

The French corruption

Defense contract double-dealing could cost U.S. jobs

By Richard W. Rahn

Former French President Jacques Chirac is almost certain to be accused in a major court proceeding in Paris of being part of a scheme to overcharge the kingdom of Saudi Arabia for French military equipment during his presidential term. The allegation will be that he was doing this for the benefit of himself and his political party. A complaint has been filed in the French courts over commissions due from arms sales, which is likely to lead to a trial that will be highly embarrassing for the French and Saudi governments. Mr. Chirac is already under indictment and is preparing to stand trial on embezzlement and corruption charges for actions while he was mayor of Paris before being elected president. The new charges are the first concrete allegations of continued corrupt practices by Mr. Chirac and his cronies during his presidency (1995-2007).

Hundreds of thousands of Americans are directly or indirectly employed in the production of military arms, aircraft, ships and defense systems. A significant portion of this production is sold to foreign countries, including Saudi Arabia. If the Saudis and their French collaborators did, indeed, exclude the opportunity for American (and other) firms to bid on the military aircraft, training and systems in question, as the complaint charges, the Americans, who have very competitive products (primarily helicopters and tanker aircraft), have a legitimate grievance. The contracts in question amount to more than 13 billion euros, or approximately \$17 billion - which is not chicken feed - and which possibly could have provided jobs for many thousands of American workers.

The French have a government-controlled organization - Sofresa - that is responsible for the sales of major weapons systems and operates under the supervision of the French president. Saudi Arabia, through its defense ministry, contracted with a private intermediary - the Bugshan Group, led by Khalid Bugshan - to arrange the sale of more than 100 helicopters and other military aircraft to Sofresa, which was acting on behalf of the French government. According to the plaintiff's counsel, Washington international lawyer Bart S. Fisher, "We will show that the procurement process corrupted the French government, from Jacques Chirac to officials in Sofresa and the Ministry of Defense." It will be alleged that Bugshan's activities allowed the French government to obtain significant price premiums - as much as 65 percent over and above the French suppliers' prices and Sofresa's standard markup for services. This allegedly was done through invoices for fictitious services and other practices, which purportedly enriched Jacques Chirac as well as his and other political parties. For example, if an airplane for Saudi Arabia should have cost X, it would be purchased for as much as three times X by the Saudis, and then Bugshan would see to it that much of the differential was distributed liberally to French politicians.

The losers in this scheme were, of course, the Saudi Arabian people, who were stuck with a bill to pay three times as much for aircraft as they should have, and the non-French and particularly U.S. aviation firms and their workers, who did not get a fair chance to build the aircraft for the Saudis. The U.S. has a law, the Foreign Corrupt Practices Act, that prohibits U.S. companies from paying bribes to foreign government officials. For more than a decade, the Organization for Economic Cooperation and Development (OECD) has had a Convention on Combating the Bribery of Foreign Public Officials in International Business. Most major countries have signed the convention, including both the United States and France. Unfortunately, many countries do not enforce the anti-bribery requirements despite having signed on to the convention - which puts U.S. companies at a competitive disadvantage.

The trial is likely to provide at least a partial open window to some of the corrupt practices in international arms dealings. Khalid Bugshan and his group had their agreement with the French, and their contacts included French government officials and some in the inner circle of the Saudi ruling family. One of the interesting questions is: "How much did the Saudi ruling family know about the overpricing - or was Bugshan primarily running a rogue operation?" If the Saudi royal family knew, were they doing it to purchase political influence and/or tilt French foreign policy?

For many years, the French have argued for taking action against countries that engage in what the French consider "unfair tax competition" - i.e., having lower tax rates than the French. Lower tax rates, particularly on labor and capital, often are very beneficial for almost everyone, particularly those who receive the direct benefit of the tax-rate reduction. Bribery usually only benefits the corrupt and hurts everyone else.

U.S. law allows the government to take actions against countries that engage in unreasonable, unjustifiable and discriminatory actions against U.S. companies. If the allegations are proved, both the Office of the U.S. Trade Representative in the White House and the Justice Department have at their disposal a number of measures - some constructive, some destructive - they can take against the French and the Saudis. President Obama said he wants the United States to increase exports and create more jobs, which French dealings appear to have impeded. It is time for the Obama administration and Congress to show more guts and stand up for American workers and investors against French hypocrisy.

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