Wrage: That is unusual, yes, that may be singular.

Peter Marshall: The incident she refers to happened last summer when Mike Turner, BAE's chief executive, was questioned and reportedly issued with a subpoena as he passed through Houston airport. The same thing happened to Sir Nigel Rudd, a BAE director, when he arrived at Newark.

While the Americans are running their case with investigators who seem to mean business, on two other continents the progress of inquiries into BAE's commissions is rather less convincing. The British government's scuppering of its own case against the Saudis is said to have set a woeful example worldwide.

Across Northern and Eastern Europe and down into Africa, the investigations have been protracted and slow. A particular concern's been the moribund state of the inquiries in South Africa, where the investigative team is now down to one single official.

At a time of peace, South Africa is rearming its defence force.

The ANC government has been mired in corruption allegations over their four billion pounds' arms deal, over half of which went on BAE jets. Charges against Jacob Zuma, now South Africa's president, were dropped last month. Zuma had earlier complained to *Newsnight* of British hypocrisy.

Jacob Zuma: The Prime Minister of Great Britain stopped an investigation in Saudi Arabia and allowed an investigation in South Africa – that's double standards. Why should that be done? Why should rulers be allowed to pick and choose on matters that relates to the application of the rule of law?

Peter Marshall: The lack of progress is another setback for Britain's Serious Fraud Office, the SFO. They've taken the extraordinary step of supplying the South Africans with an affidavit sworn by their principal investigator. This outlines the UK case and, leaked to South Africa's *Mail and Guardian* newspaper, has details of offshore accounts.

“ . . . over £103,000,000 was paid to 'covert' advisers . . . Mike Turner claimed the reason for such an opaque system was to ensure commercial confidentiality and to avoid intrusion by the media and anti arms campaigners . . . ”

“I suspect that a primary reason . . . was to ensure that corrupt payments could be made and that it would be more difficult for law enforcement agencies to penetrate the system.”

Paul Holden, Author 'The Arms Deal in Your Pocket', South Africa:

There were raids on a series of BAE properties in November last year. But with only a single person to process all that information and to try to bring it to trial, there's not a huge amount of hope here that it'll ever come to trial or go any further than it already has.

Peter Marshall: BAE see themselves as a universal force for good. This promotional video shows their weapons, boats and fighter jets coming to the rescue, making the world safer.

But to critics, they're a multinational who disregarded ethical and legal principles.

The German engineering giant Siemens was fined 800 million dollars in the US after admitting to *its* financial scandal. If BAE's found guilty, the penalty's likely to be far higher. It seems a critical case for cleaning up international trade.

Paul Holden: I think the last great hope really lies in the US investigation into BAE. What seems to be clear is that they have the resources and the political will to engage with it, and they've done it before and it seems that that's not a situation that's replicated in other countries in the world. And I think that if BAE is to face any charges relating to the allegations, it'll probably be emanating from the US.

Alexandra Wrage: No body else seems to be doing much of anything. The Canadians still haven't brought a case. The Italians still haven't brought a case. The French still haven't brought a case. The Russians aren't even close to bringing a case. And the Americans are out there helping prosecute German companies and now British companies. But, you know, the answer to the question, Why are the Americans doing it all? is: no body else is.

Peter Marshall: So anti-corruption campaigners and BAE are both waiting on the US Justice Department. In Britain, the world's third largest arms company still looks invulnerable. Across the Atlantic, it may be different.