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New roundabout ways to pay bribes

Since the **OECD** Convention against bribing foreign officials was signed in 1997, multi-national corporations - and particularly those in the defense industry - have found new ways of legally paying go-betweens and decision-makers in the countries in which they operate.

Indeed, the payment of "commissions" has now been outsourced and is done either by industrial partners in countries that haven't signed the **OECD** Convention or by local firms.

Russian and Israeli Partners.

Up to now, just 36 countries have signed the **OECD** ban on **bribery** (the latest was Estonia in 2004) and most are in Europe and North America. In the Far East and Middle East not a single government - with the exception of Japan and South Korea - has joined the Convention while Brazil and Chile are alone in Latin America in doing so. As a result, Russian, Israeli, Ukrainian or Indian defense groups are free to legally continue to pay commissions abroad. That freedom makes them particularly precious to their British, American and French counterparts. To be sure, increasing numbers of Israeli and Russian companies are included in consortia competing for big military contracts, even though the companies in question only pick up a tiny part of the business if their consortium is successful. To compete with France's Thales and DCN for a contract to supply six conventional submarines to the Indian Navy, Germany's HDW joined forces with OKB Novator of Russia to submit a bid for a boat equipped with Klub torpedoes. HDW had dealt in the past with India: it sold four submarines to the country in 1981 but was convicted in 1990 of paying nearly \$7 million in bribes related to the deal. In the present case, Thales and DCN finally won the nod from India last autumn to supply France's Scorpene submarine. In Singapore, a consortium headed by Boeing, which beat out Dassault Aviation and the Eurofighter consortium to supply 12 F-15E fighters to the Republic of Singapore Air Force in December, 2005, had an Israeli group in its ranks: Elbit Systems which will build electronic counter measures (ECM) for the American fighter.

Local Sub-Contractors.

Some European and American military suppliers team up with local companies which they pay handsomely for basic services - and rely upon to pay bribes. The solution is relatively safe and efficient. If caught, the multinationals can only be accused of paying too much for services and the local firms have in-depth knowledge of decision-making circuits in their country and thus the best people to approach with bribes. In China, the U.S. group Raytheon managed to win a series of contracts for a civil air surveillance system (American firms can only sell military gear to Taiwan) thanks to its partnership with the Chinese

businesswoman Lio Ting Ting. Her string of companies supplied a few components for Raytheon's system but she was crucial in setting up contact with Chinese decision makers, particularly through ex prime minister Li Pen. Because they play a vital role and handle lots of cash, extreme care goes into the choice of a local partner. The choice is made by the international divisions of the big defense groups which frequently call on the services of business intelligence firms or specialized consultancies like former armaments agencies Eurotradia and Sofema in France to look into a potential partner's connections and the background of its management.

Payment in Kind.

A third solution to get around the OCED Convention consists of offering "non-financial" benefits to officials in charge of awarding contracts. The **OECD** bans "undue pecuniary or other advantages" but the latter are particularly difficult to pin down and prove. In Spain, for instance, several defense groups decided to work with the Tecnobit company because it was established in Castile, a region whose president for 21 years was Jose Bono, the first defense minister of Jose Luis Zapatero's government. It was assumed Bono would immediately benefit from a political standpoint from any new contract signed in his fiefdom. And in the United States, military contractors figure among the biggest donors to major American universities, contributing to foundations that regularly sponsor the children of foreign leaders who wish to study in the establishments.

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