

British government and BAe Systems revealed as money launderer for Saudi Arabia

Jean Shaoul
21 July 2007

The scandal over allegations of BAe Systems, Europe's biggest weapons manufacturer, and the British government's corrupt dealings with the Saudi ruling clique promises to haunt the new prime minister, Gordon Brown, despite his predecessor Tony Blair's best efforts to contain it.

The Labour government is accused of functioning not simply as the marketing arm and financial intermediary for BAe Systems, but as a money launderer and conduit for channelling cash and arms to Islamic militants on behalf of one of the most venal, reactionary and inhumane regimes in the world. The Bank of England, the Foreign Office, the Department for International Development—whose remit includes anti-corruption—and the Ministry of Defence are all implicated.

Last month, the BBC and the *Guardian* revealed that the British government had been party to £1 billion payments to Prince Bandar ibn Sultan, the son of Prince Sultan, the Saudi defence minister and heir to the throne. Bandar, who served for more than 20 years as Saudi Arabia's military attaché at its embassy in Washington and later as its ambassador, is national security advisor to King Abdullah.

The BBC and *Guardian* allege that the payments were bribes by BAe Systems to secure the lucrative Al Yamamah deal, called at the time "the arms deal of the century."

The Al Yamamah defence contract for Tornado jetfighters was BAe's largest-ever overseas arms deal. Negotiated during Margaret Thatcher's premiership in 1985, the contract was worth more than £40 billion over the subsequent 18 years, a sum widely believed within the arms industry to be more than 30 percent above the going rate.

The deal was secured by a government-to-government contract between Britain and Saudi Arabia that has never been made public or subject to public scrutiny. The 1992 National Audit Office report into the deal was suppressed.

Saudi Arabia agreed to deliver oil to BP and Shell, which sold it and banked the proceeds in a special account, controlled by both governments, in the Bank of England, which received a commission for managing the account. Tens of billions of dollars flowed through this account. Some of the money passed through into the UK's Defence Export Services organisation, part of the Ministry of Defence (MoD), for which the MoD received a commission, as well as other secret accounts in Switzerland and elsewhere. The special account was used to pay BAe for Al Yamamah, and BAe used some of the money for commissions to intermediaries for facilitating the contract.

As far as Saudi Arabia was concerned, the jets were something of a white elephant for which it had little use and few capable pilots. The chief threat it faces comes from domestic not external opposition against which Tornados provide no protection. But the jets did provide a convenient cover for recycling the country's oil revenues outside its official budget. One person involved in the deal told the *Financial Times*, "It was a way of Saudis paying money to Saudis".

More damaging still for the British government, the oil proceeds were

not only used to pay for the jets but for arms from Egypt for the Mujahideen, the Taliban and Al Qaeda fighting the Soviet army in Afghanistan and arms from Moscow to drive Libyan troops from Chad. A biography of Prince Bandar, *The Prince*, explains that the Al Yamamah account was used to buy whatever they wanted off budget. The Saudis were paying the British government and the Bank of England to launder their own money and keep quiet about it.

Over the years, there were constant rumours of corruption, with allegations that BAe had operated a £60 million slush fund to sweeten the deal and pay for extravagant hospitality for key middlemen. Successive governments maintained that no bribery was involved, although numerous officials and politicians in a position to know have admitted that bribery is endemic in the arms trade.

Denis Healey, a former Labour Defence Secretary in the 1964 Labour government, told the *Guardian*, "Bribery has always played a role in the sale of weapons. In the Middle East, people wouldn't buy weapons unless you bribed them to do so—and that was particularly true in Saudi Arabia."

Healey should know. He set up the government's arms sales department, now known as the Defence Export Services Organisation (DESO), which has been protected until now by the Official Secrets Act. Recently released papers in the National Archives in Kew provide an insight into the Ministry of Defence's role, via DESO, in bribery:

* More than £1 million in bribes were paid to the Shah of Iran to buy tanks and weapons by the Heath and Wilson governments in the 1970s.

* Prince Bernhard of the Netherlands was paid £50,000—the equivalent of £500,000 today—as an influential person to persuade the Dutch government to buy tanks from Britain

* DESO also knew that the disclosure of such payments to Kuwait, Iran and Saudi Arabia would cause uproar and be impossible to defend should they become known

* The then permanent secretary to the MoD, Sir Frank Cooper, issued a secret directive that although slightly reworded in 1994 is still in force today, authorising "commissions" on government-to-government deals, details about which could be withheld from ministers. He ordered civil servants not to ask the companies so involved in "over extensive inquiries."

According to a recent survey by Control Risks and Simmons and Simmons, the law firm, one third of international companies believed that they had failed to win contracts because of bribery by their competitors. One third of the 350 companies surveyed said they were "totally ignorant" of their countries' laws on foreign corruption.

It was only when the *Guardian* newspaper published details of documents inadvertently released to the Public Records Office, almost immediately withdrawn after the damage had been done, that the Serious Fraud Office (SFO) was finally forced to launch an inquiry in 2004.

BAe has never denied paying commissions to its agents, payments that it says were and are normal practice in the arms trade. But it claims that they were not illegal at the time and stopped altogether after the British

government outlawed the practice in 2002.

When the SFO seemed likely to come up with incriminating evidence about Saudi Arabia and thus have the potential to damage the economic and political interests of British imperialism, the rule of law was suspended and the inquiry dropped like a hot potato.

Last December, Lord Goldsmith, the then attorney general and Britain's highest legal officer, announced that the SFO had abandoned its £2 million investigation into the Al Yamamah contract due to lack of evidence. Nothing could have been further from the truth. The SFO had just gained access to key bank accounts in Switzerland used to channel money from BAe to Saudi middlemen.

To continue the investigation risked turning up evidence that would jeopardise all of Britain's relations with the Saudis. But such a justification was outlawed under the OECD's anti-corruption convention. Article Five of the OECD's anti-bribery convention, to which Britain is a signatory, states that investigations and prosecutions must "not be influenced by considerations of national economic interest, the potential effect upon relations with another State or the identity of the natural or legal persons involved."

Goldsmith therefore invoked national security and the public interest. He told Parliament, "It has been necessary to balance the need to maintain the rule of law against the wider public interest." He said that the SFO dropped its inquiry so as "to safeguard national and intelligence security" and that this was also the view of the intelligence services.

The announcement came a few months after Blair had reached a preliminary agreement that would see BAe supply 72 Eurofighter Typhoon jetfighters, in a new deal worth £20 billion. BAe and the then prime minister feared that any further investigation could put this latest deal, which BAe is now on the brink of signing, at risk.

Blair backed Goldsmith up, even saying that he took "full responsibility" for ending the probe, something he had no power to do. He claimed that to continue the investigation would be "devastating" for the UK, not only in relation to the loss of thousands of jobs but especially as regards national security and the "war on terror." He inferred that Saudi Arabia would end its intelligence cooperation with Britain.

The SFO dropped its investigation into the £60 million slush fund, though inquiries into BAe's deals with Chile, South Africa, Tanzania, Romania and the Czech Republic are continuing. Investigations by the Swedish and Swiss authorities into BAe's activities are also under way. But the BBC's *Panorama* programme and the *Guardian*'s revelations have brought to light fresh evidence of corruption that threaten to explode the attempted cover-up.

They alleged that BAe paid more than £100 million a year to Bandar personally over more than a decade in connection with the contract. Even more importantly, it was alleged that these payments were made with the knowledge of the Ministry of Defence, which countersigned the cheques, into accounts at Riggs Bank in Washington, which Bandar controls.

Bandar immediately denied receiving any "improper secret commissions or backhanders" over the Al Yamamah contract. The Riggs account was, he said, a government account, not his own personal account. However, as the *Financial Times* notes caustically, "At least one investigator who has examined those accounts has said it was hard to distinguish between public and private use of Saudi funds." Not for nothing has the Saudi government been called the world's largest family business.

BAe does not dispute making the payments. Instead it sought cover from the government itself, claiming that they were made not illegally but with the "express approval" of the MoD. Not one government minister has denied the allegations. They have all hidden behind "commercial confidentiality".

Before he left office, Blair did not deny the allegations. He again told parliament that he took full responsibility for halting the SFO inquiry and

withholding information about the £1 billion payments to Bandar from the OECD. In answer to a question from Menzies Campbell, the Liberal Democrat leader, as to who was responsible for the decision, Blair replied, "If he [Campbell] wants to blame anyone for this, he can blame me, and I'm perfectly happy to take responsibility for it."

Blair ducked the issue of whether the payments to Bandar were continuing, adding, "It [the investigation] would lead to the complete wreckage of a relationship that is of fundamental importance to the security of this country.... That's why I took the decision: I don't regret it then and I don't regret it now."

Speaking at a G8 meeting in Berlin, he said, "This investigation, if it had gone ahead, would have involved the most serious allegations and investigation being made of the Saudi royal family. My job is to give advice as to whether that is a sensible thing in circumstances where I don't believe the investigation would have led anywhere but the complete wreckage of a vital strategic relationship to our country."

It is now clear that Blair's decision to halt the inquiry into the £60 million slush fund in December was also motivated by the need to stop any incriminating evidence about the role of successive British governments, including his own, from coming out.

If the payments continued after 2002, when Britain's anti-corruption law took effect, then they may have breached the legislation. Jeremy Carver, a lawyer and board member of Transparency International, told BBC's *Panorama* programme, "Those payments, on the face of it, are straightforward bribes as defined by the OECD anti-bribery convention.... It's quite plain that he [Bandar] meets the test of who is a foreign official for the purpose of the OECD convention."

These revelations led the US Department of Justice to launch an investigation into the allegations of multimillion-pound bribery by BAe, as these payments were routed via the Riggs Bank, a US-based bank. They have also prompted the OECD to demand an explanation for the Blair government's decision to call off the SFO investigation into possible corrupt practices by BAe and to withhold information from it in March. While the OECD has no power to discipline its members, it can "name and shame" those it considers to have stepped out of line.

The Cornerhouse and Campaign Against the Arms Trade, two anti-corruption groups, have mounted a legal challenge to the government's decision to abandon the SFO inquiry into the Al Yamamah.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact