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8 June 2009

Dear Ms Bollen,

**Termination of BAE Systems' cover for military exports to Saudi Arabia  
with UK Exports Credit Guarantees Department**

As you are aware, the OECD's Working Group on Bribery conducted a follow-up evaluation of key weaknesses in the UK's implementation of the OECD Anti-Bribery Convention in 2007-2008, following publication of its initial review in 2005.

The evaluation – known as the Phase *2bis* report<sup>1</sup> – queried why the UK's Export Credits Guarantee Department (ECGD) had not acted on evidence supplied to it by the UK's Serious Fraud Office that BAE had allegedly made bribery-related fraudulent misrepresentations when it requested insurance cover from ECGD. The Serious Fraud Office had handed this information over to ECGD as part of its corruption investigation into BAE's contracts with Saudi Arabia. The OECD noted that under the general law of

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1. OECD, "United Kingdom: Phase *2bis* Report", <http://www.oecd.org/dataoecd/23/20/41515077.pdf>

insurance, ECGD could have acted to void BAE's Saudi Arabian contracts "if, inter alia, the policyholder makes an incorrect statement of material fact". Such action could have been taken solely on the basis of misrepresentation by BAE and regardless of any proof of corruption".<sup>2</sup>

In addition, the OECD Phase *2bis* report raised probing questions as to why ECGD had extended further insurance to BAE for new contracts at a time when the recipient of the underwritten exports, Saudi Arabia, was known to have interfered with the UK's criminal law proceedings (the Serious Fraud Office's BAE-Saudi investigation).

As a result of correspondence between Campaign Against Arms Trade and The Corner House with ECGD, and questions asked in the UK's House of Commons by Member of Parliament Vince Cable, it has now been revealed that BAE Systems cancelled its insurance cover with the UK Export Credits Guarantee Department for the company's Al Yamamah (latterly known as the Saudi British Defence Co-operation Programme) and the Project Salam arms deals with Saudi Arabia just weeks before the publication of the Phase *2bis* report in October 2008.

The effect of BAE's cancellation of its Saudi Arabia cover is that ECGD no longer has any reasons for acting on the evidence supplied by the SFO since, without an extant contract with BAE for the Al Yamamah and Project Salam deals, public funds are no longer at risk. The cancellation of the Project Salam cover also means that the issue of ECGD having provided cover for a contract with a state that has threatened the UK also drops away.

The timing of BAE's cancellation of its cover immediately prior to the publication of the Phase *2bis* report may have been coincidental. However, BAE's arms deals with Saudi Arabia have been underwritten by the UK's Export Credits Guarantee Department (ECGD) for more than two decades and the company has repeatedly stressed the importance of ECGD cover for its activities. BAE's termination of its cover is all the more surprising given that many non-military companies are now turning to the ECGD for state support because private sector insurance cover for exports has dried up as a result of the ongoing financial crisis.

If the public is to have confidence in the OECD's undertaking to combat bribery, including the Export Credit Group's Recommendation on Bribery and Officially Supported Export Credits, we believe that it is of critical importance that any suspicions of collusion between BAE and the UK's Export Credits Guarantee Department be dispelled.

The Chair of the OECD's Working Group on Bribery has stated to BBC television's flagship current affairs programme *Newsnight* (<http://news.bbc.co.uk/1/hi/programmes/newsnight/8073797.stm>) that the Working Group will pursue the issue with the UK Government.

We would urge the Export Credit Working Group similarly to conduct its own investigation. In order to assist the ECG in this task, we are attaching correspondence between CAAT and The Corner House with ECGD in relation to BAE's Saudi cover.

We would be grateful if you could circulate this information to ECG members.

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2. OECD, "United Kingdom: Phase *2bis* Report", para 275, <http://www.oecd.org/dataoecd/23/20/41515077.pdf>.

Yours sincerely

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