Enron fall-out threatens Britain's Labour government

Julie Hyland
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The fallout over the collapse of the US energy trader Enron, formerly one of the top 10 US companies, is threatening to claim political scalps in Britain.

The US Justice Department is currently investigating possible criminal activity in which Enron, and its accountant and business adviser Anderson, sought to conceal the true financial state of the company. Whilst many of Enron's top executives made millions of dollars from over-inflated stock prices, tens of thousands of current and former employees lost their jobs and pensions in the wake of the company's bankruptcy in December, when it admitted to have overstated earnings by more than $586 million since 1997.

It was only possible for the company to conceal its corrupt practices for so long because of the political connections it enjoyed in US ruling circles, particularly with the Republican administration. Kenneth Lay, Enron's chairman, has acted as George W. Bush's chief financial supporter and key backer since the latter went into politics. In the last US election, Enron-affiliated donors bankrolled the Republican party to the tune of $764,000 whilst Democratic candidates received about $368,000.

Now it has emerged that both of Britain's main parties were the recipients of Enron's generosity. Between 1997 and 2000, the Labour Party accepted £38,000 from Enron in sponsorship money for its events, whilst the Conservative Party received approximately £25,000. Former Conservative energy minister Lord Wakeham was an Enron director and sat on the company's audit committee.

In a statement at the weekend, Ralph Hodge, former chairman of Enron Europe, said that the company had made the donations to "gain access" to government ministers, civil servants and MPs. This was "custom and practice," Hodge said. "I do not think we would have been successful at getting a table without donations... It is clear that in the current climate, sponsorship and donations are the most efficient ways of getting access."

Although the size of the bankroll is small by US standards, the revelations have created a political scandal, especially as it is alleged that the donations led directly to changes in government policy. Hodge himself was awarded a CBE by the Blair government in 2001, for "services to the power generation and gas industries".

Liberal Democrats and Conservatives have joined forces to call for a parliamentary inquiry into Enron's political connections, particularly its contacts with the Labour government. Liberal Democrat Treasury spokesman Matthew Taylor said, "We know that in the United States Enron used extensive political contacts to seek to further its interests and there is good evidence of the same happening here in the UK."

Conservative vice-chairman Tim Collins said he now "regretted" that the party had accepted Enron cash, but played down its significance, claiming that it had not led to any policy reversals. As the Tories were no longer in office at the time in question—and given its long standing commitment to the deregulation of the energy sector on which Enron built its fortunes—this does not say much. It was the Conservative government's privatisation of the electricity industry that gave Enron its first slice of the UK energy market—a £700 million contract to build the UK's largest private gas-fired power station. And it was Lord Wakeham—who now faces questioning by the US Justice Department—that oversaw the venture. Within four years he had resigned from the House of Lords and joined Enron as a non-executive director, for which he received £80,000 per annum and an additional £4,250 a month for his role as consultant to Enron Europe. A chartered accountant, Wakeham served on the audit committee charged with ensuring that the company's financial statements complied with the regulations and reflected its true financial positions.

Despite the record of Tory involvement with the company, their calls for an inquiry have clearly thrown Labour onto the back foot. On Tuesday, the government took the unusual step of publishing details of all official ministerial contacts with Enron—six formal meetings with Enron executives and one occasion on which Stephen Byers, then Trade and Industry Secretary, was invited to open Enron's European headquarters in London.

The government release came after allegations that Blair himself was directly implicated in what has been dubbed the "cash for access" scandal. A document from the American Embassy, obtained by the *Guardian* newspaper under the US Freedom of Information Act, revealed that the prime minister was instrumental in watering down Labour's commitment to a moratorium on the building of gas-fired power stations. According to the 1999 memo sent to Washington officials, "Prime Minister Blair has recently intervened to water down the moratorium proposals in case the government was taken to court on anti-competition grounds. At least one US company with gas interests had indicated it was considering this course of action." A spokesman for Blair said that the government "refuted absolutely that there has been any impropriety" and that the ministerial meetings "constituted the normal business of government". The £36,000 had not been donated to the party's funds, but had been used to sponsor certain events. Far from dampening the row, the government's admissions inflamed it because the meeting dates supplied coincided with shifts in Labour policy in areas key to Enron's interests.

Labour's moratorium pledge was part of its winning election manifesto in 1997. The proposal was presented as a means of reversing Conservative energy policy that had become known as the "dash for gas" and creating a "level playing field" for oil and coal producers. Almost immediately, Enron began hiring lobbyists to persuade the government otherwise. One of those employed was Karl Milner, a former aide to chancellor Gordon Brown. In 1998, Milner boasted to an undercover reporter, "We [Enron] have many friends in Government. They like to run things past us some days in advance, to get our view."

Whilst then Trade and Industry Secretary Margaret Beckett was announcing the government's moratorium policy, meetings were taking place between Enron and Labour ministers. According to Downing Street's own press release, the first such discussion took place on April 28, 1998, between Industry minister John Battle and Enron chairman Kenneth Lay.

Beckett's policy statement was delivered as planned on June 25 that year. Less than three months later, Peter Mandelson, Beckett's replacement at the DTI, announced Enron's acquisition of Britain's smallest water operator, Wessex Water, for £1.4 billion. Mandelson also announced that the deal would not be referred to the Monopolies and Mergers Commission (MMC), even though previous attempts to take over the company by British water companies had been referred to the MMC and were rejected by the government.

Less than a fortnight later, Mandelson and Battle met representatives of Enron, Mobil, Sweb, Esso and Alston UK to discuss "energy issues". And, just two weeks later, Enron spent £15,000 on a reception at Labour's 1998 annual conference in Blackpool, at which Blair was guest of honour. Within a matter of days, Mandelson announced that he was watering down the government's ban on gas-fired stations. Those seeking to build new power stations would now be judged on the criteria of "stricter consent". Almost immediately Enron began building a new gas-fired power station.

After Mandelson was replaced by Stephen Byers, another six meetings were held between government ministers and Enron chiefs, culminating in Byers' announcement on November 15, 2000 that the government was lifting its moratorium on gas-fired power stations altogether.

Labour's ties with Anderson accountants are even more extensive—and potentially just as damaging—as those with Enron. There is evidence that the Anderson/Labour connection was one of the prime means through which Enron gained information on government policy and access to ministers. So close are political relations between the Blair government and the firm that Andersen is widely known as "New Labour's accountants".

Andersen had been embroiled in its very own scandal when, under the Conservative government of Margaret Thatcher, it was involved in a notorious fraud at the John De Lorean car firm in Belfast. De Lorean was found to have stolen large sums of government subsidies for his venture, whilst Andersen, his auditors, kept silent. Andersen was sued by the government for negligence and was effectively barred from all government contracts throughout the Tories' terms in office.

This set back for Anderson occured at the height of the era of massive deregulation and financial speculation in the energy markets, with vast sums to be made in "advising" government on the privatisation of formerly state-run industries and the restructuring of public services. Blair's "New Labour" party was to be its ticket back into this highly lucrative arena. Under Blair, Labour had foresworn its previous commitment to state nationalisation and become an enthusiastic convert to free-market capitalism and privatisation. Through Andersen's corporate clout, Labour gained valuable access to the City of London, whose affections it was desperately seeking to cultivate.

A mutually beneficial relationship thus developed. During its time in opposition, Andersen supplied secondees and "free work" for Labour and, in 1996, the firm held a seminar at Templeton College Oxford to advise prospective Labour ministers on how to be "effective" in office.

After Labour's 1997 election win, the Blair government settled the 12-year lawsuit with Andersen for just £21 million—one tenth of the amount originally sought—and took it off the Whitehall blacklist. Two senior Andersen experts, Chris Wales and Chris Osborne, became advisers to Brown and then Paymaster General Geoffrey Robinson at the Treasury. Wales remains a member of the council of economic advisers. Patricia Hewitt, who had left her job with former Labour leader Neil Kinnock in 1994 to join Andersen Consulting as head of research, returned to the party and is now Trade and Industry Secretary,

Most importantly, the firm was central to aiding the new Chancellor Gordon Brown to draw up Labour's economic policy for government—centred on the development of public/private partnerships, i.e. the backdoor privatization of the provision of key public services, such as health and education. Andersen has subsequently been involved in advising the Blair government and the private sector corporations involved in some £10 billion of public/private projects, including such major and highly unpopular, not to say financially unsound, schemes as the London Underground public private partnership, the national railway network, the sell-off of air traffic control, and the failed education action zones.

Andersen has been commissioned by the government to produce reports that evaluate New Labour's policies and show them in a good light. Its report on public private partnerships (PPPs) that the government routinely uses to show that PPPs are "value for money" claimed that PPPs were 17 percent cheaper than conventional public procurement. This fraudulent claim was based on a survey of *estimated* costs of a number of projects which showed that only six out of the thirty examined were cheaper and 80 percent of these "savings" were accounted for by just one project—the failed multi-million pound project for the replacement of the national insurance contributions system that left thousands of claimants without benefits and cost the Inland Revenue more than £5bn in lost tax revenues. The report did not say that the project had been a financial disaster. Neither did it say that it was carried out by Andersen's sister company, Andersen Consulting, now Accenture, one of the major information technology providers to government departments.