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# Buying Business: Some Weapons Makers Are Said to Continue Illicit Foreign Outlays --- Now, a Series of Investigations Is Under Way in an Effort To Enforce the 1977 Ban --- Scramble in an Ailing Industry

By Andy Pasztor and Bruce Ingersoll. **Wall Street Journal** [New York, N.Y] 05 Nov 1993: PAGE A1.



## Abstract (summary)

From Cairo, another well-connected consultant, a retired Egyptian air force general named Aly Mansour, arranged for a parade of Egyptian officers to visit a General Electric Co. radar plant in Syracuse, N.Y. Some of the Egyptians were entertained at a $5,000 clambake and on expenses-paid weekends in New York City and a tour of Niagara Falls. Mr. Mansour's firm collected fat fees for helping GE win an Egyptian air-defense radar contract valued at $125 million, GE itself says.

A Teledyne Inc. unit, in filings by prosecutors in federal court in Los Angeles, admits that it hid from U.S. and Taiwanese authorities $3.2 million in illicit commissions paid to Mr. Hei's tiny consulting firm between 1986 and 1990. Litton Industries Inc. faces possible prosecution, according to law-enforcement and industry officials, for allowing four of its divisions to surreptitiously funnel millions more in allegedly illegal fees to the consultant. And Loral Corp., which sold missiles to both Taiwan and Egypt, is being investigated by the Federal Bureau of Investigation, the Pentagon and Justice Department for what the Pentagon considers improperly combining the accounting for the deals and paying at least $1.3 million to Mr. Mansour's firm.

GE, Loral and Litton all deny violating the law. But GE suspended four executives and quietly admitted to the Justice Department repeated violations of its own procedures and certain Pentagon rules in dealing with Mr. Mansour. Some payments, a GE report concedes, "might be deemed" an improper "political contribution," with the U.S. government paying part of the tab. Nevertheless, the company says the decision to "voluntarily disclose" the allegations against Mr. Mansour to the government in 1992 complied fully with its internal ethics code. Mr. Mansour couldn't be reached for comment despite repeated attempts.

## Full Text



The problem of illicit overseas payments by American defense contractors -- supposedly resolved in the late 1970s -- is back. Then again, maybe it never went away.

Just a few years ago in Taipei, Richard Hei, a middleman renowned for his ties to Taiwan's military, was shuttling Taiwanese generals to American aerospace executives' hotel rooms for midnight chats over drinks. Often, the executives recall, pleasantries turned to business. Papers that the former military pilot filed with U.S. trade officials in Taipei indicate that he crowed about his cut on U.S. arms sales to Taiwan: $20 million in just three years.

From Cairo, another well-connected consultant, a retired Egyptian air force general named Aly Mansour, arranged for a parade of Egyptian officers to visit a General Electric Co. radar plant in Syracuse, N.Y. Some of the Egyptians were entertained at a $5,000 clambake and on expenses-paid weekends in New York City and a tour of Niagara Falls. Mr. Mansour's firm collected fat fees for helping GE win an Egyptian air-defense radar contract valued at $125 million, GE itself says.

Now, the partying may be over. It's being squelched by a spreading series of new investigations and prosecutions into allegedly illicit payments by U.S. companies.

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The budding scandal in Taipei -- along with similar investigations roiling political waters in Egypt, South Korea and Israel -- reflects a dramatic resurgence of U.S. law-enforcement interest in overseas influence peddling. Taiwanese authorities have had to shun Mr. Hei and cooperate with the expanding inquiry. In Cairo, investigators uncovered suspicious cash payments, inflated fees and other improprieties involving Mr. Mansour, who was Egyptian President Hosni Mubarak's friend and fellow officer when both served in the military as young men. In South Korea, U.S. companies complain that a mushrooming corruption scandal -- prompting the arrest or firing of dozens of generals and senior civilian officials -- has paralyzed that country's defense-procurement bureaucracy.

Defense companies are finding it hard to escape the taint of the investigations. Just last month, United Technologies Corp. faced fresh allegations by congressional investigators that executives at its Pratt & Whitney unit looked the other way while Israeli defense officials siphoned off tens of millions of dollars in U.S. military aid over the years. A United Technologies executive recently told a House subcommittee that the company is embarrassed that it "was an unwitting participant in a deception" contrived by the officials.

Federal grand juries from Los Angeles to Washington, D.C., are delving into the various allegations. A task force of agents and prosecutors has been assembled specifically to investigate allegations of payoffs to defraud the Pentagon. A House subcommittee headed by Democratic Rep. John Dingell of Michigan is scheduled to hold hearings soon that will focus on a whistle-blower's allegations that Mr. Mansour bribed Egyptian military officers to capture the radar contract for GE.

GE, Loral and Litton all deny violating the law. But GE suspended four executives and quietly admitted to the Justice Department repeated violations of its own procedures and certain Pentagon rules in dealing with Mr. Mansour. Some payments, a GE report concedes, "might be deemed" an improper "political contribution," with the U.S. government paying part of the tab. Nevertheless, the company says the decision to "voluntarily disclose" the allegations against Mr. Mansour to the government in 1992 complied fully with its internal ethics code. Mr. Mansour couldn't be reached for comment despite repeated attempts.

The subject of payments abroad is resurfacing just as America's defense industry is increasingly relying on foreign orders to keep plants running and customer access has become more important than ever in the highly competitive global arms market. For many companies, the new allegations of influence-peddling overseas threaten to turn into a legal and public-relations nightmare back home.

"It's simply logical that there will be more of these foreign corruption cases" as domestic orders dry up, says Charlie Parsons, head of the FBI's Los Angeles office, which is investigating Mr. Hei. With defense companies "desperate to hang on by finding new business around the world," he adds, agents are "finding more and more instances of kickbacks and suspicious payments outside our borders."

Such abuses were supposed to have been ended during the Carter administration. Explicitly outlawing payoffs to foreign officials -- often made through middlemen -- the 1977 Foreign Corrupt Practices Act gave prosecutors an important enforcement club: huge corporate fines and lengthy prison sentences for individual offenders. But after a few early, high-profile prosecutions, federal watchdogs shifted their efforts elsewhere.

Moreover, uncovering unauthorized commissions is especially hard because outside corporate auditors -- and the Pentagon's own team of auditors, in many cases -- see only what appears to be legitimate consulting agreements. Those documents wouldn't alert auditors to secret or oral agreements to pay consultants in return for illicit help in obtaining business in foreign countries.

So, despite all the painstakingly crafted regulations, and contrary to contractors' pledges to tighten internal ethics rules, many big companies continued doing business the old way. For example:

-- Through the late 1980s, GE certified to Washington and Cairo that it wasn't paying any commissions to Mr. Mansour specifically for his help in snaring the radar contract. But according to a confidential report prepared earlier this year by GE's outside counsel, a $2.75 million subcontract with Mr. Mansour's firm, Unitra, was partly intended "to recognize the marketing efforts of Unitra prior to" GE's winning the contract. The 133-page report, submitted to the Justice Department but never made public, adds that GE's management was so eager to hire Mr. Mansour's firm that it agreed to pay "artificially high" fees "before the scope of work under the subcontract was defined" and without "a careful review" to "ensure that the price was reasonable." (Mr. Mansour told investigators that since becoming a consultant, he has maintained "an arm's-length relationship" with Mr. Mubarak.)

-- Teledyne Industries, which pleaded guilty to fraud charges late this summer, relied on largely the same strategy in Taiwan: The Teledyne Inc. unit promised to pay Mr. Hei a monthly retainer of as much as $65,000 without requiring him to file any reports or justify his fees. Once the company recognized its potentially huge legal liability, its officials created phony documents and tried in other ways to hide their payment of illegal commissions, according to investigators and papers filed with the contractor's guilty plea in Los Angeles federal court last August. Moreover, William Rutledge, who was then a Teledyne executive vice president and became its chairman last March, personally approved paying Mr. Hei's firm $2.5 million to settle a civil lawsuit demanding payment of back commissions, according to law-enforcement officials.

In an interview, Mr. Hei confirms he is cooperating with the U.S. investigation of his Teledyne dealings and his continuing work for Litton (which declines to comment). But he denies receiving illegal commissions from any company. He contends that his firm provided U.S. clients only administrative services, such as arranging for interpreters and accommodations, and he dismisses his boasts of earning $20 million in fees by saying, "we may have oversold ourselves." He calls "totally ridiculous" prosecutors' assertions that he arranged late-night meetings to land contracts for U.S. weapons makers.

Teledyne says its contact with Mr. Hei "represents old conduct." It says the company "is committed to having the best ethics" and compliance program possible. Mr. Rutledge won't discuss his role in settling Mr. Hei's 1990 civil suit.

-- A 1993 Defense Department audit concludes that Loral's payments to Mr. Mansour's firm in Egypt violated Pentagon restrictions and that Loral's aerospace unit should "be required to justify the propriety of the commissions." The company has acknowledged turning over records to investigators probing the $252 million missile contracts.

Loral contends that the Egyptian commissions were entirely proper because they were disclosed early on to the U.S. government and came out of the company's profits, not tax dollars. But Loral has decided to terminate its relationship with Mr. Mansour anyway. (Pentagon auditors say they haven't been able to "ascertain whether commissions were included in the original contract price.")

Both Egypt and Taiwan, having spent a total of about $6.3 billion on U.S. weaponry since 1986, were natural targets for marketing campaigns by U.S. contractors.

For many years, investigators contend, Cairo was where U.S. contractors may have gone to the greatest lengths to gain entree to the military -- and an edge over their rivals. In this frenetic world, Mr. Mansour stood out for his impeccable connections. As a young man, he went to the military academy and flew jets with Mr. Mubarak; they served overlapping stints in Moscow in the mid-1960s. After leaving the Egyptian air force and going into consulting, Mr. Mansour boasted about recruiting a stable of recently retired generals to help GE, Loral, Lockheed Corp., Harris Corp., ITT Corp. and other corporate clients land some $1.5 billion of new contracts.

Ostensibly, Mr. Mansour's job was to supply information about competitors, set up routine meetings with Egyptian bureaucrats and provide "general support" services such as translators and office space for clients. In reality, contractors saw his value in starkly different terms. When GE was debating whether to hire his firm, in-house memos stressed his "excellent relationships with the Minister of Defense and key ministry personnel." Around the same time, the American Embassy in Cairo reassured prospective clients that Mr. Mansour "enjoys a good reputation" in the business community and was "an excellent trade contact for U.S. firms."

The praise stopped abruptly in March 1992. Zie Hak, a GE engineer in Cairo, jolted top management with a whistle-blower's letter to Chairman John F. Welch Jr. contending that the innocuous-sounding descriptions of Mr. Mansour's activities were a sham. In his first press interview about the matter, Mr. Hak alleges GE purposely included $1.1 million of "fat" in Mr. Mansour's $2.75 million subcontract "to make every Egyptian officer happy." Immediately after receiving Mr. Hak's letter, GE began investigating, as required under corporate-compliance policies drafted by onetime company lawyer Zoe Baird, President Clinton's ill-fated first choice for attorney general.

One of Mr. Hak's main allegations was that Mr. Mansour won over the chairman of the Egyptian military-procurement committee that awarded GE the radar contract in March 1988 by promising him a lucrative job upon his retirement. Maj. Gen. Ihab El Mousalamy, in fact, did retire later that year and went to work soon afterward as a consultant for Mr. Mansour's firm, the report by GE's outside counsel disclosed. Mr. Mansour, according to that report, denies making any pre-contract promises of employment but acknowledges paying the general $64,700 from November 1988 to August 1992. For Egyptian officers earning only a few thousand dollars a year, such payments are a huge windfall.

Mr. Hak's letter also alleged that GE, through Mr. Mansour, paid $25,000 to another member of the radar-procurement committee, Maj. Gen. Mohamed Mokhtar . In the interview, Mr. Hak says he was told about the alleged bribe by another Egyptian officer and a GE colleague, Hussein Rizk, who represented the company in Egypt and is a nephew of Mr. Mansour. The whistle-blower quotes Mr. Rizk as calling Gen. Mokhtar "GE's back door" to getting things done in Cairo. (Mr. Rizk doesn't recall any such conversation, and Mr. Mansour denies bribing the general, according to the GE report.)

Neither Gen. Mousalamy nor Gen. Mokhtar could be reached for comment, even with help from the Egyptian Embassy in Washington and the U.S. Embassy in Cairo. "These are retired individuals," a Mubarak government spokesman says. "If their dealings with American companies are bad, that's their problem."

In the interview, Mr. Hak says several Egyptian officers told him the daily stipends they received from Mr. Mansour or his associates during trips to the U.S. were "duplicative" and that they returned home with the money unspent. He also alleges that one colonel who received such payments instructed fellow officers to ignore test defects.

The bribery accusation may be too old and circumstantial to warrant prosecution, but GE's own report confirms many of Mr. Hak's other assertions. The whistle-blower contends, among other things, that Mr. Mansour's consulting responsibilities amounted to little more than having to "arrange for the travel and living expenses of officers who went to" GE's Syracuse plant to observe tests and learn how to operate the air-defense radars. More than 50 officers visited the U.S., running up about half a million dollars of expenses. The U.S. government, the GE report concedes, paid part of the entertainment tab. The Pentagon's interpretation of the rules is that only Egypt was permitted to pay for their travel and entertainment.

In their own report, GE's lawyers unequivocally concluded that Mr. Mansour never should have been allowed "to pay hundreds of thousands of dollars, much of it in cash," to representatives of a foreign government. Instead of trying to police Mr. Mansour's work conscientiously, according to the report, GE executives brushed aside internal warnings and simply "attempted to justify" the fees the consultant demanded. "We have found no indication that anyone within GE performed a careful review of the Unitra subcontract to ensure that GE was receiving full value for its money," the report says.

Martin Marietta Corp., which agreed to purchase GE's aerospace business late in 1992, says it knew of the Mansour investigation at the time. Martin Marietta says GE agreed to cover up to $25 million in penalties growing out of the investigation. GE refers questions to Martin Marietta and says Martin Marietta "is now responsible for the matter."

In addition to seeking documents from GE -- including records of Mr. Welch's involvement, if any, with Mr. Mansour -- Peter Clark, the Washington-based prosecutor in charge of the inquiry, has subpoenaed records from Lockheed and Loral. A Lockheed spokesman says the company "has fully cooperated" by turning over documents to the Justice Department.

Teledyne also got into trouble in Egypt by relying on another prominent consultant. Starting in 1980, congressional investigators say Teledyne paid millions to Sahara Overseas Services Co., a consulting firm run by retired Gen. Sayed Ali Nadim, including a 20% overhead markup on all services and a lease for an Egyptian office that allegedly cost Teledyne 10 times the going rate. Five years into the arrangement, one internal Teledyne memo put it succinctly: Senior management's "secret agreements" with Gen. Nadim, combined with his proclivity for appealing directly to the president of Teledyne Electronics, another Teledyne Inc. unit, raised a red flag of potential violations. "Things are not businesslike and tend to get very messy," the December 1985 document concluded.

The warnings didn't deter Teledyne from continuing to rely on Gen. Nadim. According to the complaint in a still-sealed whistle-blower suit filed by a former Teledyne program manager in Los Angeles federal court, the company knew that Gen. Nadim illegally "purchased influence" in Egypt to help land a $23 million Egyptian air force contract. The 1992 lawsuit, which the Justice Department is considering joining, also contends that the company tried to hide $35 million in cost overruns and falsified tests on Egypt-bound electronic equipment. Teledyne says it won't comment on pending litigation.

Gen. Nadim says that he "never provided inside bidding information to Teledyne" and that Egyptian officials have determined that his firm didn't violate any Egyptian laws.

Thousands of miles away, Teledyne was deeply involved with Mr. Hei. Launched with less than $200,000, Mr. Hei's T & P Co. claimed to have negotiated commissions for helping Teledyne obtain at least six Taiwanese contracts, ranging from computers for jet fighters to antisubmarine devices for helicopters. Teledyne tried to disguise many of those payments as post-contract consulting fees, according to its guilty plea.

Then things fell apart. In mid-1988, federal investigators say, they began poring over Teledyne's books as a result of wiretap evidence obtained in the nationwide Pentagon corruption probe dubbed "Operation Ill Wind." Within a year, the company admitted its role in the scheme to influence

Pentagon contracts. About the same time, federal agents conducted a surprise raid on the company's Northridge, Calif., facility as part of a separate criminal inquiry, carting away truckloads of documents. Recognizing its exposure overseas, Teledyne suddenly decided to cut off Mr. Hei's monthly checks.

The company approached the State Department and admitted, for the first time, improperly paying commissions to Mr. Hei. But the disclosure covered less than half its total payments. What Teledyne left out were other commission arrangements on government-to-government sales where Grumman Corp. and United Technologies' Sikorsky helicopter unit were the prime contractors.

In an interview, Mr. Hei confirms he is cooperating with the U.S. investigation of his Teledyne dealings and his continuing work for Litton (which declines to comment). But he denies receiving illegal commissions from any company. He contends that his firm provided U.S. clients only administrative services, such as arranging for interpreters and accommodations, and he dismisses his boasts of earning $20 million in fees by saying, "we may have oversold ourselves." He calls "totally ridiculous" prosecutors' assertions that he arranged late-night meetings to land contracts for U.S weapons makers.

At the beginning of February 1990, the enraged consultant went public with his complaints. He shocked Teledyne and the rest of Southern California's defense industry by filing a civil action in Los Angeles County court seeking commissions he claimed were due. Barely three weeks after the civil action was filed, Mr. Rutledge, then in charge of Teledyne's manufacturing operations, signed the $2.5 million check settling the suit. A spokeswoman for the company says Mr. Rutledge "was not involved at all" with Mr. Hei and signed the check because "he was just there at the time." The contractor threw in the towel without ever formally responding to Mr. Hei's assertions or filing a single document to contest his claims.

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Jeremy Mark contributed to this article.

(See related letter: "Letters to the Editor: You're Flogging A Dead Horse" -- WSJ Dec. 7, 1993)

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