

Scandal of the Century Rocks British Crown and the City

by Jeffrey Steinberg

On June 6, the British Broadcasting Corporation aired a sensational story, revealing that the British arms manufacturer BAE Systems, had paid more than \$2 billion in bribes to Saudi Arabia's national security chief and longtime Ambassador in Washington, Prince Bandar bin-Sultan, over a 22 year period. The BBC revelations were further detailed on June 11, in a one-hour Panorama TV documentary, provocatively titled "Princes, Planes and Pay-offs," which detailed a more than decade-long probe by the *Guardian*, BBC, and the British Serious Fraud Office (SFO), into the al-Yamamah arms contract, a nearly \$80 billion, 22-year long deal between BAE Systems and the Saudi government, in which British-made fighter jets and support services were provided to the Saudi Kingdom, beginning in 1985.

Every British government, from Margaret Thatcher, through John Major, to Tony Blair, has been thoroughly implicated in the BAE-Saudi scandal. In December 2006, Britain's Attorney General, Lord Goldsmith, ordered the SFO probe shut down, declaring that any further investigation would gravely jeopardize British national security. Prime Minister Blair fully backed his Attorney General, and is now scrambling to complete the fourth phase of the al-Yamamah deal before he leaves office next month.

The furor that followed the Goldsmith announcement triggered a number of international investigations into the BAE Systems scandal, including by the Swiss government and the OECD (Organization of Economic Cooperation and Development, the so-called "rich nations" club). More recently, the U.S. Department of Justice has reportedly opened a probe into money laundering and possible violations of the Foreign Corrupt Practices Act, on the part of the British and the Saudis. The estimated \$2 billion in cumulative payoffs to Prince Bandar, for his role in brokering the al-Yamamah deal, went through the Saudi government accounts at Riggs Bank in Washington, D.C., thus opening the U.S. jurisdiction.

While the various British investigations into the al-Yamamah (Arabic for "the dove") arms deal did unearth a vast network of front companies, offshore shells, and corrupt politicians, who benefitted richly from the deal, *EIR's* own preliminary investigation into the scandal has uncovered a far more significant story, one that will send shock waves through the City of London financial circles, as well as top figures within the British monarchy, who are all implicated in a far bigger scheme that goes to the very heart of the Venetian-modeled Anglo-Dutch Liberal system of global finance, which is now on its last legs.

Al-Yamamah

In 1985, the Kingdom of Saudi Arabia, in part frightened by the ongoing war between its neighbors Iran and Iraq, which had reached a highly destructive phase known as the "war of the cities," sought to purchase large numbers of advanced fighter jets to build up their Royal Air Force. Initially, the Saudis sought approval from the Reagan Administration to purchase American-made F-15 fighters. The Saudi F-15 deal required Congressional approval, and the America Israel Public Affairs Committee (AIPAC) waged a massive effort to kill the sale. According to several well-informed Washington sources, Howard Teicher, a senior official on the Reagan National Security Council (director of Near East and South Asia, 1982-1985; senior director, Politico-Military Affairs, 1986-1987), also played a pivotal role in the AIPAC effort, which ultimately succeeded in killing the deal. Teicher, according to the sources, withheld information from Reagan, stalling a Congressional vote until AIPAC had fully mobilized, and then convinced the President to withdraw the request, rather than face an embarrassing defeat in the Congress.

Other sources have offered a slightly different version of the failure of the F-15 deal, claiming that intelligence community estimates, since the mid-1970s, had warned of instability in the Persian Gulf, and that there were, therefore, other rea-



Videograb from June 11 Panorama program

BAE Systems was created in 1981, when Prime Minister Margaret Thatcher privatized the British arms industry. In 1985, Prince Bandar flew to London, to confer with Thatcher to arrange the purchase of fighter planes for the Saudi kingdom. There were widespread rumors that Bandar had been recruited by British Intelligence while attending the Royal Air Force College.

sons to question the advisability of the sales of advanced U.S. military technology to Saudi Arabia, particularly after the Khomeini Revolution in Iran.

Whatever the reason, the F-15 deal failed. The very next day, after the Reagan Administration threw in the towel, Prince Bandar, the Kingdom's de facto chief diplomat to Britain, the Soviet Union, and China, as well as the U.S.A., flew to London to meet with Prime Minister Margaret Thatcher. British arms sales did not require parliamentary approval, and the British government, in 1966, had created an agency, the Defence Export Services Organization (DESO), to hawk British arms around the globe. BAE Systems had been created in

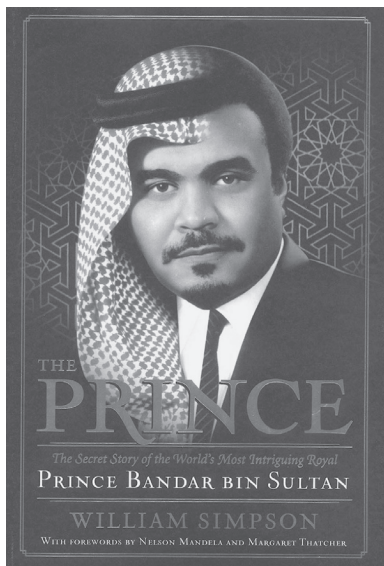
1981, when Thatcher privatized the British arms manufacturing industry, which had, only four years earlier, been nationalized under the Labour government. And BAE Systems, the largest arms manufacturer in Europe, dominates the British defense sector.

The Bandar trip to London to confer with Thatcher had been in the works for months. A Ministry of Defence briefing paper, prepared for the Thatcher-Bandar sessions, stated, "Since early 1984, intensive efforts have been made to sell Tornado and Hawk to the Saudis. When, in the Autumn of 1984, they seemed to be leaning towards French Mirage fighters, Mr. Heseltine paid an urgent visit to Saudi Arabia, carrying a letter from the Prime Minister to King Fahd. In December 1984, the Prime Minister started a series of important negotiations by meeting Prince Bandar, the son of Prince Sultan. . . . The Prime Minister met the King in Riyadh in April this year and in August the King wrote to her stating his decision to buy 48 Tornado IDS and 30 Hawk."

Thatcher also had every reason to feel confident that Bandar would be the perfect interlocutor between Saudi Arabia and Great Britain in the deal of the century. At age 16, several years after his father, Prince Sultan, had been named Minister of Defense of the Kingdom, the Prince was sent to England to study at the Royal Air Force College Cranwell, the elite officer's training school for future RAF pilots. At least one senior American intelligence official has reported widespread rumors that Bandar was recruited by MI6, the British Secret Intelligence Service, before he finished his RAF training. Other sources, intimately familiar with the goings-on at BAE Systems, report that the "private" aerospace giant has a sales force made up almost exclusively of "lads" recruited to MI6 before their hires.

Whether or not these reports are accurate, Bandar certainly is a serious Anglophile. The best accounts of his adventures in England appear in the 2006 book, *The Prince—The Secret Story of the World's Most Intriguing Royal* (HarperCollins, New York), by William Simpson, a Cranwell classmate, and still-intimate pal of the Prince. Simpson, who wrote the book with the full cooperation of Bandar, recounted his friend's intimate ties with every occupant of 10 Downing Street.

"In London," Simpson reported, "Bandar would breeze into Number Ten with uninhibited panache. From Margaret Thatcher to John Major to Tony Blair, Bandar's access was extraordinary." By Prince Bandar's own account to Simpson about al-Yamamah, "When we first made the agreement, we had no contract. It was a handshake between me and Mrs. Thatcher in Ten Downing Street." It was months before the final details of the al-Yamamah deal were finalized, and the contracts signed. But even before the ink had dried, Britain had provided the initial delivery of Tornado jets—from the inventory of the RAF.



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By the time the formal Memorandum of Understanding was signed between the British and Saudi defense ministers on Sept. 25, 1985, the original order had been expanded to 72 Tornado fighter jets and 30 Hawk training aircraft, along with other equipment and services. There have been two subsequent deals, al-Yamamah II and III, and al-Yamamah IV, worth as much as \$40 billion in additional arms deliveries, is in the final stages.

Oil-For-Aircraft

The al-Yamamah deal was structured as a barter arrangement. While the Saudis did agree to pay cash for certain services and infrastructure construction under separate sub-contracts—and those cash payments went, in part, to “consulting fees” or bribes, including the \$2 billion to Prince Bandar’s accounts at Riggs Bank, and similar reported payments to the Chilean dictator Gen. Augusto Pinochet and the Dutch Royal Consort, Prince Bernhard—the essential contract involved the Saudi delivery of oil to Britain, in return for the fighter jets.

And here is where the story gets really interesting.

Saudi Arabia agreed to provide Britain with one tanker of oil per day, for the entire life of the al-Yamamah contracts. An oil tanker holds approximately 600,000 barrels of oil. BAE Systems began “official” delivery of the Tornado and Hawk planes to Saudi Arabia in 1989. BAE Systems now has approximately 5,000 employees inside Saudi Arabia, servicing the contract.

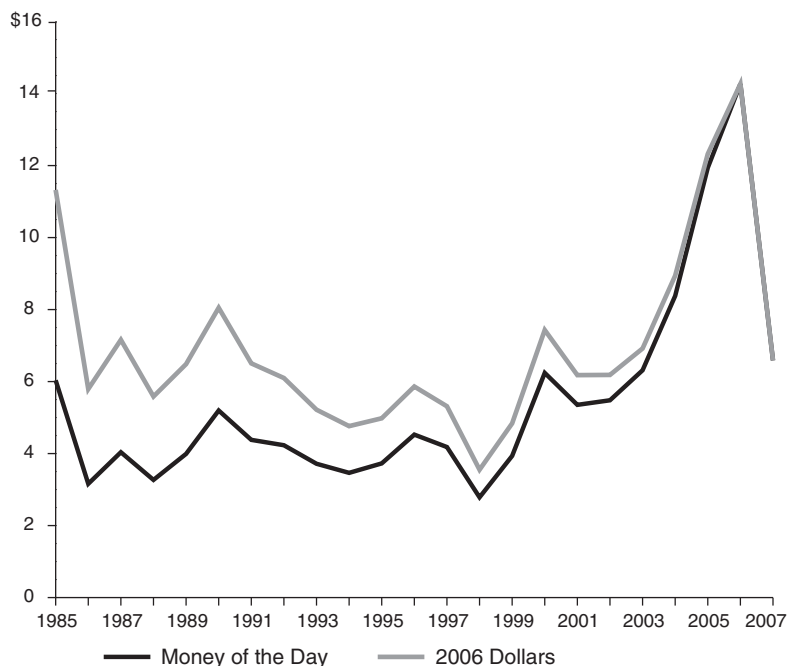
Is it possible to place a cash value on the oil deliveries to BAE Systems? According to sources familiar with the inner workings of al-Yamamah, much of the Saudi oil was sold on the international spot market at market value, through British Petroleum and Royal Dutch Shell.

EIR economist John Hoefle has done an in-depth charting of the financial features of the oil transactions, based on BP’s own daily tracking of world oil prices on the open market. Using BP’s average annual cost of a barrel of Saudi crude oil, Hoefle concluded that the total value of the oil sales, based on the value of the dollar at the time of delivery, was \$125 billion. In current U.S. dollar terms, that total soars to \$160 billion (see accompanying charts).

Based on the best available public records, the total sticker price on the military equipment and services provided by BAE Systems to Saudi Arabia, over the 22-year period to date, was approximately \$80 billion. And those figures

FIGURE 1

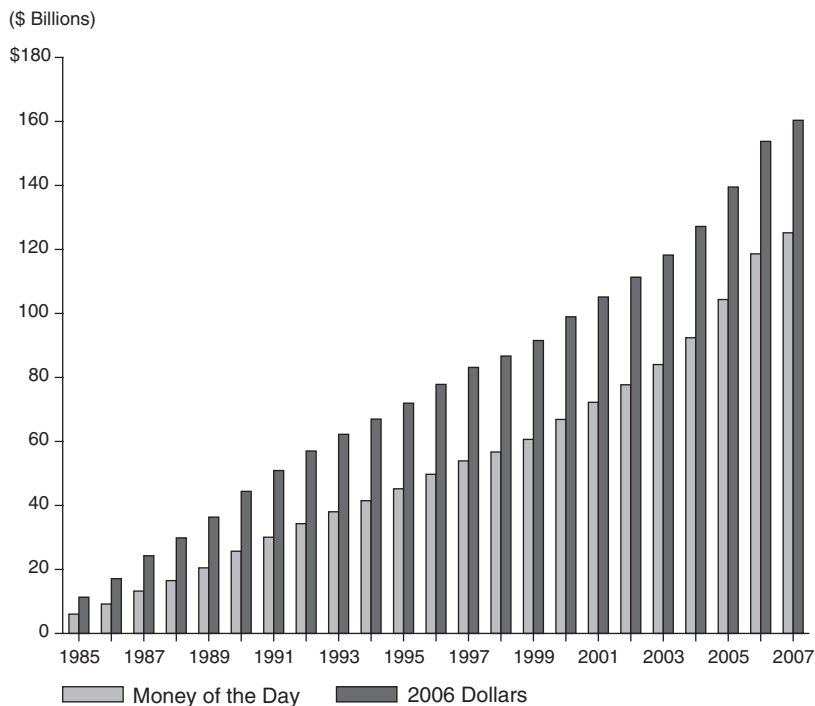
Annual Value of Saudi Payoff (in Oil) to BAE (\$ Billions)



Source: BP

FIGURE 2

Cumulative Value of Saudi Payoff to BAE (\$ Billions)

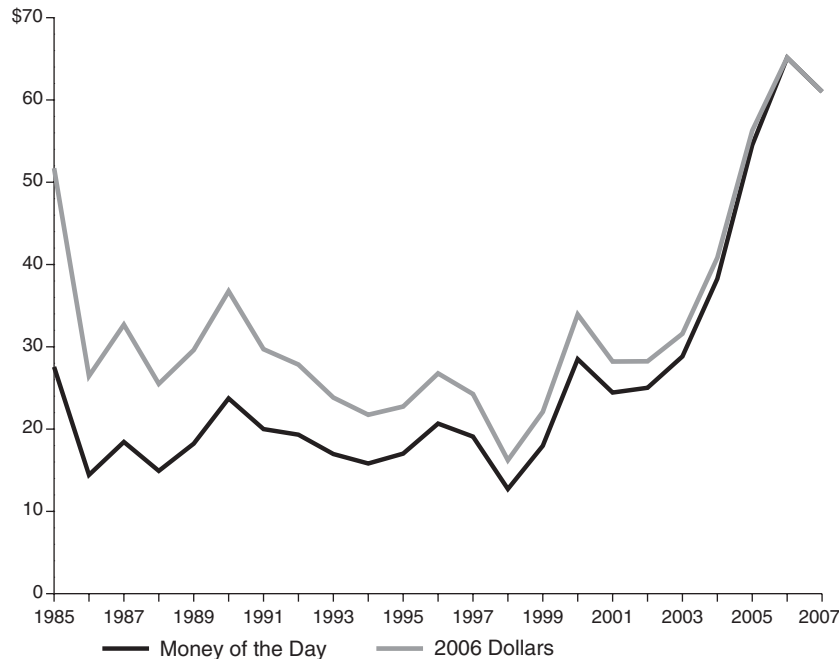


Source: BP

FIGURE 3

World Oil Price 1985-2007

(\$ per Barrel)



Source: BP

are inflated by billions of dollars in slush fund payouts. Indeed, the latest limited-damage scandal around al-Yamamah erupted in November 2006, when a Ministry of Defence document leaked out, providing the actual sticker price on the fighter jets. The figure confirmed the long-held suspicion that the prices of the jets had been jacked up by at least 40%.

BAE Systems, a crown jewel in the City of London financial/industrial structure, secured somewhere in the range of \$80 billion in net profit from the arrangement—in league with BP and Royal Dutch Shell! Where did that money go, and what kinds of activities were financed with it? The answer to those questions, sources emphasize, holds the key to the power of Anglo-Dutch finance in the world today.

Prince Bandar's biographer and friend William Simpson certainly provided an insight into the inner workings of the al-Yamamah project: "Although al-Yamamah constitutes a highly unconventional way of doing business, its lucrative spin-offs are the by-product of a wholly political objective: a Saudi political objective and a British political objective. Al-Yamamah is, first and foremost, a political contract. Negotiated at the height of the Cold War, its unique structure has enabled the Saudis to purchase weapons from around the globe to fund the fight against Communism. Al-Yamamah money can be found in the clandestine purchase of Russian ordnance used in the expulsion of Qaddafi's troops from Chad. It can also be traced to arms bought from Egypt and other countries, and sent to the Mujahideen in Afghanistan fighting the Soviet occupying forces."

In effect, Prince Bandar's biographer confirms that al-Yamamah is the biggest pool of clandestine cash in history—protected by Her Majesty's Official Secrets Act and the even more impenetrable finances of the City of London and the offshore, unregulated financial havens under British dominion.

The Saudi Side of the Street

For its part, the Saudi Royal Family did not exactly get ripped off in the al-Yamamah deal. When the contract was signed in 1985, according to sources familiar with the arrangement, Saudi Arabia got an exemption from the Organization of Petroleum Exporting Countries (OPEC). The barter deal with BAE Systems did not come under their OPEC production quota. In other words, Saudi Arabia got OPEC approval to produce 600,000 barrels a day, above the OPEC ceiling, to make the arms purchases.

According to the Energy Information Administration, a branch of the U.S. Department of Energy, over the life of the al-Yamamah program, the average cost of a Saudi barrel of crude oil, delivered to tankers, was under \$5 a barrel. At that price, the annual

cost to the Saudis for the 600,000 barrels per day was \$1.1 billion. Over the duration of the contract to date, the cost to the Saudis of the daily oil shipments was approximately \$24.6 billion. The commercial value, in current dollars, as noted above, was \$160 billion.

The Saudis have forged a crucial partnership with the Anglo-Dutch financial oligarchy, headquartered in the City of London, and protected by the British Crown. They have, in league with BAE Systems, Royal Dutch Shell, British Petroleum, and other City giants, established a private, offshore, hidden financial concentration that would have made the British East India Company managers of an earlier heyday of the British Empire, drool with envy.

At this moment, there is no way of calculating how much of that slush fund has been devoted to the clandestine wars and Anglo-American covert operations of the past two decades. Nor is it possible to estimate the multiplier effect of portions of those undisclosed, and unregulated funds having passed through the hedge funds of the Cayman Island, the Isle of Man, Gibraltar, Panama, and Switzerland.

What is clear, is that the BAE Systems scandal goes far beyond the \$2 billion that allegedly found its way into the pockets of Prince Bandar. It is a scandal that goes to the heart of the power of Anglo-Dutch finance.

There is much, much more to unearth, now that the door has been slightly opened into what already appears to be the swindle of the century.