



**GLOBAL  
NET**

**STOP  
THE  
ARMS  
TRADE**

**Case 05: The Arms trade and corruption  
On the example of the Italian defence company  
Leonardo S.p.A.**

## Introduction and summary

On their website they praise themselves as "the protagonist of Italian industrial history", offering their state-of-the-art technology in the field of aeronautics, space, defence and security not only to governments and "institutions", but also to private customers:

"Leonardo" is the new name of the former Italian state corporation Finmeccanica. The renaming after the 15th century polymath Leonardo da Vinci can be seen as an attempt to clear the company's name from Finmeccanica's numerous scandals, and to simultaneously positively associate itself with one of the most important geniuses in Italian history.

Until a few years ago, Leonardo's helicopter business was managed under the AgustaWestland brand. This subsidiary was born from the merger between the helicopter manufacturer Agusta, previously part of the Finmeccanica Group, and the British company Westland Helicopters. Agusta in turn was an Italian aircraft manufacturer founded in 1907. From the 1950s onwards, it increasingly specialised in helicopters, which were initially produced under licence by other companies. In 1994 the company was taken over by Finmeccanica, before the merger with Westland in 2000. Since 2004, the joint venture has been fully controlled by Finmeccanica, now known as Leonardo.<sup>1</sup>

Like AgustaWestland, most of the Italian defence companies were independent subsidiaries under the control of the state holding company Finmeccanica until 2015. From 2016 on they were all merged into a joint group, into the "one company": Finmeccanica. Since 1 January 2017, this Group has been called 'Leonardo'.

The methods Leonardo uses to market its products internationally, and how the Group uses agents, middlemen and influential local personalities to assert itself against the competition are the topic of this report.

In 2017, Leonardo S.p.A.'s total sales amounted to 12.99 billion US dollars, 8.86 billion of which were generated by armaments.<sup>2</sup> This made them the 9th largest defence company worldwide and the 4th largest in Europe.<sup>3</sup>

After the various subsidiaries had been merged into the "one company" in 2017, the group planned to further increase its exports in the following years.

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<sup>1</sup> <https://www.brandsex.de/markenlexikon/cover/l/markenlexikon-leonardo>

<sup>2</sup>

<https://de.statista.com/statistik/daten/studie/152177/umfrage/absatz-der-weltweit-groessten-ruestungsunternehmen/>

<sup>3</sup>

<https://de.statista.com/statistik/daten/studie/36514/umfrage/groesste-ruestungsunternehmen-in-europa-nach-umsatz/>

To this end, 30 new sales offices are to be opened worldwide by 2022, which is equivalent to doubling these agencies.<sup>4</sup>

It makes sense that the arms manufacturer would try to sell as many weapons and accessories as possible, given that the group is listed on the stock exchange, is essentially privately owned (the Italian State currently holds about 30% of the capital), and its central goal is the creation of profits for its shareholders. It cannot be expected from companies of that kind to voluntarily exercise restraint with regard to the choice of customers and the means of distribution, or consideration of the humanitarian consequences of arms sales. Otherwise they would not produce weapons. Experience shows this, and the logic of our economic system dictates such behaviour. Only if rules are established and thus framework conditions are created, the non-observance of which endangers economic profit, will arms companies be prepared to consider reasons other than the lures of free market profits in their actions.

Examples: The Bribery Act 2010 in the United Kingdom, passed in April 2010. As soon as it entered into force companies like BAE and Leonardo rushed to establish internal control mechanisms and publicly affirm that corruption plays no role in their business. Yet, even after Leonardo launched a high-profile investigation into its internal procedures and published the 'Flick Report', a document designed to demonstrate maximum transparency and effective measures against corruption,<sup>5</sup> informed observers realised that there was no effective move away from bribery and corruption. In a hearing before the House of Commons on 9 May 2018, British MP Lloyd Russell-Moyle asked the witness Andrew Feinstein for his assessment.<sup>6</sup>

Feinstein explained that there is a lack of effective control to prevent corruption. In the case of Leonardo, which proudly presents the rules established within the Group on its website,<sup>7</sup> the Ethics Council of the Norwegian Government Pension Fund Global (GPF)<sup>8</sup> also considers the company to be untrustworthy and advises against buying Leonardo shares.<sup>9</sup> In the opinion of the Ethics Council, no credible concept was discernible for the announced reduction of the 200 agents and brokers employed by the Leonardo Group.

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<sup>4</sup><https://www.defensenews.com/industry/2017/12/23/leonardo-to-double-export-sales-offices-in-the-next-few-years/>

<sup>5</sup>[http://www.leonardocompany.com/documents/63265270/63871745/FLICK\\_COMMITTEE\\_REPORT.pdf](http://www.leonardocompany.com/documents/63265270/63871745/FLICK_COMMITTEE_REPORT.pdf)

<sup>6</sup>

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/committees-on-arms-export-controls/uk-arms-exports-during-2016/oral/82687.html>

<sup>7</sup> <https://www.leonardocompany.com/en/about-us/our-company/ethics-compliance>

<sup>8</sup> <https://www.nbim.no/en/>

<sup>9</sup> <https://etikkradet.no/files/2017/05/Leonardo-Tilr%C3%A5dning-ENG-2016.pdf>

The Group considers the threat of the United Kingdom leaving the European Union since the referendum in 2016 to be a risky undertaking that will weaken the "defence sector" and thus, of course, its own business.<sup>10</sup>

Pierre Sprey, a US weapons analyst and co-designer of the F-16 fighter jet, describes the underlying problem very clearly in the film "Shadow World":

*"When an executive goes to bribe a foreign official, he says to himself, look, I've taken a lot of risks to take this five million dollars that I am paying to the Prime Minister of X, Y, Z. He makes an arrangement with Prime Minister of X, Y, Z: 'I'll hand over the five million but you take half of that five million and you send it to the following bank account in Switzerland. We'll share in this largesse.'" The first time an executive does that and he collects 2.5 million dollars he says "Wow, this is a good business to be in." And within moments of that realization he is now no longer in the business of selling airplanes, he is in the business of selling bribes. And he is now scouring the world for somebody to find to bribe."*

Corruption is thus not only the means of initiating a planned arms deal, but in many cases the real reason why weapons are sold: As long as those who set up and run an arms deal can personally make enormous profits, it will be difficult to control or even curb arms sales. It is estimated that the arms trade is responsible for 40% of the world's corruption.<sup>11</sup> Middlemen (and women) are the primary agents and beneficiaries of bribery schemes.<sup>12</sup>

Anyone who is involved in arms deals knows that it is an effective selling point when weapons have proven themselves in the field. "Combat proven" is an effective advertising message. Arms have to prove their usefulness to be sold. Their deployment in a war, and thus war itself, becomes a key part of the sales strategy.

Ultimately, comparatively few successful arms dealers earn huge sums of money when wars are fought around the globe and millions of people lose their livelihoods or even their lives.

The following report deals with three exemplary cases in which Leonardo or its then subsidiary AgustaWestland secured arms export contracts with the help of agents and corrupt middlemen. The systematic corruption of the Leonardo group is illustrated here by way of example, which, according to key experts, is also found in similar ways in other arms companies.

The first example concerns the sale of Wildcat helicopters to the South Korean military. In order to secure the deal, several persons closely associated with the South Korean military were paid by AgustaWestland. A key role was played by former British Minister of Defence Geoff Hoon.

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<sup>10</sup> Financial Times, 06.02.2019 URL: <https://www.ft.com/content/354bb3aa-2949-11e9-88a4-c32129756dd8>

<sup>11</sup> Sipri Yearbook (2011) <https://www.sipri.org/yearbook/2011/01>

<sup>12</sup> C.f. The Shadow World

The second example concerns a sale of helicopters for the Indian Air Force, meant to transport members of the Indian government. This deal was also arranged with the help of paid agents, who together with intermediaries received a total of 60 million euros.

The third case takes place in Panama, to whose government Leonardo sold technical surveillance equipment, among other things. Here, too, large bribes were paid, including the involvement of an Italian businessman with close ties to former Italian Prime Minister Silvio Berlusconi.

The report was originally prepared by the British organisation Corruption Watch UK, a GN-STAT partner organization.

This text was translated into English by Ruth Rhode.