

Arms Trade Offsets and Cases of Corruption

*The Usage of Anti-Corruption Tools in
Special Forms of Arms Acquisition*

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Centre for
Security
Economics
Technology



Technology & Innovation Management
Defence Industrial Supply Chain
Corporate renewal & optimisation
Security Capability

Agenda

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.....

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.....

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.....

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Conclusion
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Sham deals, Bribes, Scandals,...

The Boston Globe:
Critics call it what it is: bribes and corruption

Wiener Zeitung:
Gegengeschäfte stecken im Eurofighter-Sumpf. Was steckt hinter solchen Deals?
Wort des Jahres: «Gegengeschäft»
Ist es erlaubt? Warum «riecht» es? Liefern sie wie geschmiert?

GSoA Zeitung:
«Zusammenfassend lässt sich sagen, dass Gegengeschäfte und Korruption häufig Hand in Hand gehen. Erstere dienen als Deckmantel zur Verschleierung der «Provisionszahlungen»»

Format:

Eurofighter- Gegengeschäfte: Der Totalabsturz

Die Gegengeschäfte könnten den Eurofighter knapp ein Jahrzehnt nach der Anschaffung endgültig zum Absturz bringen. Denn dabei wurde getarnt, getrickst und gemogelt, was das Zeug hält.

US Congressional Testimony:
«Offsets are nothing more than economic bribe»

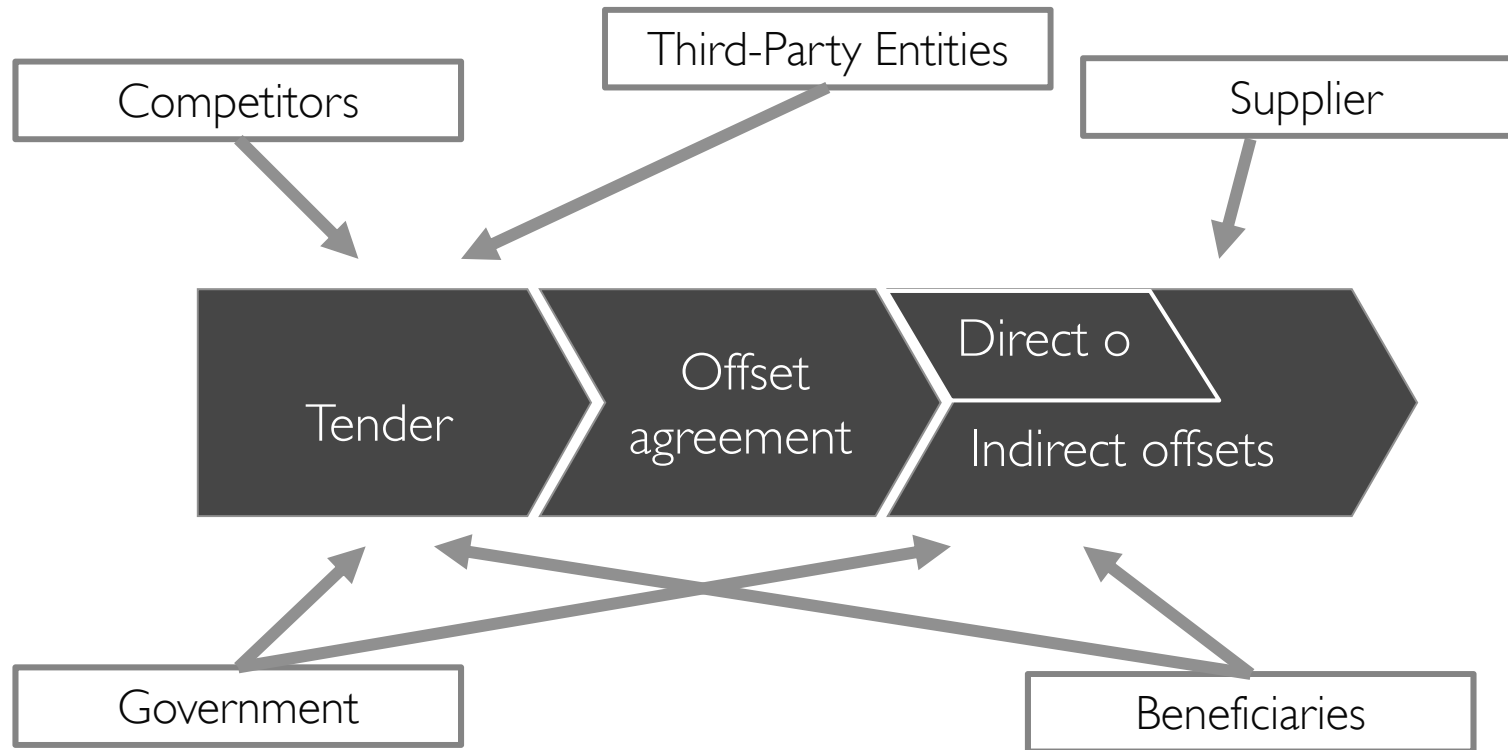
Definition of Corruption

Corruption is «the abuse of power for private gain»

Transparency International

Note that this is not a legal definition and also includes unconventional corruption (in contrast to conventional corruption where illegality is a necessary condition)

Corruption within the offset process



Most cases of corruption happened during the tender phase but in every phase of the offset process corruption could be found and all main stakeholders were somehow involved.

Overview of cases of corruption



Overview of cases of corruption

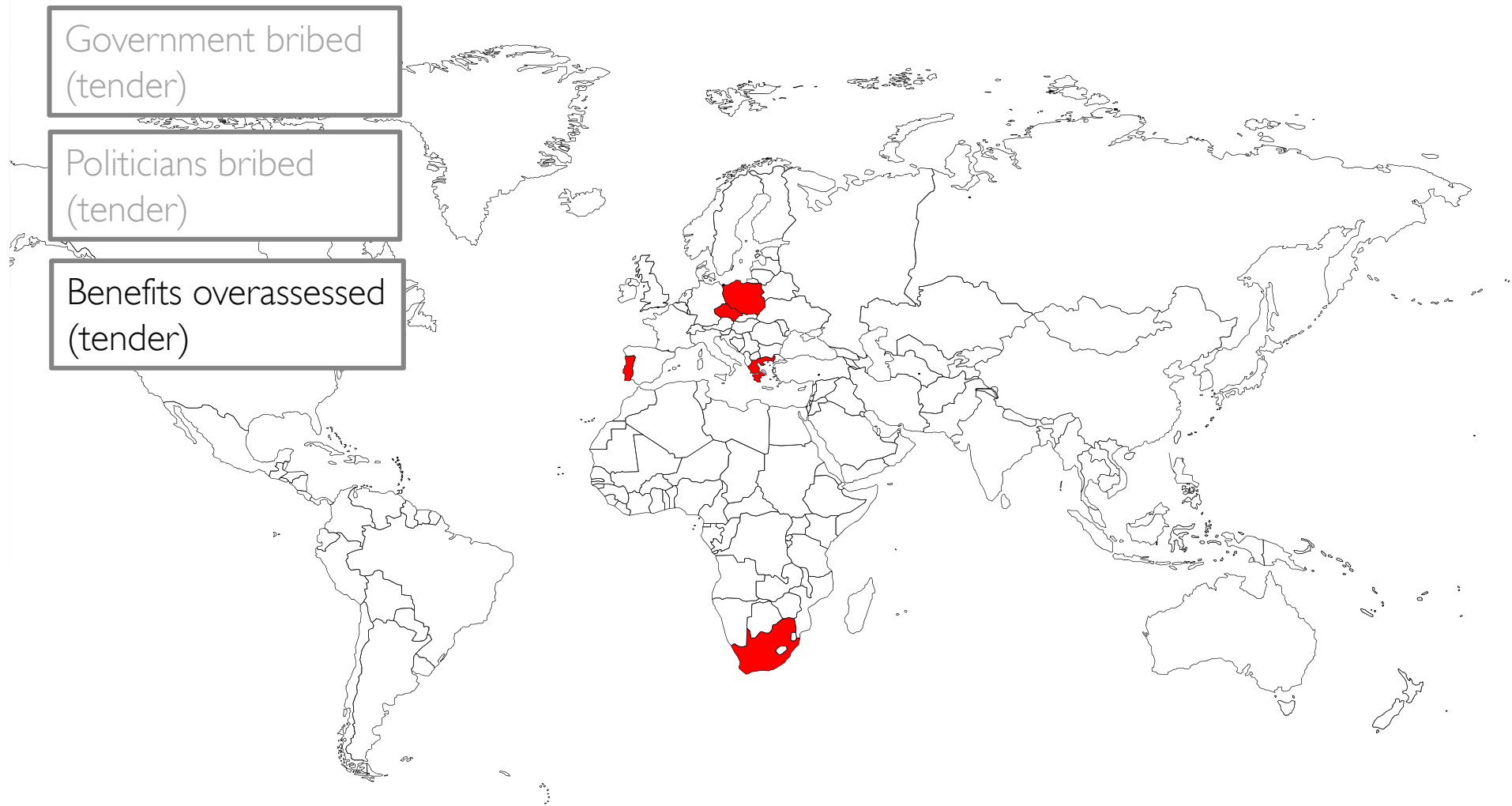
Government bribed
(tender)



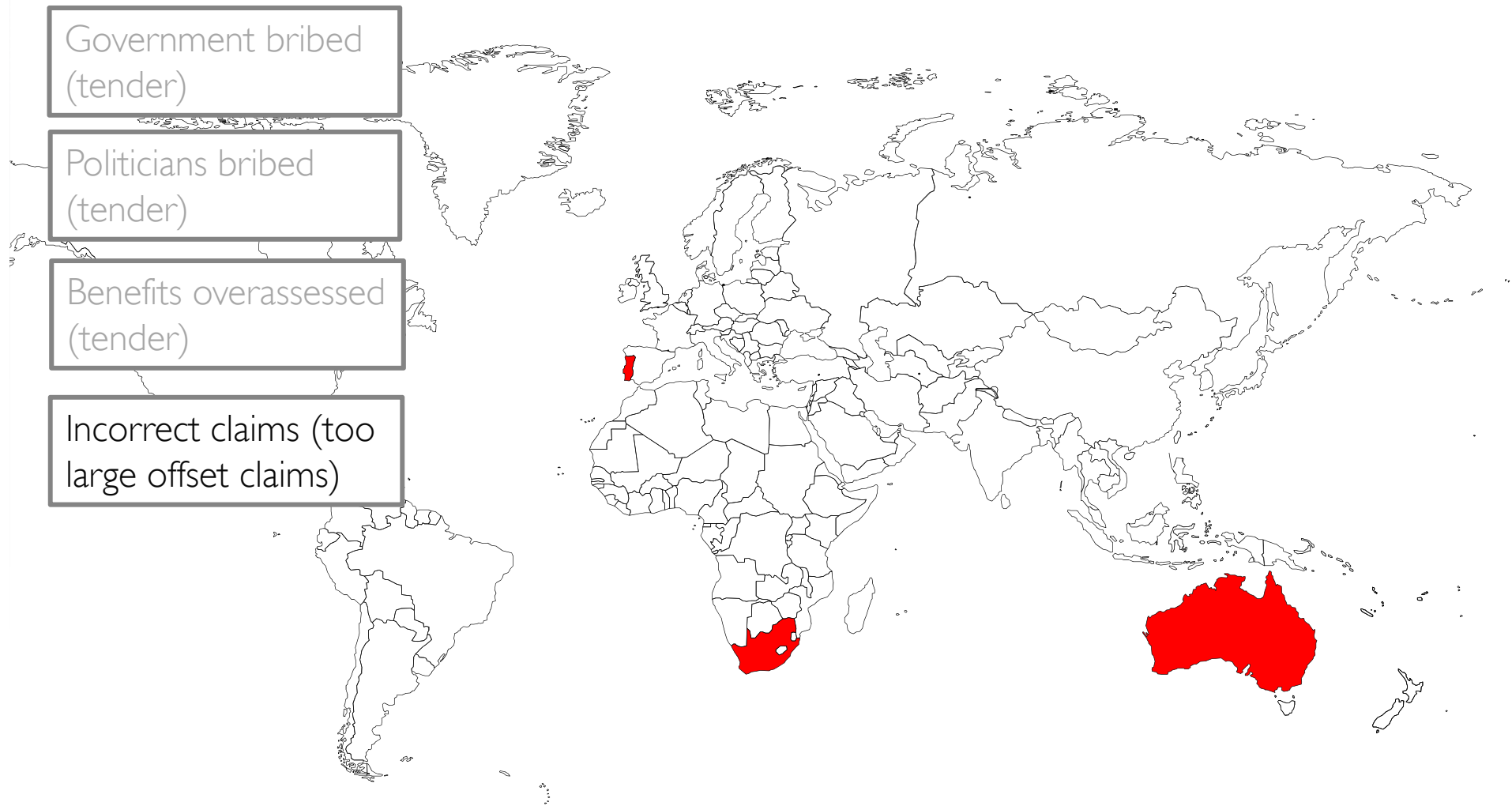
Overview of cases of corruption



Overview of cases of corruption



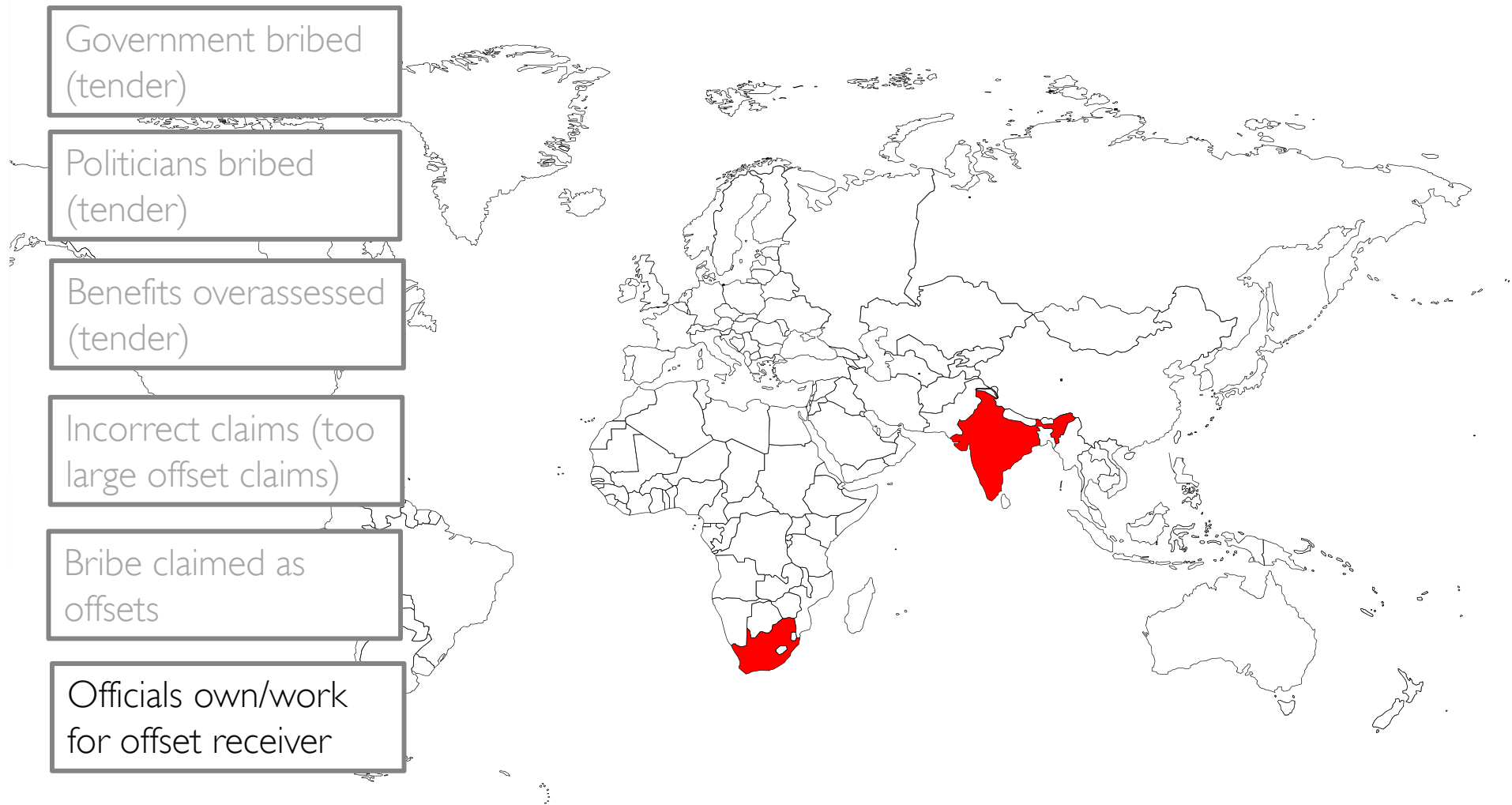
Overview of cases of corruption



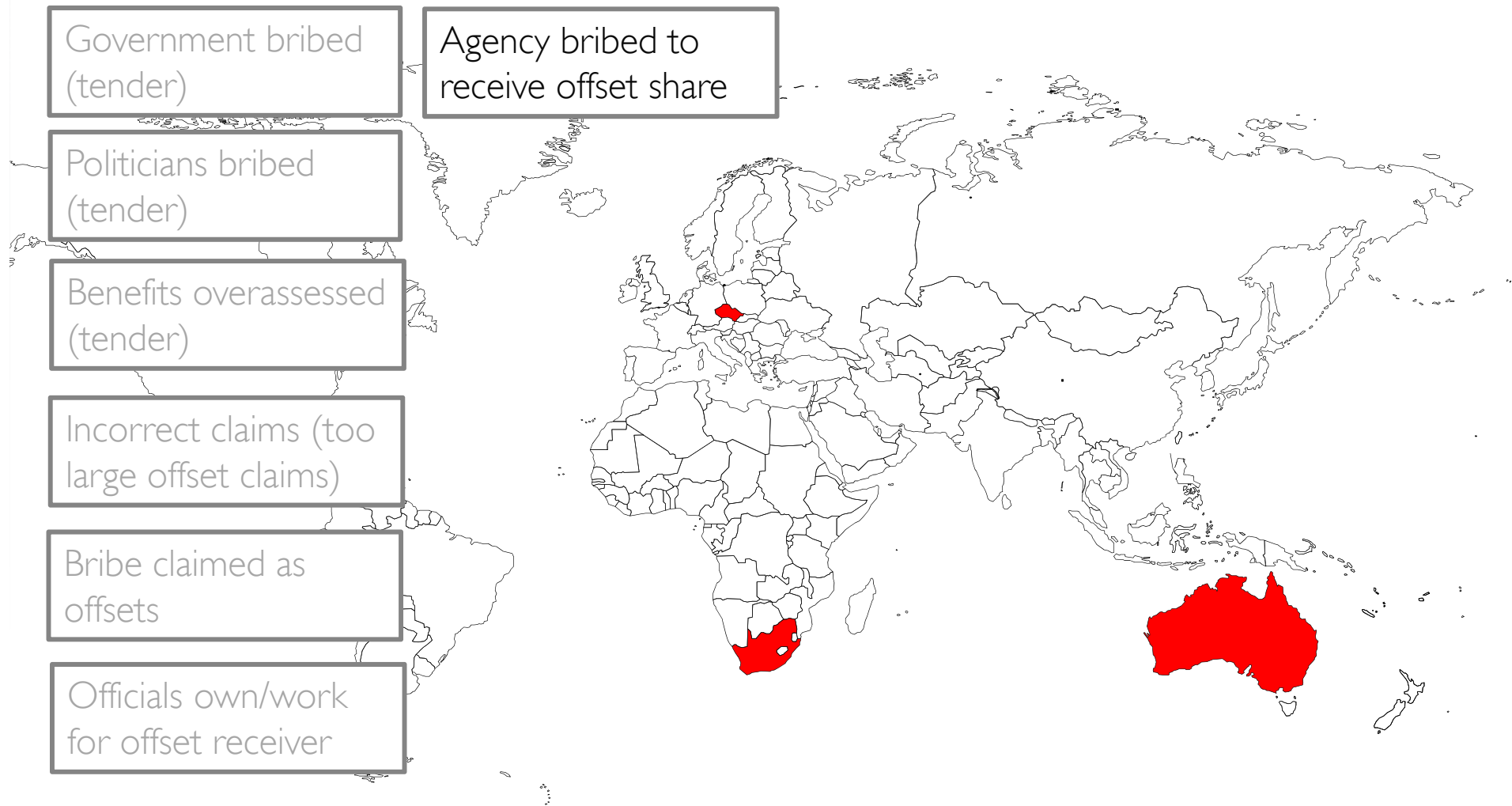
Overview of cases of corruption



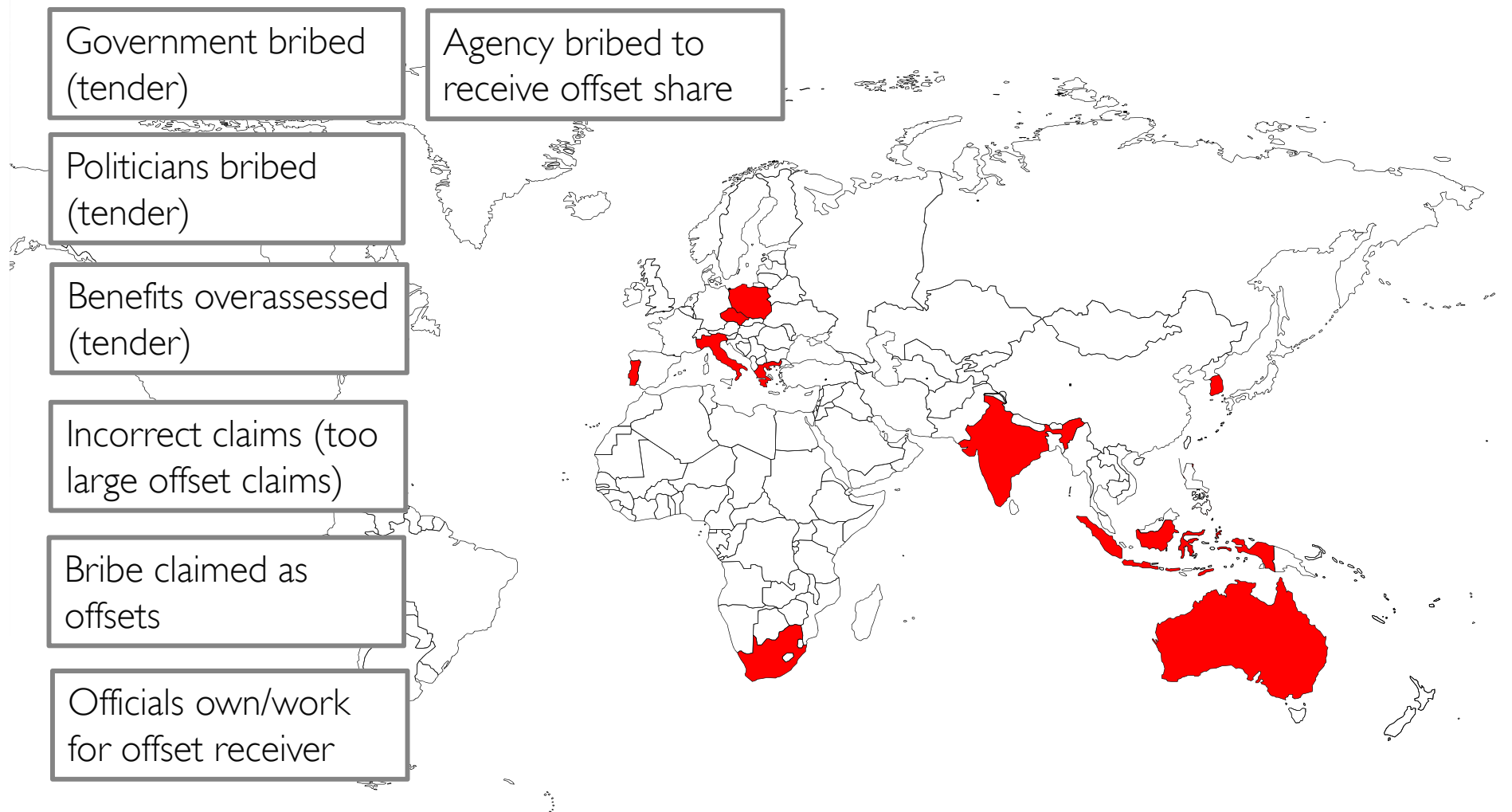
Overview of cases of corruption



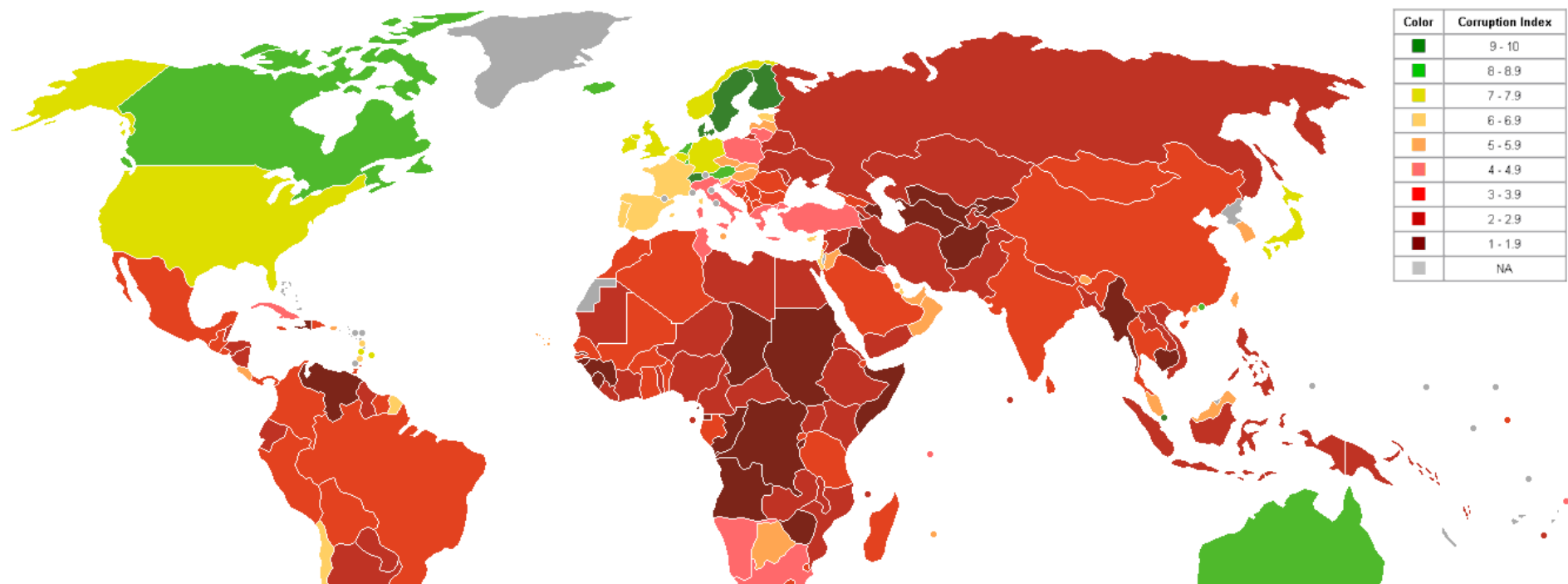
Overview of cases of corruption



Overview of cases of corruption



Comparison to TI's Corruption Perception Index

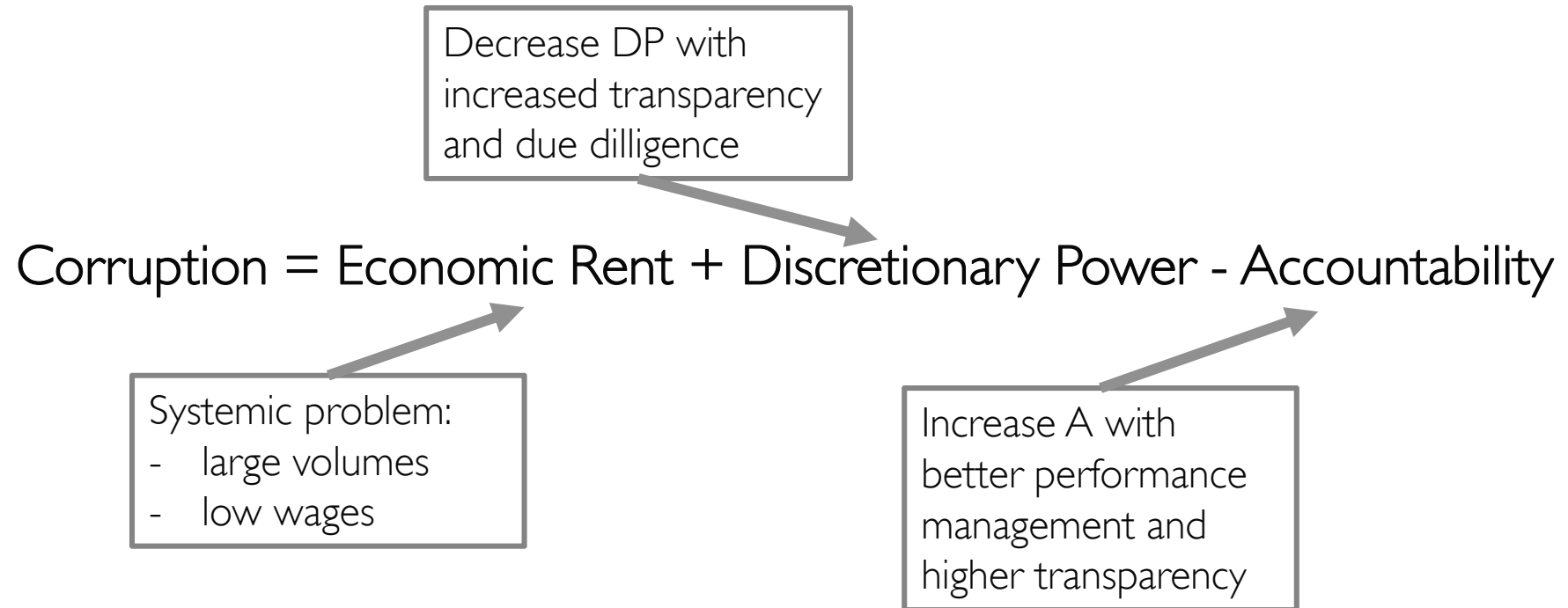


Possibility of corruption is higher in countries with a low CPI but there are too many outliers to discuss it as a purely systemic problem!

Roundup: Cases of Corruption in Offsets

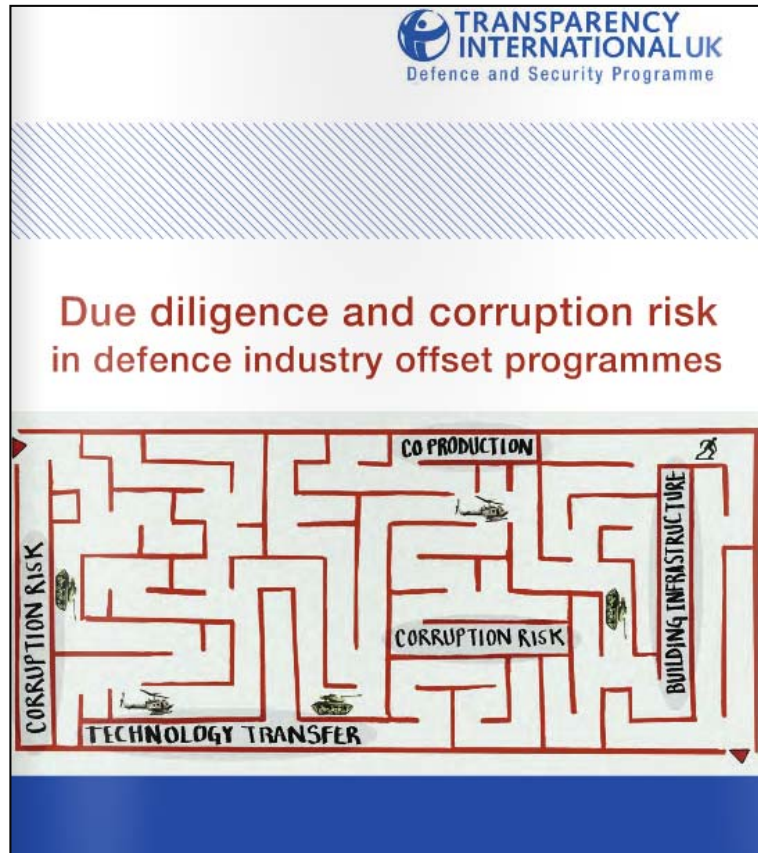
- The number of correct allegations is relatively low regarding the high amount of discussions on corruption in offsets but there is a high possibility of unknown cases
 - -> We don't know how corrupt offsets are
- The possibility for corruption will increase the more offsets are used by countries with a low CPI and the higher the overall volumes becomes
- There is a high number of questionable corruption allegations because of the small public knowledge about offsets, due to its lack of transparency and political opponents
- Even though offsets may often be far less corrupt than implied they could often be considered as unconventional corruption, especially when the focus of offsets is not specifically on security interests

The Usage of Anti-Corruption Tools



Anti-corruption tools should focus on the decrease of discretionary power and the increase of accountability

Networks & Due Dilligence



- One of the main problems occur when a company personally associated with public officials is a beneficiary of offsets
- This problem of due dilligence has also been discussed in a recent report of T-I
- Linkages of public officials to defence dompanies may be widely known within the government but are often not proactively examined
- Companies are not rewarded for their anti-corruption efforts – so far it's an additional investment

Due dilligence is probably the area where a coordinated effort of companies would be most successful. Here, also international organizations should play a stronger role.

Absence of Accountability & Performance Management

Kompensationsvereinbarung

arma suisse
Berater für Wirtschaftsinformatik
Dienstleistungen in den Bereichen
Controlling, Personalmanagement, HR
Consulting, Marketing und CRM-Systeme

Anlage 1 zu Vereinbarung Nr. _____

Meldeformular betreffend den wirtschaftlichen Ausgleich betr. _____ Projekt _____

Formular für das Melde- und Anrechnungsverfahren von Aufträgen für den wirtschaftlichen Ausgleich

A. Angaben des Auftraggebers

1. Auftraggeber:
bzw. Vertretungsfirma:
Anschrift:

Kontaktperson:
Name:
Telefon-Nr.:

2. Schweizer Auftragnehmer:
Genauere Anschrift:
Name:
Telefon-Nr.:

3. Auftragsgegenstand:
summarische Beschreibung:

4. Auftragswert exkl. MWST.:
Währung: Betrag:
Umrechnungskurs (Auftragsdatum):

5. Auftragsdatum:
Datum an dem der Auftrag erteilt wurde

6. Code der Zusätzlichkeit:

7. Branche:

B. Angaben des Schweizer Lieferanten

8. CH-Wertschöpfung am Vertragsgegenstand (Zutreffendes ankreuzen):

• über 51 %: ☐ Ja ☐ Nein

• falls weniger als 51 %: effektiver Wert: %

9. Für Rückfragen: Name/Tel. Nr./E-Mail der Kontaktperson:

Wir bestätigen, dass uns der unter lit. A beschriebene Auftrag erteilt worden ist und gemäss den umstehend beschriebenen Kriterien „zusätzlich“ ist. Wir bestätigen ferner den Umfang der Wertschöpfung Schweiz gemäss Ziff. 8 und sind mit der Anrechnung an die indirekte Beteiligungsverpflichtung des Lieferanten gegenüber der arma suisse einverstanden.

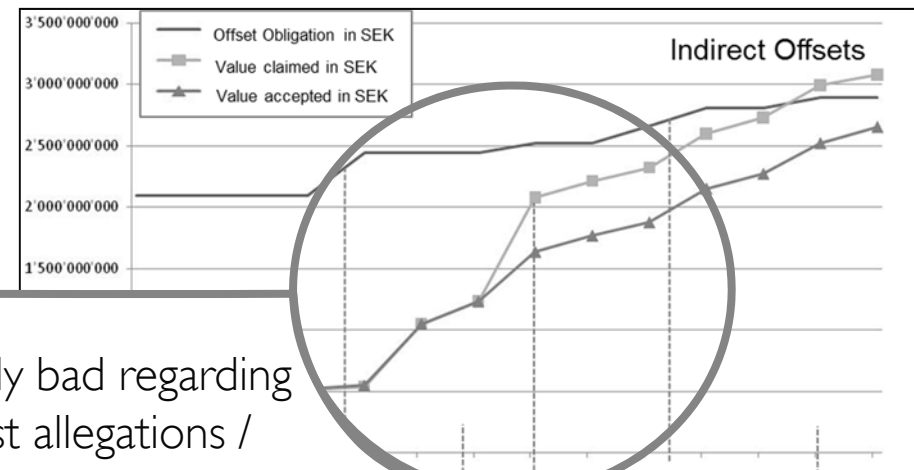
Stempel und Unterschrift des Schweizer Lieferanten

Ort, Datum:

(Für Erläuterungen siehe Rückseite)

So far, most performance measurement systems of offset agencies do not allow a proper control of strategic goal achievements or additional aspects such as the prevention of corruption

Absence of Accountability & Performance Management



This is particularly bad regarding the fact that most allegations / incorrect claims/ promises could be Identified / controlled for with basic performance management tools.

Absence of Accountability & Performance Management

Kompensationsvereinbarung

armasuisse
Berater für Wirtschaftliche und soziale Systeme
Güter und Dienstleistungen im öffentlichen Sektor
Center for Military and Civilian Systems

Anlage 1 zu Vereinbarung Nr. _____
Meldeformular betreffend den wirtschaftlichen Ausgleich betr. _____ (Projekt)
Formular für das Melde- und Anrechnungsverfahren von Aufträgen für den wirtschaftlichen Ausgleich

A. Angaben des Auftraggebers

1. Auftraggeber: bzw. Vertretungsfirma: Anschrift:	Kontaktperson: Name: Telefon-Nr.:
2. Schweizer Auftragnehmer:	Genaue Anschrift: Name: Telefon-Nr.:
3. Auftragsgegenstand:	summarische Beschreibung
4. Auftragswert exkl. MWST.:	Währung / Betrag: Umrechnungskurs (Auftragsdatum):
5. Auftragsdatum:	Datum an dem der Auftrag erteilt wurde
6. Code der Zusätzlichkeit:	
7. Branche:	

B. Angaben des Schweizer Lieferanten

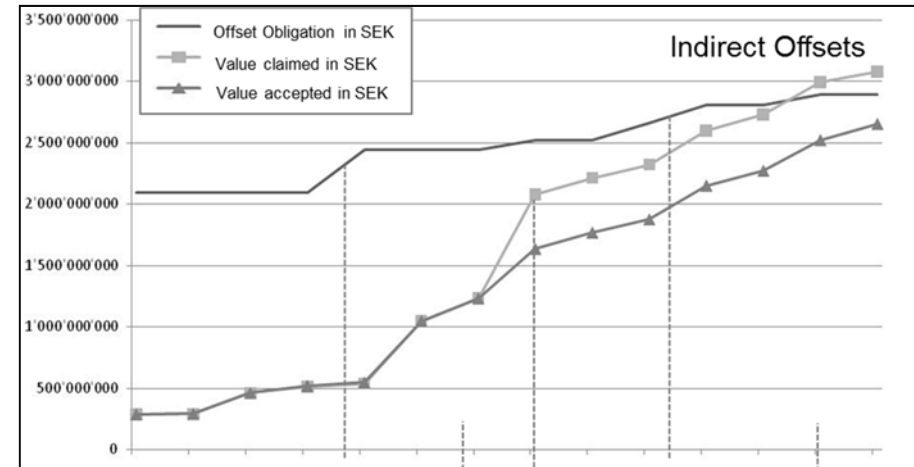
8. CH-Wertschöpfung am Vertragsgegenstand (Zutreffendes ankreuzen):

- über 51 %: ☐ Ja ☐ Nein
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9. Für Rückfragen: Name/Telef. Nr./E-Mail der Kontaktperson: _____

Wir bestätigen, dass uns der unter lit. A beschriebene Auftrag erteilt worden ist und gemäss den umstehend beschriebenen Kriterien „zusätzlich“ ist. Wir bestätigen ferner den Umfang der Wertschöpfung Schweiz gemäss Ziff. 8 und sind mit der Anrechnung an die indirekte Beteiligungsverpflichtung des Lieferanten gegenüber der arma Suisse einverstanden.

Stempel und Unterschrift des Schweizer Lieferanten



The usage of inadequate performance measurement & management tools by governmental agencies is one of the main drivers for discussions & allegations of corruption

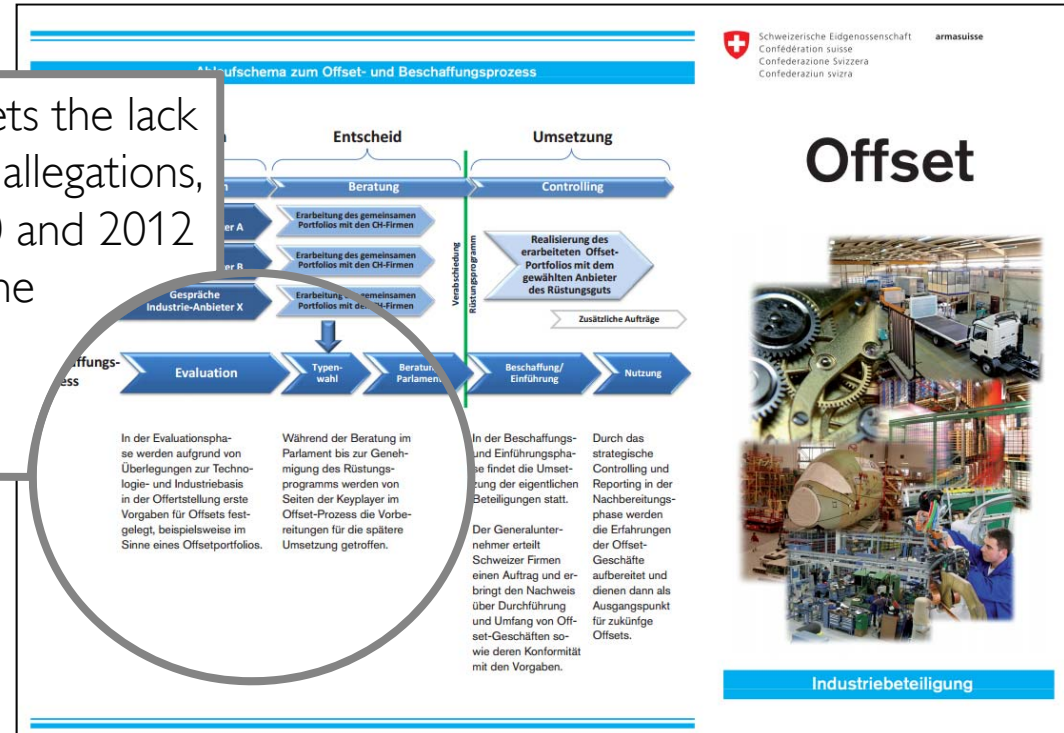
Transparency & Media

[illegible]

The biggest problem with offsets seems to be the fact that they lack transparency & increase the level of complexity. Offsets may be a marketing tool for a company but that should not mean that the marketing department is responsible for providing the information

Transparency & Media

With little information on offsets the lack of knowledge will lead to false allegations, confusions, etc. Between 1980 and 2012 about 1/3 of all allegations in the media did not even concern offsets at all.



Transparency & Media

SAAB

Swiss in Switzerland

Industrial COOPERATION

HOW IT WORKS

How Swiss industry gains from Gripen

Offset deals will be worth 100 percent of the contract value. A lot of firms are used to describe the same thing: offset, industrial cooperation, compensatory business or, indeed, Swiss Industrial Participation (SIP).

In the case of SIP, the Swiss and its partner companies are to enter into business deals with Swiss companies that are worth at least 100 percent of the Gripen contract value. Swiss can sign direct contracts with Swiss companies, or else arrange indirect deals through partners and other firms to create new markets and export opportunities.

There are various opportunities for industrial participation.

Swiss companies interested in direct offset participation have formed the SSG Swiss Gripen Group. In October 2012, the armaments government, Saab presented direct projects to the SSG to a value of around CHF 200 million. Saab's mission is to support the competitiveness of Swiss industry by inviting them to submit quotations and propose the actual deal to contracts in relation to the Gripen programme.

How does SIP work?

When a state procures defence goods on the international market, instead of at home, there is a potential loss in sales for Swiss companies. Therefore compensation business, based on competitive grounds, ensures that the Swiss economy also benefits from such a procurement. Industrial participation creates business, knowledge and technology transfer in favour of Swiss companies. Saab will create business in Switzerland by working under the following principles:

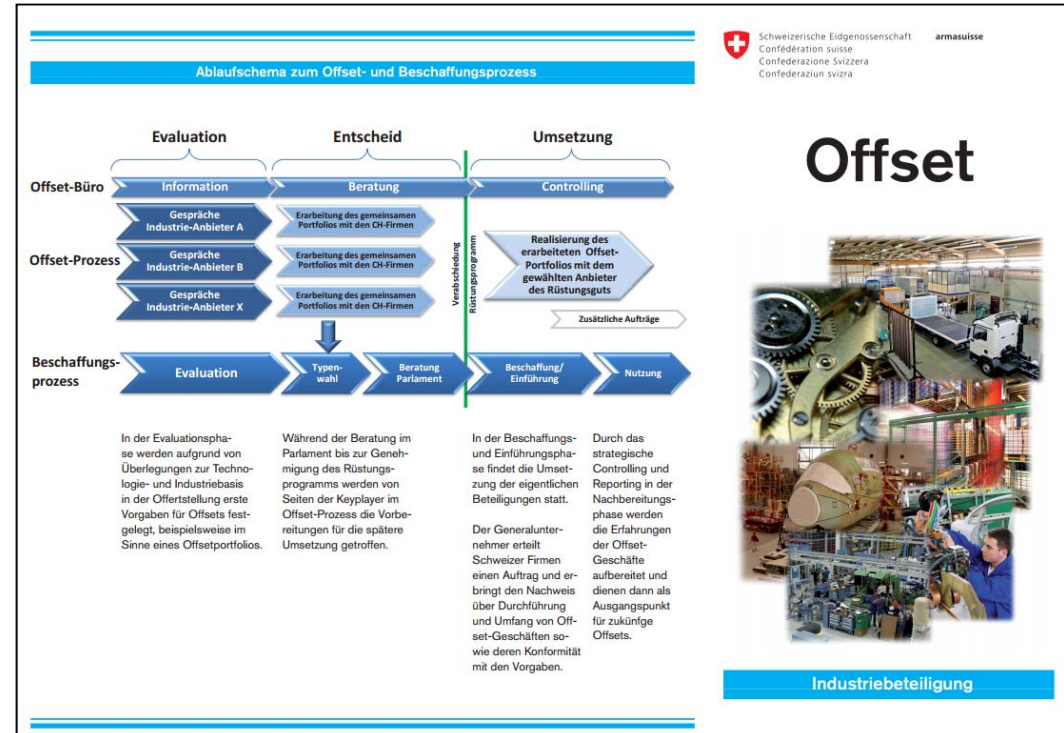
- Involve Swiss industry in the Gripen programme
- Promote Swiss export using the Saab industrial network
- Further involve Swiss industry in the supplier base of Saab and its partners
- Increase Swiss industry capabilities and competitiveness in knowledge and technology transfer

Read more about Saab's Industrial Participation programme for Switzerland

Download brochure

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Anders Järrellius
Regional Industrial Cooperation



Companies and governments need to increase the level of public information on offsets. This is especially important for highly discussed procurements!

Conclusion

- Offsets have a far worse reputation regarding corruption than the number of correct allegations would imply
 - but, «better than bad» is not a helpful phrase for political or public discussions
 - and it still implies that corruption is happening
- Companies should focus on transparency and due diligence. At least for Europe, the EDA could – for once – be a potential partner.
- Governmental agencies should increase their transparency, due diligence and especially their performance management. Even with relatively basic instruments most corrupt practices could be stopped.



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Security Capability

Sources

This presentation is based on the findings of the following paper:

Platzgummer, P. 2013. Arms Trade Offsets and Cases of Corruption :The Usage of Anti-Corruption Tools in Special Forms of Arms Acquisitions. *International Public Management Review* 14 (2), 17-38.

Additional sources:

- p. 4: Transparency International. 2010. *Defence Offsets: Addressing the Risks of Corruption and Raising Transparency*. London: T-I
- Yingling, M.P. 2013. Conventional and unconventional corruption. *Duquesne Law Review* 51. 263-321.
- p. 15: <http://www.transparency.org/research/cpi/overview>
- p. 18: <http://www.ti-defence.org/publications/76-dsp-pubs-due-diligence-offsets>
- p. 19: http://www.efk.admin.ch/images/stories/efk_dokumente/publikationen/evaluationen/Evaluationen%20%2819%29/6366BE_Bericht_23-06-08.pdf
- P. 20: Platzgummer, P. & Gonzales Lozano, A. Forthcoming. Arms Trade Offsets in Switzerland: An Analysis of Empirical Evidence of the CV9030 Armoured Vehicle Programme
- p. 22: <http://www.saabgroup.com/en/Markets/Switzerland/Saab-in-Switzerland/Switzerland-And-Gripen-A-Perfect-Partnership/Industrial-cooperation---How-it-works/>
- p. 23: <http://www.ar.admin.ch/internet/armasuisse/de/home/themen/beschaffung/rustungspolitik.parsysrelated1.54963.downloadList.13301.DownloadFile.tmp/flyerdeuts040310.pdf>