

How the EU is Funding Arms Dealers and Corrupt Corporations

What is the European Defence Fund?

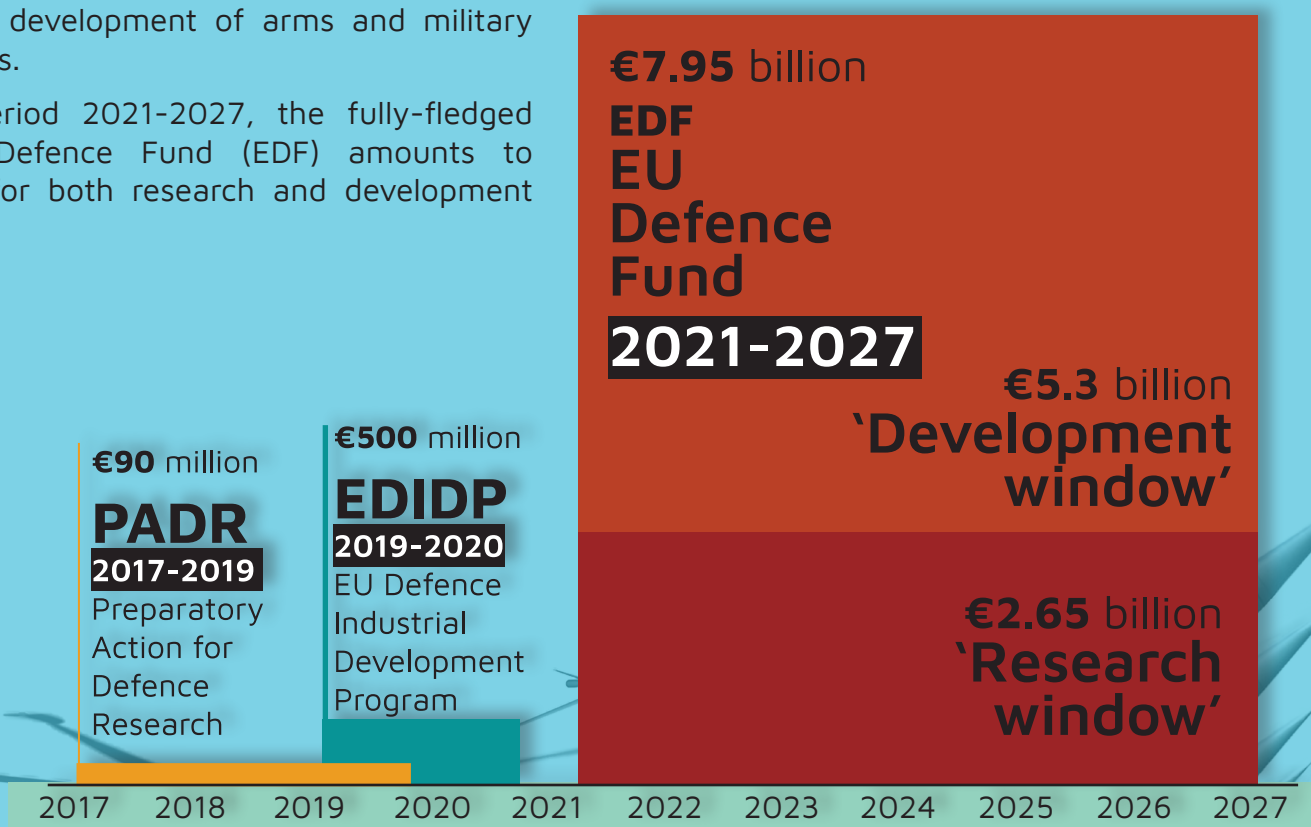
In 2017, the EU approved the funding of military research and the development of new arms and technologies, breaking the red line that the EU should not fund military activities with the community budget.

Over half a billion Euros went to military research and development (R&D) through two precursor programmes: the Preparatory Action for Defence Research (PADR), which funds joint military research projects, and the European Defence Industrial Development Program (EDIDP), which funds joint development of arms and military technologies.

For the period 2021-2027, the fully-fledged European Defence Fund (EDF) amounts to €8 billion for both research and development projects.

The objectives of the Fund are to develop the next generation of weaponry and to boost the global competitiveness of the European arms industry, and thus its ability to export weapons abroad.

The EDF and its precursor programmes are part of a rapidly unfolding process of EU militarisation, with little parliamentary control¹.



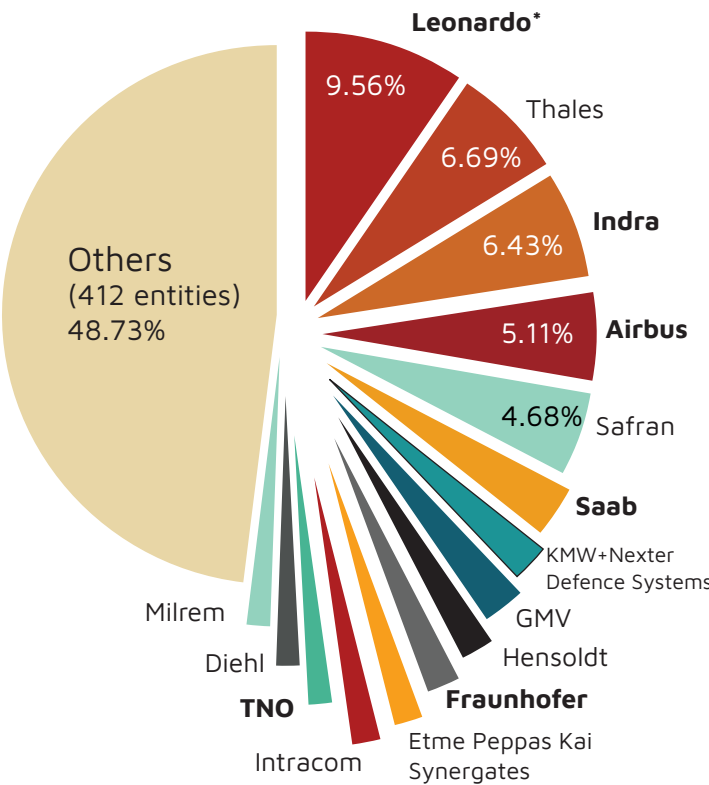
Who gets most of the EU Defence Fund in 2017-2020?

The detailed breakdown of allocations for PADR and EDIDP funding has now been published for 73.6% of the total budget (€434.45 million out of a total of €590 million of which a small part goes to administrative costs).

However, information remains missing for a few announced projects, without it being known whether projects are underway, still being negotiated or cancelled. Remarkably, no contract values were published for two flagship, directly awarded projects: MALE-RPAS (Eurodrone) and ESSOR (interoperable communication).

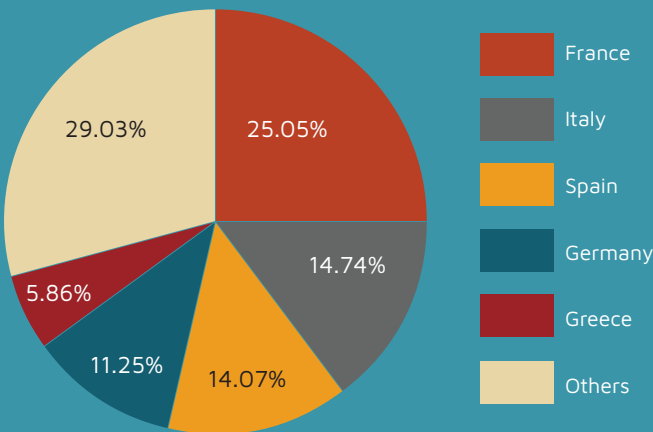
Top 15 beneficiaries PADR and EDIDP funding:

Including their subsidiaries and joint ventures (% of funding according to their % of ownership)



* Companies in bold are entities member of the 2016 GoP

Top 5 beneficiary countries:



The 'big four' (France, Italy, Spain, Germany) get together almost two-third (65.1%) of total funding

In total, 427 different single entities have been receiving funding under PADR and EDIDP, most of them arms companies and private research centres, and some public bodies.

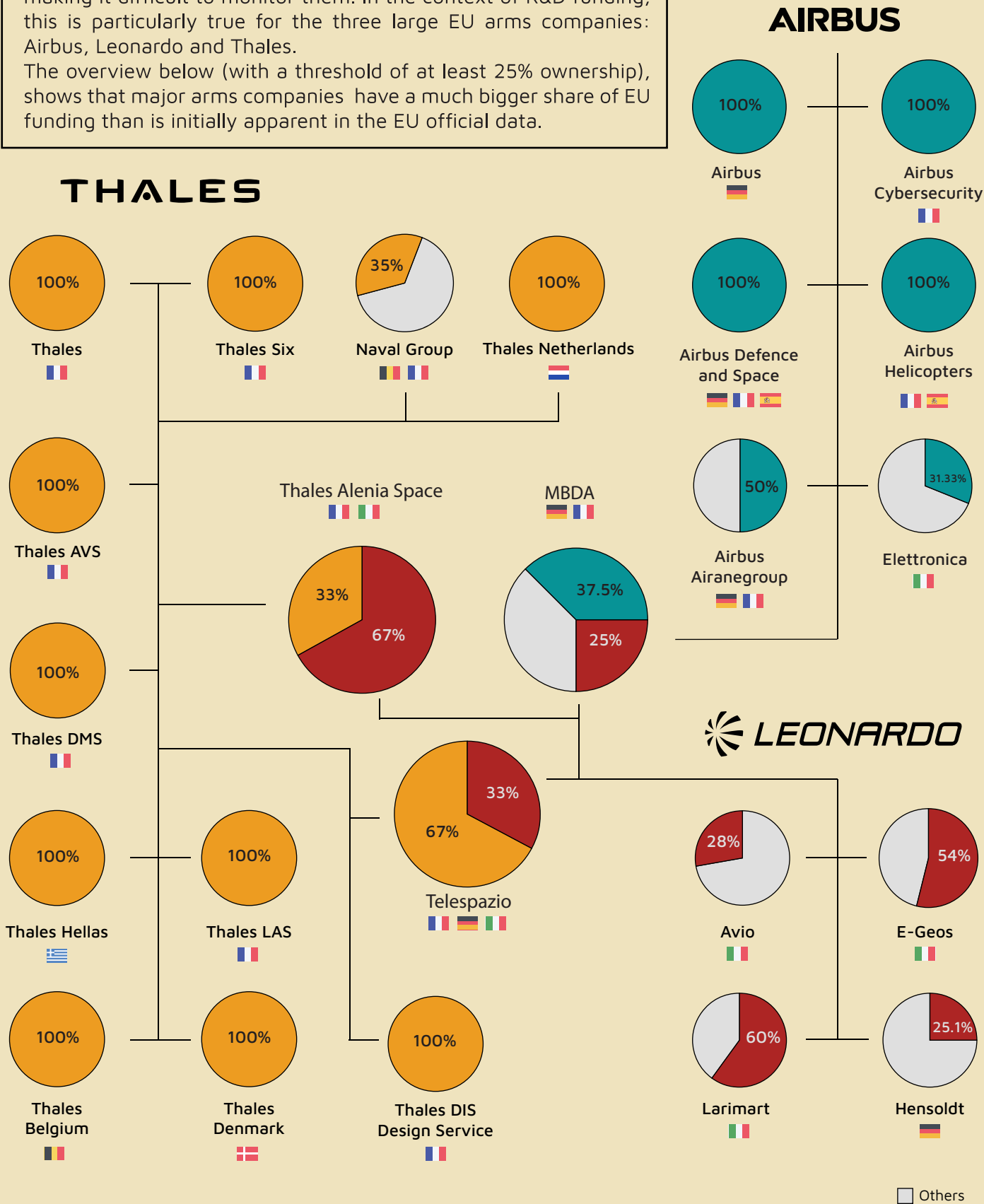
The top 15 beneficiaries received 51% of the total funding. Companies/institutes represented in the Group of Personalities² account for 28% of funding.

MBDA, which was also part of the GoP, would be in the top 15 list of its own as well, but is included in the figures of its owners (37.5% Airbus; 37.5% BAE Systems (not in top 15) and 25% Leonardo).

² In 2016, the Commission set up a Group of Personalities (GoP) to provide advice on possible EU funding for military R&D. The GoP was dominated by representatives of large European arms companies and research centres. The characteristics of the funding programmes largely follow the recommendations of this group.

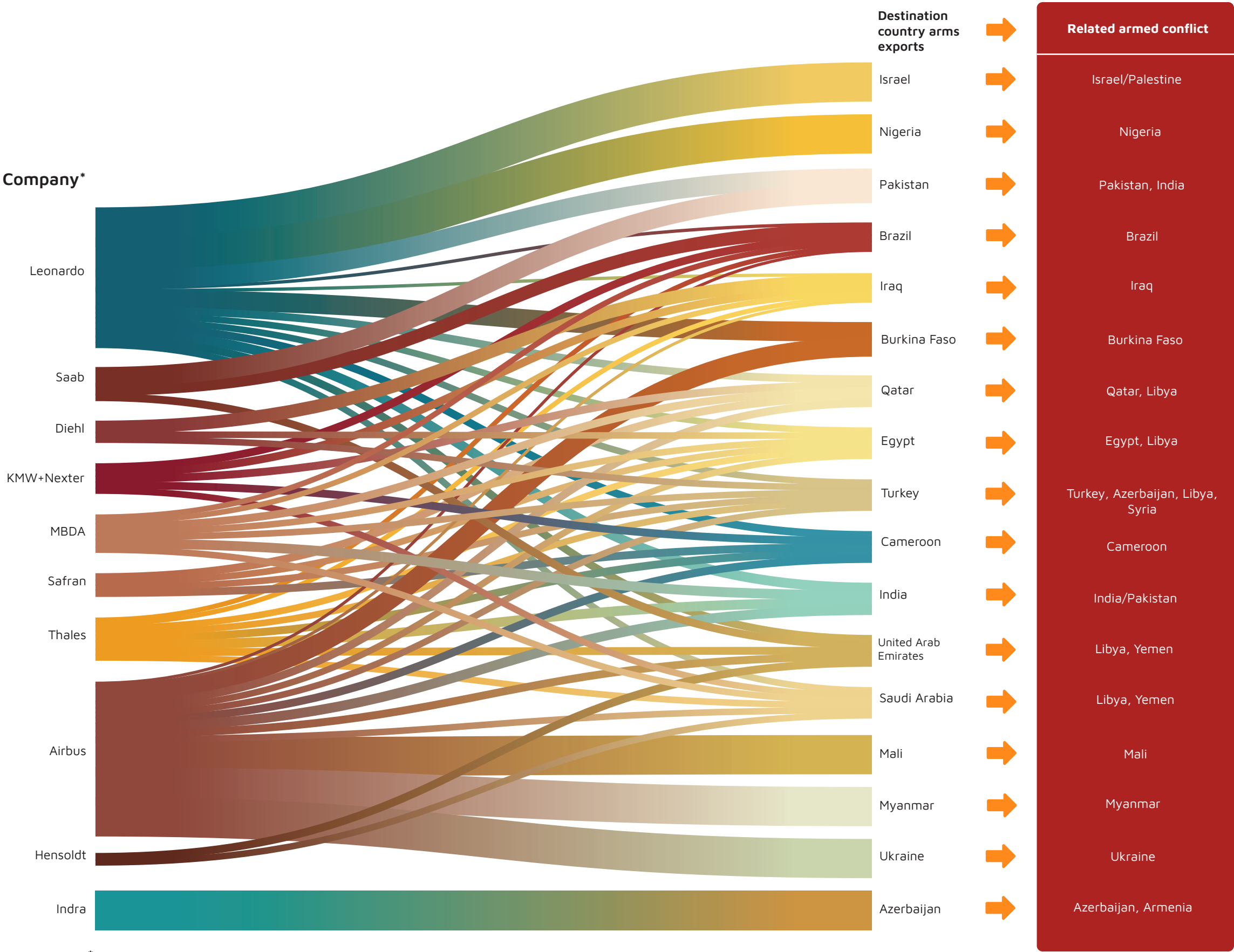
Conglomerates benefiting the most of EDF: Airbus, Leonardo, Thales

Large arms companies often have a complex network of companies, subsidiaries and joint ventures, located in many countries, making it difficult to monitor them. In the context of R&D funding, this is particularly true for the three large EU arms companies: Airbus, Leonardo and Thales. The overview below (with a threshold of at least 25% ownership), shows that major arms companies have a much bigger share of EU funding than is initially apparent in the EU official data.



Beneficiaries and arms exports

Where do the main beneficiaries export arms and which conflicts do they fuel?



Of the top 15 beneficiaries, two are research institutes (Fraunhofer and TNO), one (Etme Peppas) is an engineering company, the other twelve are arms companies.

Most of these arms companies are involved in controversial arms exports, with a high risk that the weaponry will be further used in conflict zones, according to the ExitArms.org database.

Not only these exports fuel conflicts, they also strength authoritarian regimes and known human rights violators, such as Egypt, Saudi Arabia and Turkey.

GMV, Intracom and Milrem aren't included in the ExitArms.org -database, as the database focuses on a limited number of conflicts. But that doesn't mean they aren't involved in controversial military and security business. For example:

- Milrem is involved in the development and production of controversial combat unmanned ground vehicles, which can be equipped with machine guns, grenade launchers and anti-tank missiles. For example, the THeMIS UGV was sold to the military regime in Thailand³;
- GMV and Intracom are involved in the militarisation of EU external borders and beyond, at the cost of human rights of people on the move (e.g. pushbacks, refoulement, cooperation with Libya authorities, etc)³

* The graph does not reflect the actual volume of exports, but only the relation between companies and countries

3 See online version of the fact-sheet for links to sources.

Beneficiaries and Corruption

Corruption, defined as the abuse of power for private gain, is the foundation with which the global arms trade operates. Corruption is the primary reason why many countries:

a) prioritise weapons that are unsuitable for their purpose; b) buy at grossly inflated prices they cannot afford; or c) expensive military equipment they do not need over the welfare and security of their citizens.

Corruption in the arms trade takes different forms, including bribery, off-book spending, embezzlements, kickbacks, and offsets (re-investments in the economy of the arms-purchasing country). Offsets are commonly used to justify arms purchases, although they can be used to clandestinely distribute further benefits to clients and supporters or create further conflicts of interest. Corruption allows deceitful elites to cement their power, ultimately damaging democratic practices and the rule of law.

It often takes several years or decades for substantiated corruption cases to become publicly known due to the extended investigatory timeline before charges enter the public realm. It is common for companies charged with corruption to face financial consequences that do not prevent them from future sales because a) the prosecution cannot prove the extent of corruption; b) the parties agree to a deal; or c) charges are brought against employees rather than the companies themselves.

European arms makers are often the initiators and conduits of corruption, winning contracts behind closely guarded veils of national-security imposed secrecy, often using intermediaries in the process to conceal the flow of money and influence.

The following EU Defence Fund recipients have a history of serious allegations or cases of corruption⁴. Providing funds to these corporations does not breach EU regulation; however, one should still question the moral, ethical, and legal implications of subsidising corporations when there is evidence of corruption.

THALES, BAE SYSTEMS, SAAB, ETC.: THE SOUTH AFRICAN ARMS DEAL

In 1999, the South African government announced the purchase of a bundle of military equipment (4 MEKO A200 patrol corvettes from Thyssenkrupp with Thales combat suites, 27 Gripens from SAAB, 24 BAE Hawk 100 Trainers, and more) for a supposed \$3 billion (a figure that has since more than doubled). Allegedly, \$300 million was paid in commissions and bribes to middlemen, senior politicians, officials, and the ruling ANC party. In an ongoing trial in South Africa, it is alleged that former president Jacob Zuma received \$34,000 annually from Thales since 1999 as payment to protect the company from investigations.

KMW & NEXTER DEFENSE SYSTEMS: GREEK LAND FORCES AND GERMAN BRIBERY

In 2013, Antonis Kantas, a former Greek procurement official, alleged that a representative of STN Atlas, a German defence electronics firm, offered him €600,000 to expedite a submarine deal. Kantas also alleged that a KMW representative paid him 0.5% of a howitzer deal (approximately €820,000), while a third representative left €600,000 on his couch to soothe concerns about buying Leopard 2 tanks. Prosecutors determined KMW alone paid as much as €7.9 million to secure their contract.

THE AIRBUS BRIBERY SCHEME

In 2020, Airbus admitted to using intermediaries to bribe government officials, as well as non-governmental airline executives, in at least 19 markets around the world, including Vietnam, Russia, Malaysia, Ghana, Indonesia, and Colombia. Airbus agreed to pay almost \$4 billion in fines in a Deferred Prosecution Agreement (DPA) for influencing the purchase of commercial and defense aircraft. Some of the actors involved in the bribery scheme have been convicted and given prison sentences.

SAAB: GRIPEN COMBAT AIRCRAFT SALES TO THE CZECH REPUBLIC AND HUNGARY

In 1999, the Czech Republic and Hungary started procurement processes to acquire numerous Gripen Aircraft. Subsequent allegations of corruption centered around a network of agents employed by the arms companies involving bribes of an alleged €12.6 million to politicians in Central Europe to sway decisions in favour of the Gripen. Since then, SAAB has managed to avoid penalties, and BAE Systems has paid a settlement of \$400 million that purportedly covers its unethical activities in Central Europe. As of yet, there has not been sufficient evidence to convict anyone in relation to the deals, but the investigation continues.

THE NAVANTIA-VENEZUELA CASE

In 2005, Venezuela purchased 8 Navantia patrol vessels for €1.2 billion. In 2021, a Spanish Court ruled that 3.5% in commissions, or €42 million, was paid to Venezuelan middlemen. However, since the extra money came from Venezuelan coffers and no Spanish entity was defrauded, Navantia escaped a charge of embezzlement of public funds and the case was dismissed.

LEONARDO: THE INDIAN VVIP HELICOPTER DEAL

In 2010, India bought 12 VVIP (Very Very Important Person) transport helicopters from AgustaWestland (now known as Leonardo). AgustaWestland dispersed up to €51 million to Indian officials to swing the deal, manipulating the tender specifications in their favour. The helicopters were unable to fly at the high altitudes required to traverse the Himalayas. Senior officials in the exporting country were prosecuted, which led to the cancellation of the contract.

INDRA

There are no publicly known cases involving Indra's defence systems, but the company has been embroiled in high-profile corruption scandals in Spain and Angola over their electoral technology sector.

SAFRAN

Safran has previously been fined in cases of corruption prior to 1999, specifically the sale of 60 Mirage fighters to Taiwan in 1992, in which they were fined EUR 29 million. Beyond the arms trade, Safran was also penalized €500,000 for bribing Nigerian officials to secure a \$214 million ID card deal in 2001.

GMV

No publicly known cases involving GMV's defense sector, but in March 2021, the company's subsidiary, Grupo Mecánica del Vuelo Sistemas S.A.U., was barred by the World Bank for 3.5 years for collusive, corrupt, and fraudulent practices relating to two development projects in Vietnam.

HENSOLDT

No public allegations of corruption since the company was formed in 2017, before which it was part of the Airbus Group. Today, 25.1% of the company is held by Leonardo SpA.

INTRACOM

No robust corruption allegations, although they have recently been accused of inflating invoices in various military and civilian projects.

DIEHL

No public allegations of corruption since the company was formed in 2004.

MILREM

No public allegations of corruption since the company was formed in 2013.

⁴ See the online version of the fact-sheet and the Corruption Tracker for sources.

Background information on the EU Defence Fund

The decision-making process regarding PADR and EDIDP was strongly influenced by the arms industry. The characteristics of the funding programme largely follow the recommendations of a Group of Personalities (GoP) that the Commission had set up in 2016, which was dominated by representatives of large European arms companies, research centres and the main arms industry lobby group (9 out of 16 members).

How does the EDF work in practice?

Project proposals should be presented by consortia of at least 3 'entities' from 3 European countries and are selected through annual calls for proposals, to the exception of few direct awards to existing joint projects like the Eurodrone.

Ethical checks under the selection process fall short of minimum standards, and risk assessment procedures mainly rely on box-ticking exercises by the applicants themselves.

For further information read our report 'Fanning the flames: how the EU is fuelling a new arms race' available on www.enaat.org.

The following databases were primary sources for this fact-sheet:

- Open Security Data Europe: a public platform aimed at tracking and displaying how the European Union spends money on security-related projects (opensecuritydata.eu).
- The Corruption Tracker: an online tracker of cases and robust allegations of corruption in the global arms trade (corruption-tracker.org).
- ExitArms: a database on arms exporters fueling wars, run by the NGOs Urgewald and Facing Finance (exitarms.org).

For further information on the EU Defence Fund and EU militarisation, see www.enaat.org/european-union

Contact:

info@enaat.org  [@_ENAAT](https://twitter.com/_ENAAT)  [@noEUmoney4arms](https://www.facebook.com/noEUmoney4arms)

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