

CORRUPTION WATCH

June 2018

The Anglo-Italian Job

Leonardo, AgustaWestland and Corruption Around the World

EXECUTIVE SUMMARY and RECOMMENDATIONS



Executive Summary

Leonardo SpA, previously called Finmeccanica, one of the top ten largest defence companies on the planet, and partly owned by the Italian state, has over the past decade been embroiled in multiple corruption scandals around the world. This report covers the most egregious of those scandals and recommends action by multiple actors to deal with these issues.

In 2016, Leonardo announced revenues of €12bn, new orders worth approximately €20bn and an order backlog of over €35bn.¹ The Stockholm International Peace Research Institute (SIPRI) calculated that the company was the 9th largest defence company by sales in the world in 2015. A good portion of that success is down to the company's helicopter division, comprised, until the 1st of January 2016, of the Italian-English multinational company, AgustaWestland.² Leonard Helicopters retains substantial production facilities in the UK at its historic Yeovil site.

However, the myriad corruption scandals that have dogged the company have led to criminal and civil cases across multiple jurisdictions including Italy, South Korea, India and Panama, where the company's misconduct has dominated news headlines.

Corruption Watch UK, has, over the last three years, investigated and tracked these corruption scandals engulfing the company across the world. Our research a perplexing lack of any formal investigations by UK authorities into the UK actors involved in the corruption allegations against Leonardo, specifically Leonardo's UK subsidiaries. This lack of formal investigation raises serious questions about the UK's commitment to ensuring that UK actors are held to account for their role in alleged global bribery schemes.

Corruption Watch's research shows that the company's UK subsidiary, or its agents, have been implicated in wrongdoing in a number of cases, with participants drawn from the highest echelons of the company's management. The most notable of these participants is the Right Honourable Geoff Hoon: the former Defence Secretary under Tony Blair and, from 2011 until 2016, AgustaWestland's Manager of International Business based in the UK.

Court documents, accessed by Corruption Watch UK in South Korea, show that Hoon was directing the activities of a lobbyist convicted in South Korea in 2016 for 'illegal intermediation' – paid lobbying. The lobbyist had been used by AgustaWestland to secure the sale of Wildcat helicopters to the South Korean military and was paid directly in pounds.

This report reveals the inner workings of three of these corruption cases including:

1. The sale of Wildcat helicopters to the South Korean military. AgustaWestland made payments to individuals with links to the South Korean military establishment to secure the deal. These included payments to the lobbyist overseen by Geoff Hoon.
2. The highly controversial sale of VVIP helicopters to India. Over €60m was paid to agents and middlemen on the deal, a substantial portion of which was overseen by AgustaWestland's UK headquarters, paid to a UK company and paid from UK bank accounts. AgustaWestland furthermore paid one of these agents in relation to other procurements in India. India's authorities alleged that no legitimate work was performed on those additional contracts, which the agent denies.
3. The sale of surveillance and other equipment to the government of Panama. Allegations of kickbacks to the former Panamanian President, facilitated by an Italian businessman with close links to former Italian Prime Minister Silvio Berlusconi, have marred the deal. Panama cancelled the deal in a negotiated agreement with Leonardo that ended legal proceedings in the country.

The report concludes by asking whether the company is both systemically corrupt and likely to be involved in corruption again. The answer appears to be **yes**, according to new information from a recently published analysis of the company by Norway's Council on Ethics that suggests that Leonardo continues to pose a severe corruption risk.

Corruption Watch UK approached Leonardo for comment on the content and findings of this report in April and May 2018. The company responded by highlighting the strength of its anti-corruption compliance programme, and pointed out that it has not been convicted in any jurisdiction in relation to the cases discussed hereunder. It has also responded on a country-by-country basis. The company's full response is available at www.cw-uk.org/angloitalianjob

Recommendations

Corruption Watch UK calls on:

The UK's Serious Fraud Office to:

1. Initiate a formal investigation into the historical sales of AgustaWestland and Leonardo abroad that includes, but is not limited to:
 - a. the conduct of the company in relation to its activities in South Korea
 - b. AgustaWestland's many agency agreements with companies controlled by Christian Michel in relation to procurements in India;
2. Instigate civil proceedings to recover any illicit assets held by Christian Michel in the UK.

The UK's Ministry of Defence

1. Conduct an urgent review as to whether AgustaWestland has engaged in acts of grave professional misconduct in relation to its activities in South Korea and India;
2. Review the suitability of AgustaWestland as a government contractor given the finding by the Norwegian Council on Ethics that there is an unacceptable risk that the company may continue to engage in acts of corruption.

The UK's Export Finance (UKEF)

1. conduct a thorough investigation of the company's conduct and relationship with third-party agents, establishing, amongst other things, whether the company has fully and accurately disclosed its use of agents and intermediaries in transactions previously supported by UKEF;

In light of the above, we further call on:

The Italian government, as the largest shareholder in Leonardo, to:

1. Undertake an urgent review of Leonardo's business practices, both past and present, and to ensure that the company institutes immediate and meaningful reforms to limit its exposure to corruption risk;

Leonardo, to:

1. Commit to reviewing and reforming its compliance mechanisms, taking such action as necessary to limit its corruption risk, including developing a concrete plan to reduce the number of agents the company uses around the world;
2. In the name of full transparency and accountability, to publish a full list of agents and middlemen currently and previously utilized by the company in securing defence sales abroad.

Endnotes

¹ <http://www.leonardocompany.com/en/-/piano-industriale-2017-2021-industrial-plan> and http://www.leonardocompany.com/documents/63265270/68487135/body_RFA_Leonardo_ENG_100517.pdf

² As of the 1st of January 2016, Finmeccanica was renamed Leonardo, and many of its subsidiaries absorbed into a single company structure. The subsidiary companies, which included AgustaWestland, were transformed into company divisions. As of the 1st of January 2017, Leonardo's UK companies were consolidated into a single entity, Leonardo MW Ltd. Leonardo MW Ltd absorbed AgustaWestland UK Ltd, Selex ES Ltd, DRS Technologies UK Ltd and Finmeccanica UK Ltd. See: <http://www.leonardocompany.com/en/-/leonardo-mw-ltd>