WORLD PEACE FOUNDATION

OCCASIONAL PAPER #22 | April 2020

A TYPOLOGY OF CORRUPT THIRD-PARTIES IN THE LEGAL ARMS TRADE

XIAODON LIANG

The use of third-parties in corrupt international arms deals is ubiquitous. Agents and intermediaries play a role in many of the cases included in the World Peace Foundation's Compendium of Arms Trade Corruption ("the compendium").[1] Indeed, their near-universal appearance in the compendium entries means that merely highlighting their presence reveals little. It is the variety of roles these actors have played in arms deals that demands greater attention. This paper presents a preliminary typology of arms trade intermediaries as encountered in the more than 40 cases of corruption in the compendium. The five categories defined and described are: sales agents, national conduits, gatekeepers, money-launderers, and offset managers.

Along with describing and classifying third-parties involved in corrupt arms deals, this paper also argues that most third-parties in the arms trade are valued as experts on the local political economy of a single country—or, at times, a group of countries with overlapping political cultures and elites. Rather than being globe-trotting shadow brokers with influence and connections all around the world, independent third-parties are usually geographically limited in their usefulness and have highly specific business and political knowledge. This type of localized third-party, which this paper dubs "national conduits," predominate within the cases in the compendium. They are supplemented by lesser numbers of sales agents, gatekeepers, money-launderers, and offset brokers, some of which play multiple roles at once. Each of these types will be defined and discussed in this study.

The World Peace Foundation, an operating foundation affiliated solely with the Fletcher School at Tufts University, aims to provide intellectual leadership on issues of peace, justice and security. We believe that innovative research and teaching are critical to the challenges of making peace around the world, and should go hand-in-hand with advocacy and practical engagement with the toughest issues. To respond to organized violence today, we not only need new instruments and tools—we need a new vision of peace. Our challenge is to reinvent peace.

Xiaodon Liang is a Research Assistant in the Global Arms Trade and Corruption program at the WPF. He is also a PhD candidate at The Fletcher School of Law and Diplomacy, studying the intersection of civil-military relations and arms production programs.

For more information on our Global Arms and Corruption Program visit our website World Peace Foundation and Compendium of Arms Trade Corruption.

World Peace Foundation
at The Fletcher School
Tufts University
169 Holland Street, Suite 209
Somerville, MA 02144 USA

THE FLETCHER SCHOOL
TUFTS UNIVERSITY

1 "Compendium of Arms Trade Corruption," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals.

The scope of this paper is limited to the third-parties commonly employed in the legal arms trade conducted between recognized governments. It excludes arms dealers engaged in the illicit arms trade—the clandestine trade operating in defiance of national laws or multilateral embargoes. In the clandestine trade, third parties play important roles in distancing patron states from proxies and in keeping operations in the dark; these third parties have been extensively studied previously, particularly in the run-up to the negotiation of the 2013 Arms Trade Treaty.[2] A central purpose of that treaty was the systematic and coordinated constriction of legal gray areas and jurisdictional loopholes within which illicit arms brokers—and transporters—operated. The choice of this objective was informed by a widespread belief that illicit arms dealers had exacerbated the human cost of internal conflicts of the early post-Cold War period by undermining controls on the global flow of small arms and light weapons.

Agents in the legal trade have evaded the attention of scholars and policy advocates. To the extent that they do receive any scrutiny, it is when major arms corruption scandals break into the forefront of a nation's public consciousness, potentially becoming household names. Nonetheless, their role and notoriety usually remain secondary in comparison to the arms companies or corrupt public officials who are the main protagonists of any corruption drama.

Within the legal trade, I further narrow the scope of this paper by focusing primarily on third parties that are involved in corrupt acts, rather than legitimate agents. Corruption-enabling third-parties are arrangers or facilitators of monetary bribes or personally beneficial political favors. Non-corrupting agents in the arms trade are a likewise under-studied component of the arms trade and merit further, separate investigation. A cynic might view these law-abiding agents as simply corrupting influences who either have not yet been caught or are careful about stepping close to the edge. Given the narrow—often procedural—grounds which acquittals have been handed down in some cases in the compendium, this perspective may have some truth to it. However, both observation of the international arms trade and application of economic and political theories could well produce plausible hypotheses of the lawful functions agents might play in the procurement processes of many states. While this paper will discuss these theories in passing below, it will center the discussion on how they can be adapted to explain the role of third-parties in corrupt transactions.

WHY USE THIRD-PARTIES FOR CORRUPTION?

While third-parties in the legal arms trade have been under-studied, there exists an extensive theoretical and empirical literature addressing how intermediaries operate in other areas of the global economy. Economists have theorized a number of functions intermediaries can play and produced models of the conditions under which they flourish.[3] In addition, corruption scholars have

2 See for example, Brian Wood and Johan Peleman, "The Arms Fixers: Controlling the Brokers and Shipping Agents," NISAT/PRIO/BASIC Report, 2000, Oslo, https://www.prio.org/Publications/Publication/?x=658; Hugh Griffiths and Mark Bromley, "Air Transport and Destablizing Commodity Flows," SIPRI Policy Paper 24, May 2009, Stockholm International Peace Research Institute, https://www.sipri.org/sites/default/files/files/PP/SIPRI-PP24.pdf; "Deadly Movements: Transportation Controls in the Arms Trade Treaty," Report, July 2010, Amnesty International, https://www.amnesty.org/en/documents/act30/015/2010/en/; Jamilla Homayun, "Brokers without Borders," Oxfam Case Study, Oct. 2010, Oxfam International, https://www.oxfam.org/en/research/brokers-without-borders.

3 Daniel F. Spulber, "Market microstructure and intermediation," The Journal of Economic Perspectives,Vol. 10, No. 3 (Summer 1996), pp. 135–152; Güzin Bayar, "The Role of Intermediaries in Corruption," Public Choice, Vol. 122, Nos. 3-4 (Mar. 2005), pp. 277–298. This discussion excludes models of marketmakers who take owner-

described a number of observed roles third-parties perform.

First, intermediaries help buyers and sellers by providing them with critical information about the market and about market partners. Intermediaries can match parties up, thereby lowering the costs to the two of searching for a counterpart. The more impatient sellers are to offload their wares, and the more urgently the buyer wants to make a purchase, the higher the markup a middleman can charge while still being worth employing.[4] Matchmakers are most likely to emerge in markets where prices are not publicly known and are therefore an important piece of market knowledge.[5] These precise conditions are well-documented in the international arms trade. Permanent oversupply due to politically motivated subsidization of national arms champions means that defense companies are always urgently competing for a scant number of sales opportunities.[6] Prices can be extremely opaque in the arms industry due both to secrecy laws and the complexity of package deals for optional add-ons, maintenance services, country-specific modifications, and offsets.

Lower search costs are particularly beneficial to sellers who are unfamiliar with the global market and do not maintain a fulltime sales staff.[7] Because most arms manufacturers outside the United States cannot rely on consistent domestic procurement to sustain their bottom line, they are all naturally oriented toward the international market. Nonetheless, national buyers are not interchangeable in their methods, processes, and requirements. In a sense, each buyer represents a distinct market with its own particularities and thus the local expertise of middlemen can be valuable. In extreme cases, when third-parties are well-connected political insiders in the buying state, the services they offer can be potentially invaluable to the buyer, but their effectiveness and effort are unverifiable from to their client.[8]

Agents in the arms trade can help infrequent exporters find out which buyers can—or must—be corrupted in order to complete a deal. Through frequent interactions with the purchasing side, intermediaries will have developed special knowledge of corruptibility—valuable information to exporters. If a seller knows that only some officials are corrupt, it runs a risk of soliciting an honest official and, as a result, being debarred from a procurement contest or placed on a black list.[9] Employing an expert in corruption helps attenuate that

ship of goods.

4 Ariel Rubinstein and Asher Wolinsky, "Middlemen," *Quarterly Journal of Economics*, Vol. 102, No. 3 (Aug. 1987), pp. 581-594; Thomas Gehrig, "Intermediation in Search Markets," *Journal of Economics and Management Strategy*, Vol. 2, No. 1 (Mar. 1993), pp. 97-120.

5 Abdullah Yavas, "Marketmakers Versus Matchmakers," *Journal of Financial Intermediation*, Vol. 2, No. 1 (Mar. 1992), pp. 33-58.

6 Laurance argues that the buyer's market in the international arms trade arose in the post-1980 period. Edward J. Laurance, *The International Arms Trade* (New York: Lexington, 1992), pp. 155-167.

7 Mike W. Peng and Anne S. York, "Behind Intermediary Performance in Export Trade: Transactions, Agents, and Resources," *Journal of International Business Studies*, Vol. 32, No. 2 (2nd Qtr. 2001), pp. 327–346; JaeBin Ahn, Amit K. Khandelwal, Shang-jin Wei, "The Role of Intermediaries in Facilitating Trade," *Journal of International Economics*, Vol. 84, No. 1 (May 2011), pp. 73-85.

8 James E. Rauch and Joel Watson, "Network Intermediaries in International Trade," *Journal of Economics & Management Strategy*, Vol. 13, No. 1 (Spring 2004), p. 71.

9 Philip Oldenburg, "Middlemen in Third-World Corruption: Implications of an Indian case," *World Politics*, Vol. 39, No. 4 (July 1987), pp. 527-530; Johann Graf Lambsdorff, "Making Corrupt Deals: Contracting in the Shadow of the Law," *Journal of Economic Behavior & Organization*, Vol. 48, No. 3 (July 2002), p. 224; Bayar, "The Role of Intermediaries in Corruption," p. 279; Kjetil Bjorvatn, Gaute Torsvik, and Bertil Tungodden, "How Middle-Men Can Undermine Anti-Corruption Reforms," Working paper 2005: 1, Chr. Michelsen Institute, Ber-

risk. In addition, an intermediary knowledgeable about decision-making processes in government can help identify whether there are powerbrokers that must be brought on board, either through bribery or suasion. Further, in lengthy bureaucratic procurement processes—and even a well-run procurement process may be quite convoluted—knowledgeable intermediaries can help identify steps, or people, to be circumvented.[10]

Second, middlemen can also act as guarantors of the quality of goods in markets where encounters with sellers are relatively rare and quality is both important and difficult for non-experts to assess.[11] Large arms purchases and the process of negotiating them with defense firms are rare events for most governments. An opportunity for a major acquisition program arises perhaps once or twice each generation of major conventional weapons systems. While military personnel may be familiar with foreign arms due to military exchanges, running a full tender process can still be a technical challenge. Government turnover in a democratic system is typically faster than inventory turnover in armed forces' arsenals, further reducing top decision-makers' personal familiarity with the arms trade. As such, there is inevitably a stark asymmetry in the expertise of the seller and buyer sides that third-parties can claim to rectify.[12]

Because intermediaries may have more frequent interactions with the buyer than the seller might have, they serve as insurance against opportunism by the buyer; that is, they can reduce the risk that bureaucrats or politicians accept a bribe and then renege on the corrupt agreement.[13] Sellers always have an incentive to cut costs by offering a lower-quality good than what they have promised. Middlemen can help buyers mitigate this risk by punishing sellers who fail to uphold their side of the bargain by threatening not to stock or advertise that seller's wares.[14] At first blush, it is difficult to imagine arms brokers punishing international defense conglomerates for failing to live up to quality standards. However, when what is being monitored by the middleman is in fact a promised corrupt payment, this model could be applicable. A bribe accompanying a sale can be crudely thought of as improving the quality of the military hardware on offer—at least to the decision-makers, if not the end-users. Third-parties can reduce the *ex ante* risk of a seller reneging on a corrupt pledge by setting up a staggered quid-pro-quo payment schedule, or threaten to go public with complaints of commission non-payments to inflict *ex post facto* pain. Third-parties can even leverage close friendships—and even familial relationships—to help mitigate the risk of reneging.[15]

---

gen, https://www.cmi.no/publications/1935-how-middle-men-can-undermine-anti-corruption.

10 Bryan W. Husted, "Honor among Thieves: A Transaction-Cost Interpretation of Corruption in Third World Countries," *Business Ethics Quarterly*, Vol. 4, No. 1 (Jan. 1994), pp. 20-21; Anders Fredriksson, "Bureaucracy Intermediaries, Corruption and Red Tape," *Journal of Development Economics*, Vol. 108 (May 2014), p. 265.

11 Gary Biglaiser, "Middlemen as Experts," *Rand Journal of Economics*, Vol. 24, No. 2 (Summer 1993), pp. 212-23.

12 Bussell argues that corrupt middlemen have the greatest opportunity to profit in markets where transactions are frequent but the parties change often and do not know each other. The international arms trade exhibits the second condition. Jennifer Bussell, "When do Middlemen Matter? Evidence from Variation in Corruption in India," *Governance*, Vol. 31, No. 3 (July 2018), pp. 465-480.

13 Kevin Hasker and Cagla Okten, "Intermediaries and Corruption," *Journal of Economic Behavior & Organization*, Vol. 67, No. 1 (July 2008), pp. 103-115; Ajit Mishra and Andrew Samuel, "Corruption and Hold-Up: the Role of Intermediaries," *European Journal of Law and Economics*, Vol. 41, No. 3 (June 2016), pp. 575–599.

14 Gary Biglaiser and James W. Friedman, "Middlemen as Guarantors of Quality," *International Journal of Industrial Organization*, Vol. 12, No. 4 (Dec. 1994), pp. 509-531.

15 Yoram Ben-Porath, "The F-Connection: Families, Friends, and Firms and the Organization of Exchange," *Population and Development Review*, Vol. 6, No. 1 (Mar. 1980), pp. 1-30.

Third, intermediaries provide means to help the exporter disguise a bribe.[16] In the simplest form, an agent's commission can be inflated to include the transfer of bribe monies. In more complex quid pro quos, an agent might help set up a joint venture with corrupt officials or create complex money-laundering structures.[17] By providing expertise in money-laundering, or by having existing relationships with money-launderers, intermediaries can help lower the risks of knowingly commiting corrupt acts.

Fourth, third-parties alleviate exporters of the psychological burden of performing immoral activities. Studies at the intersection of economics and psychology, using participants in simulated lab-condition exercises, suggest that people are more willing to perform selfish or immoral acts through middlemen.[18] They are also more than happy to delegate difficult decisions if this will help them avoid potential future punishment.[19] By delegating bribery to third-parties, sellers can attenuate whatever moral qualms they might have about corruption.

And, finally, intermediaries help exporters shield themselves from legal liability for corruption by allowing them to deny knowledge of any bribes paid.[20] This is a distinct function from offering moral relief—companies do not always conflate acting morally and acting lawfully.

There are surprisingly few typologies of third-parties in corrupt transactions, with much of the existing research focused on petty, rather than grand, corruption. One helpful model is Oldenburg's typology of middlemen in his analysis of land consolidation and its associated bureaucracy in the Indian state of Uttar Pradesh. He identifies four main categories of third-parties: those working on behalf of the bribe-payer, brokers who connect the two sides, "touts" who represent the bribe-recipient, and recipient-side middlemen who are part of the state bureaucracy and transmit bribes upwards or laterally.[21] Each of these types plays one or more functions described in previous sections of this paper. Although Oldenburg's categories come from the vastly dissimilar context of petty corruption surrounding quotidian bureaucracy in rural India, it is instructive for observing and classifying corrupt third-party actors in the international arms trade.

THIRD-PARTIES – A TYPOLOGY

This report identifies five primary categories of third-parties: sales agents, national conduits, gatekeepers, money-launderers, and offset managers. Each category of third-party makes distinct claims on a percentage of an arms deal's sticker price. Understanding their roles can contribute to

16 Lambsdorff, "Making Corrupt Deals," pp. 225-226.
17 Lambsdorff, "Making Corrupt Deals," pp. 232-233.
18 Neeru Paharia, Karim S. Kassam, Joshua D. Greene, and Max H. Bazerman, "Dirty Work, Clean Hands: the Moral Psychology of Indirect Agency," *Organizational Behavior and Human Decision Processes*, Vol. 109, No. 2 (July 2009), pp. 134–141; John R. Hamman, George Loewenstein, and Roberto A. Weber, "Self-interest through Delegation: an Additional Rationale for the Principal-Agent Relationship," *American Economic Review*, Vol. 100, No. 4 (Sep. 2010), pp. 1826–1846; Lucas C. Coffman, "Intermediation Reduces Punishment (and Reward)," *American Economic Journal: Microeconomics*, Vol. 3, No. 4 (Nov. 2011), pp. 77–106; Mikhail Drugov, John Hamman, and Danila Serra, "Intermediaries in Corruption: An Experiment," *Experimental Economics*, Vol. 17, No. 1 (Mar. 2014), pp. 78–99.
19 Björn Bartling and Urs Fischbacher, "Shifting the Blame: on Delegation and Responsibility," *The Review of Economic Studies*, Vol. 79, No. 1 (Jan. 2012), pp. 67-87.
20 Johann Graf Lambsdorff, "Corrupt Intermediaries in International Business Transactions: between Make, Buy and Reform," *European Journal of Law and Economics*, Vol. 35, No. 3 (June 2013), pp. 353, 360.
21 Philip Oldenburg, "Middlemen in Third-World Corruption," p. 531.

a corruption warning system: flagging potential problems before a deal is made or directing attention in the course of a retrospective investigation. It is also important to recognize that individuals may play multiple roles at the same time, or over the course of their careers. Combining roles can be synergistic and therefore lucrative, precisely because doing so creates conflicts of interest that can be exploited.

Researching patterns of corruption presents distinct challenges, two of which were relevant to the development of this typology. It is often difficult or impossible to determine whether a third-party who appears to be a critical actor, essential in helping an arms manufacturer secure a deal through their lobbying efforts, might in fact have a lesser role limited to helping move bribe-monies around after a deal has already been secured. This limitation exists because the details of an agent's involvement in an arms deal may be described only in confidential documents, or may never become the focus of an investigation at all. A more fundamental constraint, one which affects all research into criminal activity such as corruption, is that we can only analyze those cases which have come to light. And it is important to remember that not all compendium cases involved all categories of third-parties; nor are all third parties corrupt.

Sales Agents

Sales agents are engaged by arms manufacturers in order to find new sales opportunities. They purport to reduce search costs, enabling exports from companies that would otherwise find the costs of reaching buyers too expensive. They are furnished with expertise in military equipment and national requirements, as well as the prices at which goods are sold in this opaque market. Sales agents are, of course, also incentivized to create markets where none exist. To the extent that national arms procurement officials can create demand arbitrarily by over-buying weapons systems, corruption can be a plausible business-creating strategy.

One key finding of the compendium project is that true sales agents, defined as third-parties who are employed to find new sales opportunities, are relatively rare in comparison with national conduits, discussed below. Because most arms companies rely heavily on exports, they can justify employing a full-time sales team rather than relying on third-parties. The number of deep-pocketed international buyers is small, and the universe of all potential buyers is limited by the number of states in the international system. Search costs are, then, both rather small and easy to justify paying. In corruption cases where the selling firm is a major player in the international arms trade, it is more commonly a regional sales executive, directly employed by the company, who is implicated in bribe-paying.[22]

The exceptions to this logic would include smaller defense firms, those that very infrequently export, or component manufacturers that do not solely export through sub-contracts with co-national prime integrators. There are relatively few cases in the compendium in any of these categories. In major arms exporting countries, these may have the support of government-backed sales agents. In France, there existed no fewer than four state-controlled agencies with complementary portfolios, engaged with both large and small defense firms and both legal and unlawful sales advocacy.[23]

The exception would also extend to countries

22 "Compendium of Arms Trade Corruption: Ericsson's Sale of Radar Systems to Greece," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/ericssons-sale-of-radar-systems-to-greece; "Compendium of Arms Trade Corruption: Smith & Wesson's Foreign Bribery Settlement," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/smith-wessons-foreign-bribery-settlement.

23 Alexandra Schwartzbrod, "Les offices d'armement organisent leur defense [The arms offices organize their defense]," *Les Echos* (online), June 5, 1992, https://www.lesechos.fr/1992/06/les-offices-darmement-organisent-leur-defense-927424.

interested in selling their military's own hardware stores. Jacques Lefebvre, a former Belgian air force general, worked as a sales agent after retiring from active service to help the Belgian state find a buyer for 25 surplus Dassault Mirage-5 combat aircraft. The planes were eventually sold to Chile, after unsuccessful pitches to Finland, Pakistan, and the Philippines, for USD 114 million – including a USD 15 million kickback.[24] Because foreign sales of military equipment is not a primary competency of the Belgian air force, it made sense for it to employ an external sales agent—although it may not have desired the controversy that came with the contract.

the market in any one country is large enough, national conduits can become so specialized as to primarily intermediate between a single foreign exporter—country or company—and the buyer's side. For example, the businessman Karlheinz Schreiber represented all the major German defense firms, including Thyssen-Henschel, MBB, and Airbus, in their efforts to win contracts in Canada during the 1980s.

National conduits are often conflated with sales agents and referred to in the press as "lobbyists" (in jurisdictions where the term has little legal definition), "representatives," "agents," or "arms merchants." The distinction between national

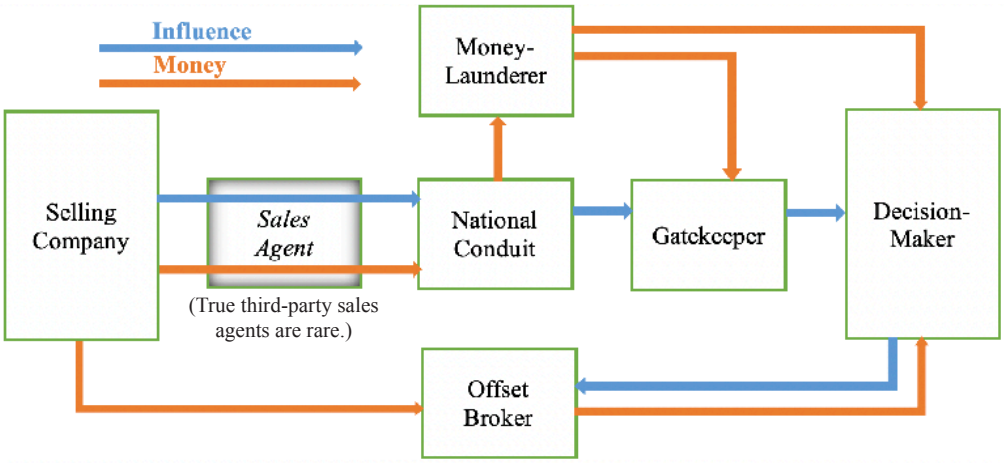

Figure 1: Interactions between Third-Party Types

National Conduits

National conduits are agents who operate primarily in one country but dominate either that entire country's arms sector or purchases of one category of weapons systems. They introduce foreign firms to key decision-makers, outlasting governments and ministers, who might come and go. Their expertise lies in understanding the political situation and opportunities in their home country, and in creating opportunities for a deal between foreign arms manufacturers and top decision-makers. If conduits and sales agents, however, is that conduits work primarily in one country, while sales agents will work globally for a company or on one product. Conduits are specialists in understanding a country's procurement policies, national requirements, the local political culture, and relevant political actors. A national conduit may today be a "representative" of one arms manufacturer, but tomorrow the "representative" of another.

24 "Bélgica busca en Chile pistas por millonario fraude en venta del Mirage [Belgium searches in Chile for tracks of million-dollar fraud in sale of Mirage]," *La Estrella de Valparaíso* (online), June 17, 2003, http://www.estrellavalpo.cl/site/edic/20030617093409/pags/20030617124542.html.

The difficulty of identifying pure sales agents – third-parties who are hired to identify new sales opportunities – is illustrated by the case of one of the most famous agents of the international arms market: Alfons Mensdorff-Pouilly, contracted since 1992 by BAE to find opportunities in Central and Eastern Europe and to facilitate those sales—including through bribes.[25] In 1995, Mensdorff-Pouilly was implicated in a proposed kickback scheme in Austria, whereby two political parties would have split a USD 7 million commission for the purchase of attack helicopters and transport jets by the Austrian military.[26] A decade later, he emerged as the key middleman in a series of investigations in Central Europe into bribes paid to secure sales of the Eurofighter combat jet.[27] Mensdorff-Pouilly's role in these deals should properly be understood as that of a conduit, although a regional rather than a national one. He was well-connected through social background and marriage with Austria's elite, but also conducted business throughout Eastern Europe.[28] His value to BAE and other clients was not to identify new sales opportunities, but to identify how to win a procurement competition, fairly or not. Another example of a regional conduit is another Austrian agent, Hans-Wolfgang Riedl, who was convicted in 2013 of helping the Finnish firm Patria bribe politicians in Slovenia and Croatia for orders of armored vehicles.

In India, conduits have acquired unusually extensive public notoriety due to their reappearance in corrupt arms deals over the decades. For example, Sudhir Choudhrie has most recently been implicated in the Rolls-Royce engine commissions scandal, but also received USD 126 million over the years from Russian arms companies.[29] Vipin Khanna, another conduit, was linked with the Barak missile deal of the early 1990s as well as the more recent Embraer sale of three ERJ-145 regional jets.[30] Christian Michel, one of three conduits that worked for AgustaWestland on the Indian VVIP helicopter deal, had also previously represented Dassault in the late 1990s when the French firm sold Mirage 2000s to the Indian Air Force.[31]

In countries where militaries have maintained significant political autonomy and authority, the source of a national conduit's influence will stem from close connections with military officers. In the aforementioned Chilean Mirage deal, some of the kickback monies eventually found their way to Conrado Ariztía O'Brien, a conduit described by

25 Andrew Feinstein, *The Shadow World: Inside the Global Arms* Trade (London: Hamish Hamilton, 2011), p. 204.

26 "Gespraech zweier Politiker der oesterreichischen Regierungskoalition abgehoert Skandal um Plan fuer illegale Parteienfinanzierung [Conversation between two Austrian ruling coalition politicians on illegal party financing plan bugged]," *Sueddeutsche Zeitung*, Jan. 27, 1995, from Nexis Online; Eric Frey and Bernard Gray, "Austria hit by scandal of arms plot," *Financial Times*, Jan. 31, 1995, from Nexis Online.

27 "Compendium of Arms Trade Corruption: Airbus Eurofighter Sales to Austria," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/airbus-eurofighter-sales-to-austria.

28 Steve Boggan, "BAe adviser linked to pounds 4m helicopter bribes scandal," *The Independent*, Feb. 2, 1995, from Nexis Online; "Expansion; Post will auch mit Flugblättern nach Osteuropa [Expansion; Post also wants to deliver mail to Eastern Europe]," *Die Presse*, June 3, 2005, from Nexis Online.

29 "Compendium of Arms Trade Corruption: Rolls-Royce's Indian Jet Engine Bribes," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/rolls-royces-indian-jet-engine-bribes; Manu Pubby, "MiG and other firms paid millions to CBI, ED suspect Sudhir Choudhrie's son, cousin," *The Economic Times* (online), July 14, 2018, https://economictimes.indiatimes.com/news/defence/mig-and-other-firms-paid-millions-to-cbi-ed-suspect-sudhir-choudhuries-son-cousin/articleshow/55162504.cms.

30 "Compendium of Arms Trade Corruption: Embraer's Dominican and Indian Bribery Schemes," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/embraer-dominican-indian-schemes/.

31 Manu Pubby, "Italy probe focuses on UK consultant," *Indian Express*, Oct. 23, 2012, from Nexis Online.

local news outlet *El Mostrador* as a "privileged intermediary" of the Chilean armed forces.[32] Ariztía represented, over the course of his career, companies as diverse as Racal, Oerlikon, Sikorsky, and Pilatus when they have attempted to win orders from the Chilean state. In South Korea, a single agent, Chung Eui-sung, exercised a stranglehold on commissions associated with decades of German submarine purchases. While himself a former navy veteran, Chung also employed the services of other former officers, such as the retired admiral Ahn Gi-seok.

In the VVIP helicopter scandal already mentioned, the conduit Guido Haschke approached AgustaWestland, the arms manufacturer implicated in the investigation, claiming that he could leverage a relationship with a high-ranking military officer in India.[33] Even in consolidated liberal democracies, personal connections to the military can make a career; the Austrian conduit Erhard Steininger, a long-time representative of the Swedish firm Bofors and later a key suspect in the Eurofighter investigation, was the best man at the wedding of Austrian air force chief Erich Wolf.[34]

Where the military is tightly subordinated to alternative institutional power centers, national conduits will likewise derive their influence from that source. For example, arms merchants such as Mansour Ojjeh and Wafiq Said played key roles in organizing commissions for the Saudi monarchy in purchases from Germany and the United Kingdom, respectively. Proximity to power is a conduit's primary value, and the nature of their relationships with government will be determined by where power over military procurement lies within each unique political system.

Gatekeepers

A gatekeeper is a third-party whose primary loyalty lies with a decision-maker, and who will grant access to that decision-maker in exchange for bribes. This type of third-party might operate beyond the arms trade in other sectors and policy areas where their patron, the decision-maker, has profitable responsibilities, such as infrastructure tenders or business regulation. They may or may not be beneficial to arms manufacturers, depending on whether the decision-maker would otherwise naturally be inclined to approve an arms purchase. In contexts where the arms would have been purchased without a gatekeeper, the third-party is merely siphoning off a rent. In other cases, however, a gatekeeper could be crucial in convincing a decision-maker to purchase weapons systems that the country would otherwise not acquire.

In Israel, Prime Minister Benjamin Netanyahu's personal lawyer, David Shimron, is suspected of playing an intermediary role in connecting ThyssenKrupp's conduit, Michael Ganor, and the prime minister himself, in a deal involving the sale of three submarines and four frigates to the Israeli navy.[35] Former Greek Defence Minister Akis Tsochatzopoulos may have been the most high-profile bribe-taker in a series of procurement scandals, but it was his close associate Yiannis Beltsios who

32 Miguel Paz, "Conrado Ariztía: el hombre detrás de la oferta de helicópteros Black Hawk para la FACH [Conrado Ariztía: the man behind the offer of Black Hawk helicopters for the FACh]," *El Mostrador* (online), July 8, 2009, https://www.elmostrador.cl/noticias/pais/2009/07/08/conrado-ariztia-el-hombre-detras-de-la-oferta-de-helicopteros-black-hawk-para-la-fach/.

33 Manu Pubby, "Chopper deal kickbacks: 'India changed tech requirements to help Italian firm," *Indian Express*, Nov. 1, 2012, from Nexis Online.

34 "Kopf des Tages: EADS-Berater Erhard Steininger," *Der Standard* (online), Apr. 23, 2007, https://www.derstandard.at/story/2751923/kopf-des-tages-eads-berater-erhard-steininger.

35 Ben Knight, "What links Benjamin Netanyahu's corruption probe and ThyssenKrupp?" *DeutscheWelle* (online), Feb. 14, 2018, https://www.dw.com/en/what-links-benjamin-netanyahus-corruption-probe-and-thyssenkrupp/a-42584927.

acted as a key middleman.[36] Former Malaysian Prime Minister Najib Razak is suspected of relying on his confidant, Abdul Razak Baginda, to divert bribes related to a submarine purchase.[37] In the Chilean Mirage deal, the top decision-maker, Ramón Vega Hidalgo, had his affairs managed by his son-in-law, Bernard van Meer.[38] And in South Africa, former President Jacob Zuma's financial aide, Schabir Shaik, was given the job of soliciting a bribe for his patron from the French arms manufacturer Thales.[39]

Gatekeepers can at times also be public officials.[40] In the Al Yamamah deals, the longtime Saudi ambassador to the United States, Prince Bandar bin Sultan, negotiated large commissions for himself and other members of the Saudi royal family, including his father, Defence Minister Prince Sultan bin Abdulaziz. Gatekeepers might also act on behalf of a ruling party, rather than one individual politician. R.K. Jain, treasurer of India's Samata Party, boasted to an undercover sting operation in 2000-2001 that he regularly secured cuts of defense procurement deals for the leader of the party, Jaya Jaitly, and Defence Minister George Fernandes.[41] In the Belgium procurement scandals of the early 1990s, it was current and former political operatives of the country's two socialist parties, Luc Wallyn, Etienne Mangé, and Johan Delanghe, that connected Agusta and Dassault agents with key decision-makers in government.[42] And in Germany, the slush funds of former Federal Chancellor Helmut Kohl were managed by party finance officials, such as Walter Leisler Kiep, who accepted DM 1 million from arms middleman Karlheinz Schreiber.

Money-launderers

A money-launderer has two critical functions: ensuring the undetected transfer of bribes, and helping a bribe-taker hide the proceeds of cooperation. They can also play secondary roles: assisting decision-makers in managing their accounts, doubling as gatekeepers or national conduits, or acting as policy advisers to decision-makers. Their primary expertise, however, lies in their ability to mask financial transactions and to keep up-to-date with contemporary anti-money-laundering regulations. For that reason, money-launderers sometimes are employees of banks. For instance, bribes paid to procurement officers in Greece were allegedly enabled by Peter Coleridge, an employee of HSBC Monaco, and Jean-Claude Oswald, of

36 "Beltsios held in custody in Athens but denies dishing out bribes," *Ekathimerini* (online), Jan. 18, 2014, http://www.ekathimerini.com/157095/article/ekathimerini/news/beltsios-held-in-custody-in-athens-but-denies-dishing-out-bribes.

37 Mazwin Nik Anis, "Scorpene scandal: Graft investigators reopen case involving Najib and Razak Baginda," *The Star* (online), Nov. 19, 2018, https://www.thestar.com.my/news/nation/2018/11/19/scorpene-scandal-graft-investigators-reopen-case-involving-najib-and-razak-baginda.

38 "Caso Mirage: contradicción de Ramón Vega podría constituir perjurio [The Mirage Case: Contradiction by Ramón Vega could constitute perjury]," *El Mostrador* (online), Apr. 13, 2004, https://www.elmostrador.cl/noticias/pais/2004/04/13/caso-mirage-contradiccion-de-ramon-vega-podria-constituir-perjurio/.

39 "S Africa's controversial arms deal," BBC News (online), last updated Dec. 20, 2007, http://news.bbc.co.uk/2/hi/africa/7153473.stm.

40 Much as Oldenburg described in his typology describing the land reform bureaucracy in Uttar Pradesh. See Oldenburg, "Middlemen in Third-World Corruption."

41 Madhu Trehan, "To Jaya Jaitly, others in Tehelka sting: Preying on Tejpal now is opportunism," *FirstPost* (online), Dec. 12, 2013, https://www.firstpost.com/india/to-jaya-jaitly-others-in-tehelka-sting-preying-on-tejpal-now-is-opportunism-1283339.html.

42 "Arrêt, Numéro de rôle A940001F," Cour de Cassation, Chambres Réunies, Dec. 23, 1998, available from http://jure.juridat.just.fgov.be/JuridatSearchCombined/?lang=fr.

Dresdner Bank and BNP Paribas.[43]

Money-launderers can also be independent businessmen. A key suspect in the AgustaWestland VVIP helicopter procurement case that is currently under investigation in India, Rajiv Saxena, was the director of two firms in Dubai, where he was based.[44] Saxena is accused of creating shell companies to mask an estimated EUR 51 million in bribes. He was brought into the deal by a lawyer, Gautam Khaitan, with whom he had worked for over a dozen years.[45] As a consequence of his first-hand knowledge of the payment structures involved in the deal, Indian investigators have attempted to secure his help as a witness for the prosecution.

Karlheinz Schreiber, the conduit for German arms manufacturers in Canada, also employed an accountant, George Pelossi, to help him manage an elaborate system of kickbacks. Schreiber's system involved the use of codenames for beneficiaries of his dealings, including, allegedly, politicians, arms manufacturers, and himself. Because prosecutors were not able to rely on these codenames alone to establish the guilt of alleged bribe recipients, only those suspects whose involvement could be otherwise corroborated were convicted of wrongdoing. Executives at Thyssen-Henschel and the junior minister Ludwig Holger Pfalhs were found guilty, while Schreiber's political patrons, including Max Strauss, were not.[46] Once again, the money-launderer became a liability for the conspirators; after a falling-out with Schreiber, Pelossi handed documents on the duos' past relationship to investigative reporters in 1994.[47] Elio Moti Sonnenfeld, the agent used by Embraer executives to transfer USD 3.42 million in bribes to conspirators in the Dominican Republic, also signed a cooperation agreement with Brazilian prosecutors.[48]

In a small number of cases in the compendium, money-launderers also served an additional purpose: to mask a stream of money siphoned off from the main bribes toward an unrelated purpose. What turned the Schreiber scandal into a political affair was the revelation that a small amount of his patronage had been routed toward the Christian Democratic Union as illegal contributions. In France, the use of monies siphoned off from

43 "Greek businessman T. Liakounakos at Korydallos prison for alleged bribe-taking," infoBalkans.com, Oct. 2, 2015, https://www.infobalkans.com/2015/10/02/greek-businessman-t-liakounakos-korydallos-prison-alleged-bribe-taking; "Swiss banker wanted for Siemens, arms scandals in Greek custody," *Ekatherimerini* (online), Apr. 6, 2015, http://www.ekathimerini.com/168860/article/ekathimerini/news/swiss-banker-wanted-for-siemens-arms-scandals-in-greek-custody.

44 "AgustaWestland: Delhi HC stays order granting permission to Rajeev Saxena to travel abroad," *The Hindu* (online), June 6, 2019, https://www.thehindu.com/news/national/agustawestland-delhi-hc-stays-order-granting-permission-to-rajeev-saxena-to-travel-abroad/article27578744.ece.

45 Raghav Ohri, "Rajiv Saxena discloses details of money trail in chopper scam, say sources," *The Economic Times* (online), Mar. 14, 2019, https://economictimes.indiatimes.com/news/politics-and-nation/rajiv-saxena-gives-money-trail-in-chopper-scam/articleshow/68401355.cms.

46 "Bewährungsstrafe für Ex-Thyssen-Manager [Parole for ex-Thyssen Manager]," *Die Welt* (online), Nov. 29, 2015, https://www.welt.de/print-welt/article181168/Bewaehrungsstrafe-fuer-Ex-Thyssen-Manager.html; "Freispruch für Max Strauß [Max Strauss acquitted]," *Focus* (online), Aug. 6, 2007, https://www.focus.de/politik/deutschland/steuerhinterziehung_aid_68917.html.

47 Stevie Cameron and Harvey Cashore, *The Last Amigo: Karlheinz Schreiber and the Anatomy of a Scandal* (Toronto: Macfarlane Walter & Ross, 2001), pp. 241-242.

48 "Mandihar Kukkadapu et al. v. Embraer S.A. et al.," Amended Class Action Complaint, Dec. 13, 2016, U.S. District Court Southern District of New York, http://securities.stanford.edu/filings-documents/1058/ES00_02/20161213_r01c_16CV06277.pdf; "Ministerio Publico Federal v. Elio Moti Sonnenfeld," Sentencing, Feb. 20, 2018, Justiça Federal da 2ª Região, https://www.escavador.com/diarios/618984/TRF2-SJRJ/judicial/2018-02-23/297916166/movimentacao-do-processo-0509828-9520174025101.

foreign bribery for political finance at home has its own name: *rétrocommissions*. When France sold Pakistan three submarines in 1994, the state-owned manufacturer DCNS paid EUR 51 million in bribes to decision-makers in Pakistan. In an era before the OECD Bribery Convention and norms against foreign bribery, this may have been a scandal in Pakistan, but not in France. However, DCNS also paid out EUR 33 million to middlemen Ziad Takieddine and Abdul Rahman El-Assir, who are in turn suspected of re-routing the funds toward the unsuccessful 1995 presidential campaign of Eduard Balladur.[49] In October 2019, a court ruled that the two-decade-old case should proceed to trial.[50] In an unrelated case, the politician and former Interior Minister Charles Pasqua was suspected of receiving campaign contributions derived from the embargo-busting Angolagate arms deal of 1993, routed to him by arms broker Arcadi Gaydamak via his money-launderer, Allain Guilloux.[51]

Offset Brokers

Offset contracts are now an ubiquitous feature of the global arms trade. These commitments, made by arms manufacturers to the buying state, promise investments into or purchases from the national economy of the buyer as a condition for the award of an arms contract. Offset commitments can be arms-sector related, taking the form of co-production or local supply chain arrangements, or completely unrelated to the arms industry. Extensive civilian-sector offsets—outside the expertise of the arms manufacturer—can be burdensome for arms manufacturers to fulfill, and it is now common practice to hire third-parties to handle large offset programs. These third-parties can range from large, effective organizations to individual scam-artists and fixers.[52] Offset brokers can become implicated in corruption when offsets become a vehicle for bribes, political quid-pro-quos, or money-laundering.

In the Austrian Eurofighter procurement investigation, offset brokers have attracted significant attention due to the elaborate offset scheme set up by Airbus under the Vector Aerospace corporate structure. Several third-parties associated with this structure, including Gianfranco Lande in Italy and Siegfried Wolf, Hubert Hödl, and Walter Schön in Austria, have been probed for their roles in sending sums of money on inexplicable routes between letterbox companies.[53] Because Airbus needed to fulfil EUR 4 billion in offset obligations, it created the Vector Aerospace structure to funnel a bewilderingly diverse set of economic activities toward Austria in Airbus' name. Investigators in Munich hypothesize that some of the funds associated with these contracts were paid out as bribes, based on the elaborate lengths to which Vector Aerospace went to create shell companies in secrecy jurisdic-

49 "Affaire Karachi: un procès en octobre sur le financement de la campagne Balladur [Karachi affair: Balladur campaign's financing on trial in October]," *Challenges* (online), Mar. 3, 2019, https://www.challenges.fr/france/campagne-balladur-1995-un-proces-karachi-en-octobre_645807.

50 Timothée Boutry, "Affaire Karachi : la Cour de justice de la République ordonne un procès pour Balladur et Léotard," *Le Parisien* (online), Oct. 1, 2019, http://www.leparisien.fr/faits-divers/affaire-karachi-la-cour-de-justice-de-la-republique-ordonne-un-proces-pour-balladur-et-leotard-01-10-2019-8163681.php.

51 Isabelle Tallec and Juliette Cua, "Chronologie de l'Angolagate [Chronology of Angolagate]," *L'Express* (online), Oct. 27, 2009, https://www.lexpress.fr/actualite/societe/justice/chronologie-de-l-angolagate_493244.html.

52 "Guns and Sugar," *The Economist* (online), May 25, 2013, https://www.economist.com/business/2013/05/25/guns-and-sugar.

53 Stephanie Ott, "Unraveling Airbus' murky offset deals in Austria," Handelsblatt (online), Jan. 30, 2018, https://www.handelsblatt.com/today/companies/eurofighte((r-sale-unraveling-airbus-murky-offset-deals-in-austria/23580908.html?ticket=ST-9868689-ebZZ2MDCWFcEpdZdSm41-ap5; "U-Ausschuss: Gegenabwickler in Erklärungsnot [Eurofighter Committee: Offsets Require Explanation]," Die Presse (online), Sep. 13, 2018, https://diepresse.com/home/innenpolitik/5495667/UAusschuss_Gegenabwickler-in-Erklaerungsnot.

tions such as Cyprus and the Isle of Man.

In a recent court case in the U.S. state of Massachusetts, the global arms manufacturer Textron was sued by a third-party it employed in Saudi Arabia to help secure a contract for sensor-fuzed weapons, a type of cluster munition. According to court documents, the third-party, a firm called Arabian Support and Services Co. (ASASCO) and run by businessman Mansour Al-Tassan, agreed to help Textron win contracts while being paid a low retainer for its services. Because Saudi laws banned commissions on weapons deals, Textron and ASASCO also had an understanding that ASASCO would benefit from any offset agreements resulting from its sales efforts. Under this structure, ASASCO was effectively asked to lobby for arms deals in Saudi Arabia at its own cost, to be repaid later through participation in industrial offsets tied to successful arms deals. The suit arose because ASASCO argues it was later cut out of potential offset deals by Textron; a judge dismissed ASASCO's suit in March 2019.[54] Given a past history of suspected bribery and commissions in Saudi arms deals, similar opaque structures suggest a significant corruption risk.

Offsets can create powerful political incentives to sign off on an arms deal; if a procurement decision-maker has a geographic constituency to answer to, pushing jobs and investment toward that locality through offsets can be tempting—and legal. When Belgium purchased 46 A109 helicopters from the Italian firm Agusta in 1988, key decision-makers from French-speaking Wallonia, including Defence Minister Guy Coëme, secured a disproportionately large offset obligation (around 43%) for a region with was typically only assigned 35% of offset investments, in line with its population. A need for third-party involvement arises, however, when decision-makers wish to mask their personal enrichment from offset investments. South Africa's first post-apartheid defence minister, Joe Modise, held shares in a trust managed by an apartheid-era general, Ian Deetlefs, who ensured that a jointly owned shell company was set to profit from offsets attached to a massive 1999 arms deal.[55] This was only one example of the numerous conflicts of interest inherent in the deal.[56]

MULTI-ROLE THIRD-PARTIES AND CONFLICTS OF INTEREST

The typology presented in this paper aims to identify key roles that individuals can play in an arms corruption conspiracy. However, in some cases examined in the compendium, individuals played more than one role at the same time. Knowledge of the global arms trade, national procurement processes, and the military effectiveness of weapons systems is highly specialized, and therefore it is not inconceivable for third-parties to convince multiple sides of a transaction to engage their services as an agent. Overlapping roles provide third-parties an opportunity to benefit financially from the stark conflicts of interest created.

In the early 1990s, Malaysia signed a large arms deal worth GBP 1.3 billion with multiple British companies brokered by the United Kingdom's government, purchasing 28 trainer jets, two frigates, surface-to-air missiles, and other military equipment. Malaysia's prime minister at the time, Mohamed Mahathir, was advised by a close

54 "Arabian Support & Servs. Co. v. Textron Sys. Corp.," Memorandum and Order, Mar. 19, 2019, United States District Court of Massachusetts, https://casetext.com/case/arabian-support-servs-co-v-textron-sys-corp-4.
55 Evelyn Groenink and Sam Sole, "The musketeers who bought the jets," *Mail & Guardian* (online), Feb. 2, 2007, https://mg.co.za/article/2007-02-02-the-musketeers-who-bought-the-jets; "Modise was Bought," *Noseweek*, No. 52, December 2003, as reproduced at http://www.armsdeal-vpo.co.za/articles06/modise_was.htm.
56 Paul Holden and Andrew Feinstein, "Joint Submission of Paul Holden and Andrew Feinstein to The People's Tribunal on Economic Crime," Report, November 2017, https://corruptiontribunal.org.za/site/wp-content/uploads/2018/02/AD1-Joint-Submission-to-the-Peoples-Tribunal-Paul-Holden-and-Andrew-Feinstein-final.pdf.

confidante, A.P. Arumugam, who also served as a representative—a national conduit—for GEC, one of the British firms that participated in the deal. While the Malaysian arms deal is best remembered for being directly linked to a British commitment to provide aid monies to build a dam at Pergau, spawning a political debate in the UK about the appropriateness of using foreign aid funding to support arms deals, more direct corruption allegations also emerged. Labour MP Ann Clwyd, Malaysian opposition leader Lim Kit Siang, and anti-corruption advocate and barrister Jeremy Carver have all made separate claims that money changed hands to secure the deal.[57] If that in fact happened, Arumugam was doubly well-placed to benefit, as both a conduit for GEC and a gatekeeper for Mahathir.

Schreiber, the German-Canadian agent who worked for Airbus, MBB, and Thyssen-Henschel in the 1980s and 1990s, played at least two roles at once: convincing buyers in Canada to purchase German arms and aircraft, while laundering commissions into accounts earmarked for key executives and decision-makers. Because many of the scheme's alleged beneficiaries relied on Schreiber—rather than their own loyal money-launderers—to set up the accounts into which commissions would find their way, they could later allege that Schreiber was a mastermind who never told them about the accounts at all. Brian Mulroney, the former Canadian prime minister, and Max Strauss, son of former Bavarian leader Franz Joseph Strauss, both successfully deployed this defense.[58] In fact, it is common for principals under investigation to blame intermediaries for siphoning off percentages fraudulently, without ever re-distributing money as bribes to decision-makers. In the words of one alleged third-party in the Indian VVIP helicopter scandal, referring to the practices of a co-accused, "You say to some company that you need to make a payment to someone and, therefore, you need money. And then you just suck up the money."[59]

Agents may also accumulate roles as they gain the trust of their employers. Ziad Takieddine started off as a national conduit and money-launderer on the Saudi Sawari-II frigate deal and the Pakistani Agosta contract. He was of use to French shipbuilder DCN because of his relationship with Ali ben Mussalam, described by French intelligence services as a counselor to Saudi King Fahd.[60] He later outgrew this position, gaining the confidence of French President Nicolas Sarkozy and attaining a role in French diplomatic talks with Libya and Syria. Notably, however, Takieddine never evolved into a global sales agent for the French arms manufacturers as his usefulness remained limited to Saudi Arabia, where he was later a third-party on a 2003 border security contract, and negotiations with Arab states.

CONCLUSIONS

The typology offers a first attempt at classifying third-parties involved in corruption in the legal international arms trade and illustrates the importance of understanding the role of third-party agents.

Sales agents perform the function which economic theory suggests third-parties should normally provide exporters: setting prices and matching

57 Tim Lankester, *The Politics and Economics of Britain's Foreign Aid: the Pergau Dam Affair* (London: Routledge, 2013), pp. 80-82; Gregory Palast, "War on corruption? Not quite, Minister," *The Observer* (online), July 9, 2000, https://www.theguardian.com/business/2000/jul/09/columnists.guardiancolumnists.

58 Cameron and Cashore, *The Last Amigo*, p. 312; "Freispruch für Max Strauß."

59 Poonam Agarwal, "Christian Michel Is a 'Name-Dropper': Agusta Middleman Haschke," *The Quint* (online), Aug. 1, 2019, https://www.thequint.com/news/india/agustawestland-case-exclusive-christian-michel-gandhi-family-name-dropper-haschke.

60 "French intelligence services hand over their dossier on Takieddine to the justice authorities," *Mediapart* (online), Aug. 26, 2011, https://www.frenchleaks.com/French-intelligence-services-hand.html.

buyers and sellers. However, the cases in the compendium demonstrate clearly that sales agents are a distinct minority among third-parties. Arms manufacturers know which countries are likely to buy their wares, and they have a good idea what prices should be in the international arms market. Instead, they benefit from third-parties who can provide an edge in navigating the national procurement system and identifying key decision-makers who must be won over—by legal or illegal methods. Thus, the vast majority of third-parties in the compendium are national conduits who work in one country alone, representing a variety of companies over the decades.

This typology also attempts to make clear the distinction between national conduits, who are employed on behalf of an arms exporter, and gatekeepers, who are primarily loyal to a decision-maker. Gatekeepers come and go with their political patrons, but national conduits may operate over the course of multiple changes of government, as long as they have connections to sources of authority such as the military or the state bureaucracy. Both of these roles are, however, similar in that they leverage connections to gain a role in a corrupt deal. In contrast, money-launderers and offset brokers exist as third-parties because they perform an important functional role derived from their expertise.

Several red flags emerge from this typology. First, national conduits with a history of corrupt practices—or suspected corrupt practices—are an obvious warning sign. However, focusing on these agents may produce false positives as they may also play non-corrupt roles. Second, the involvement of gatekeepers with no expertise in defense matters could also be seen as a red flag, suggesting that access to key decision-makers is up for sale. Finally, the creation of elaborate offset schemes always deserves to be closely examined for conflicts of interest.

BIBLIOGRAPHY

"Affaire Karachi: un procès en octobre sur le financement de la campagne Balladur [Karachi affair: Balladur campaign's financing on trial in October]," *Challenges* (online), Mar. 3, 2019, https://www.challenges.fr/france/campagne-balladur-1995-un-proces-karachi-en-octobre_645807.

Agarwal, Poonam, "Christian Michel Is a 'Name-Dropper': Agusta Middleman Haschke," *The Quint* (online), Aug. 1, 2019, https://www.thequint.com/news/india/agustawestland-case-exclusive-christian-michel-gandhi-family-name-dropper-haschke.

"AgustaWestland: Delhi HC stays order granting permission to Rajeev Saxena to travel abroad," *The Hindu* (online), June 6, 2019, https://www.thehindu.com/news/national/agustawestland-delhi-hc-stays-order-granting-permission-to-rajeev-saxena-to-travel-abroad/article27578744.ece.

Ahn, JaeBin, Amit K. Khandelwal, Shang-jin Wei, "The Role of Intermediaries in Facilitating Trade," *Journal of International Economics*, Vol. 84, No. 1 (May 2011), pp. 73-85.

Anis, Mazwin Nik, "Scorpene scandal: Graft investigators reopen case involving Najib and Razak Baginda," *The Star* (online), Nov. 19, 2018, https://www.thestar.com.my/news/nation/2018/11/19/scorpene-scandal-graft-investigators-reopen-case-involving-najib-and-razak-baginda.

"Arabian Support & Servs. Co. v. Textron Sys. Corp.," Memorandum and Order, Mar. 19, 2019, United States District Court of Massachusetts, https://casetext.com/case/arabian-support-servs-co-v-textron-sys-corp-4.

"Arrêt, Numéro de rôle A940001F," Cour de Cassation, Chambres Réunies, Dec. 23, 1998, available from http://jure.juridat.just.fgov.be/JuridatSearchCombined/?lang=fr.

Bartling, Björn, and Urs Fischbacher, "Shifting the Blame: on Delegation and Responsibility," *The Review of Economic Studies*, Vol. 79, No. 1 (Jan. 2012), pp. 67-87.

Bayar, Güzin, "The Role of Intermediaries in Corruption," *Public Choice*, Vol. 122, Nos. 3-4 (Mar. 2005), pp. 277–298.

"Bélgica busca en Chile pistas por millonario fraude en venta del Mirage [Belgium searches in Chile for tracks of million-dollar fraud in sale of Mirage]," *La Estrella de Valparaíso* (online), June 17, 2003, http://www.estrellavalpo.cl/site/edic/20030617093409/pags/20030617124542.html.

"Beltsios held in custody in Athens but denies dishing out bribes," *Ekathimerini* (online), Jan. 18, 2014, http://www.ekathimerini.com/157095/article/ekathimerini/news/beltsios-held-in-custody-in-athens-but-denies-dishing-out-bribes.

Ben-Porath, Yoram, "The F-Connection: Families, Friends, and Firms and the Organization of Exchange," *Population and Development Review*, Vol. 6, No. 1 (Mar. 1980), pp. 1-30.

"Bewährungsstrafe für Ex-Thyssen-Manager [Parole for ex-Thyssen Manager]," *Die Welt* (online), Nov. 29, 2015, https://www.welt.de/print-welt/article181168/Bewaehrungsstrafe-fuer-Ex-Thyssen-Manager.html.

Biglaiser, Gary, "Middlemen as Experts," *Rand Journal of Economics*, Vol. 24, No. 2 (Summer 1993), pp. 212-23.

Biglaiser, Gary, and James W. Friedman, "Middlemen as Guarantors of Quality," *International Journal of Industrial Organization*, Vol. 12, No. 4 (Dec. 1994), pp. 509-531.

Bjorvatn, Kjetil, Gaute Torsvik, and Bertil Tungodden, "How Middle-Men Can Undermine Anti-Corruption Reforms," Working paper 2005: 1, Chr. Michelsen Institute, Bergen, https://www.cmi.no/publica-

tions/1935-how-middle-men-can-undermine-anti-corruption.

Boggan, Steve, "BAe adviser linked to pounds 4m helicopter bribes scandal," *The Independent*, Feb. 2, 1995, from Nexis Online.

Boutry, Timothée, "Affaire Karachi : la Cour de justice de la République ordonne un procès pour Balladur et Léotard," *Le Parisien* (online), Oct. 1, 2019, http://www.leparisien.fr/faits-divers/affaire-karachi-la-cour-de-justice-de-la-republique-ordonne-un-proces-pour-balladur-et-leotard-01-10-2019-8163681.php.

Bussell, Jennifer, "When do Middlemen Matter? Evidence from Variation in Corruption in India," *Governance*, Vol. 31, No. 3 (July 2018), pp. 465-480.

Cameron, Stevie, and Harvey Cashore, *The Last Amigo: Karlheinz Schreiber and the Anatomy of a Scandal* (Toronto: Macfarlane Walter & Ross, 2001).

"Caso Mirage: contradicción de Ramón Vega podría constituir perjurio [The Mirage Case: Contradiction by Ramón Vega could constitute perjury]," *El Mostrador* (online), Apr. 13, 2004, https://www.elmostrador.cl/noticias/pais/2004/04/13/caso-mirage-contradiccion-de-ramon-vega-podria-constituir-perjurio/.

Coffman, Lucas C., "Intermediation Reduces Punishment (and Reward)," *American Economic Journal: Microeconomics*, Vol. 3, No. 4 (Nov. 2011), pp. 77–106.

"Compendium of Arms Trade Corruption," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals.

"Compendium of Arms Trade Corruption: Airbus Eurofighter Sales to Austria," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/airbus-eurofighter-sales-to-austria.

"Compendium of Arms Trade Corruption: Embraer's Dominican and Indian Bribery Schemes," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/embraer-dominican-indian-schemes/.

"Compendium of Arms Trade Corruption: Ericsson's Sale of Radar Systems to Greece," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/ericssons-sale-of-radar-systems-to-greece.

"Compendium of Arms Trade Corruption: Rolls-Royce's Indian Jet Engine Bribes," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/rolls-royces-indian-jet-engine-bribes.

"Compendium of Arms Trade Corruption: Smith & Wesson's Foreign Bribery Settlement," World Peace Foundation website, n.d., https://sites.tufts.edu/corruptarmsdeals/smith-wessons-foreign-bribery-settlement.

"Deadly Movements: Transportation Controls in the Arms Trade Treaty," Report, July 2010, Amnesty International, https://www.amnesty.org/en/documents/act30/015/2010/en/.

Drugov, Mikhail, John Hamman, and Danila Serra, "Intermediaries in Corruption: An Experiment," *Experimental Economics*, Vol. 17, No. 1 (Mar. 2014), pp. 78–99.

"Expansion; Post will auch mit Flugblättern nach Osteuropa [Expansion; Post also wants to deliver mail to Eastern Europe]," *Die Presse*, June 3, 2005, from Nexis Online.

Feinstein, Andrew, *The Shadow World: Inside the Global Arms* Trade (London: Hamish Hamilton, 2011).

Fredriksson, Anders, "Bureaucracy Intermediaries, Corruption and Red Tape," *Journal of Development Economics*, Vol. 108 (May 2014), pp. 256-273.

"Freispruch für Max Strauß [Max Strauss acquitted]," *Focus* (online), Aug. 6, 2007, https://www.focus.de/politik/

deutschland/steuerhinterziehung_aid_68917.html.

"French intelligence services hand over their dossier on Takieddine to the justice authorities," *Mediapart* (online), Aug. 26, 2011, https://www.frenchleaks.com/French-intelligence-services-hand.html.

Frey, Eric, and Bernard Gray, "Austria hit by scandal of arms plot," *Financial Times*, Jan. 31, 1995, from Nexis Online.

Gehrig, Thomas, "Intermediation in Search Markets," *Journal of Economics and Management Strategy*, Vol. 2, No. 1 (Mar. 1993), pp. 97-120.

"Gespraech zweier Politiker der oesterreichischen Regierungskoalition abgehoert Skandal um Plan fuer illegale Parteienfinanzierung [Conversation between two Austrian ruling coalition politicians on illegal party financing plan bugged]," *Sueddeutsche Zeitung*, Jan. 27, 1995, from Nexis Online.

"Greek businessman T. Liakounakos at Korydallos prison for alleged bribe-taking," infoBalkans.com, Oct. 2, 2015, https://www.infobalkans.com/2015/10/02/greek-businessman-t-liakounakos-korydallos-prison-alleged-bribe-taking.

Griffiths, Hugh, and Mark Bromley, "Air Transport and Destablizing Commodity Flows," SIPRI Policy Paper 24, May 2009, Stockholm International Peace Research Institute, https://www.sipri.org/sites/default/files/files/PP/SIPRIPP24.pdf.

Groenink, Evelyn, and Sam Sole, "The musketeers who bought the jets," *Mail & Guardian* (online), Feb. 2, 2007, https://mg.co.za/article/2007-02-02-the-musketeers-who-bought-the-jets.

"Guns and Sugar," *The Economist* (online), May 25, 2013, https://www.economist.com/business/2013/05/25/guns-and-sugar.

Hamman, John R., George Loewenstein, and Roberto A. Weber, "Self-interest through Delegation: an Additional Rationale for the Principal-Agent Relationship," *American Economic Review*, Vol. 100, No. 4 (Sep. 2010), pp. 1826–1846.

Hasker, Kevin, and Cagla Okten, "Intermediaries and Corruption," *Journal of Economic Behavior & Organization*, Vol. 67, No. 1 (July 2008), pp. 103-115.

Holden, Paul, and Andrew Feinstein, "Joint Submission of Paul Holden and Andrew Feinstein to The People's Tribunal on Economic Crime," Report, November 2017, https://corruptiontribunal.org.za/site/wp-content/uploads/2018/02/AD1-Joint-Submission-to-the-Peoples-Tribunal-Paul-Holden-and-Andrew-Feinstein-final.pdf.

Homayun, Jamilla, "Brokers without Borders," Oxfam Case Study, Oct. 2010, Oxfam International, https://www.oxfam.org/en/research/brokers-without-borders.

Husted, Bryan W., "Honor among Thieves: A Transaction-Cost Interpretation of Corruption in Third World Countries," *Business Ethics Quarterly*, Vol. 4, No. 1 (Jan. 1994), pp.17–27.

"Kopf des Tages: EADS-Berater Erhard Steininger," *Der Standard* (online), Apr. 23, 2007, https://www.derstandard.at/story/2751923/kopf-des-tages-eads-berater-erhard-steininger.

Knight, Ben, "What links Benjamin Netanyahu's corruption probe and ThyssenKrupp?" *DeutscheWelle* (online), Feb. 14, 2018, https://www.dw.com/en/what-links-benjamin-netanyahus-corruption-probe-and-thyssenkrupp/a-42584927.

Lambsdorff, Johann Graf, "Corrupt Intermediaries in International Business Transactions: between Make, Buy and Reform," *European Journal of Law and Economics*, Vol. 35, No. 3 (June 2013), pp. 349-366.

Lambsdorff, Johann Graf, "Making Corrupt Deals: Contracting in the Shadow of the Law," *Journal of Economic Behavior & Organization*, Vol. 48, No. 3 (July 2002)), pp. 221–241.

Lankester, Tim, *The Politics and Economics of Britain's Foreign Aid: the Pergau Dam Affair* (London: Routledge, 2013).

Laurance, Edward J., *The International Arms Trade* (New York: Lexington, 1992).

"Mandihar Kukkadapu et al. v. Embraer S.A. et al.," Amended Class Action Complaint, Dec. 13, 2016, U.S. District Court Southern District of New York, http://securities.stanford.edu/filings-documents/1058/ES00_02/20161213_r01c_16CV06277.pdf.

"Ministerio Publico Federal v. Elio Moti Sonnenfeld," Sentencing, Feb. 20, 2018, Justiça Federal da 2ª Região, https://www.escavador.com/diarios/618984/TRF2-SJRJ/judicial/2018-02-23/297916166/movimentacao-do-processo-0509828-9520174025101.

Mishra, Ajit, and Andrew Samuel, "Corruption and Hold-Up: the Role of Intermediaries," *European Journal of Law and Economics*, Vol. 41, No. 3 (June 2016), pp. 575–599.

"Modise was Bought," *Noseweek*, No. 52, December 2003, as reproduced at http://www.armsdeal-vpo.co.za/articles06/modise_was.htm.

Ohri, Raghav, "Rajiv Saxena discloses details of money trail in chopper scam, say sources," *The Economic Times* (online), Mar. 14, 2019, https://economictimes.indiatimes.com/news/politics-and-nation/rajiv-saxena-gives-money-trail-in-chopper-scam/articleshow/68401355.cms.

Oldenburg, Philip, "Middlemen in Third-World Corruption: Implications of an Indian case," *World Politics*, Vol. 39, No. 4 (July 1987), pp. 508-535.

Ott, Stephanie, "Unraveling Airbus' murky offset deals in Austria," *Handelsblatt* (online), Jan. 30, 2018, https://www.handelsblatt.com/today/companies/eurofighte((r-sale-unraveling-airbus-murky-offset-deals-in-austria/23580908.html?ticket=ST-9868689-ebZZ2MDCWFcEpdZdSm41-ap5.

Paharia, Neeru, Karim S. Kassam, Joshua D. Greene, and Max H. Bazerman, "Dirty Work, Clean Hands: the Moral Psychology of Indirect Agency," *Organizational Behavior and Human Decision Processes*, Vol. 109, No. 2 (July 2009), pp. 134–141.

Palast, Gregory, "War on corruption? Not quite, Minister," *The Observer* (online), July 9, 2000, https://www.theguardian.com/business/2000/jul/09/columnists.guardiancolumnists.

Paz, Miguel, "Conrado Ariztía: el hombre detrás de la oferta de helicópteros Black Hawk para la FACH [Conrado Ariztía: the man behind the offer of Black Hawk helicopters for the FACh]," *El Mostrador* (online), July 8, 2009, https://www.elmostrador.cl/noticias/pais/2009/07/08/conrado-ariztia-el-hombre-detras-de-la-oferta-de-helicopteros-black-hawk-para-la-fach/.

Peng, Mike W., and Anne S. York, "Behind Intermediary Performance in Export Trade: Transactions, Agents, and Resources," *Journal of International Business Studies*, Vol. 32, No. 2 (2nd Qtr. 2001), pp. 327–346.

Pubby, Manu, "Chopper deal kickbacks: 'India changed tech requirements to help Italian firm," *Indian Express*, Nov. 1, 2012, from Nexis Online.

Pubby, Manu, "Italy probe focuses on UK consultant," *Indian Express*, Oct. 23, 2012, from Nexis Online.

Pubby, Manu, "MiG and other firms paid millions to CBI, ED suspect Sudhir Choudhrie's son, cousin," *The Economic Times* (online), July 14, 2018, https://economictimes.indiatimes.com/news/defence/mig-and-other-firms-

paid-millions-to-cbi-ed-suspect-sudhir-choudhuries-son-cousin/articleshow/55162504.cms.

Rauch, James E., and Joel Watson, "Network Intermediaries in International Trade," *Journal of Economics & Management Strategy*, Vol. 13, No. 1 (Spring 2004), pp. 69–93.

Rubinstein, Ariel, and Asher Wolinsky, "Middlemen," *Quarterly Journal of Economics*, Vol. 102, No. 3 (Aug. 1987), pp. 581-594.

"S Africa's controversial arms deal," BBC News (online), last updated Dec. 20, 2007, http://news.bbc.co.uk/2/hi/africa/7153473.stm.

Schwartzbrod, Alexandra, "Les offices d'armement organisent leur defense [The arms offices organize their defense]," *Les Echos* (online), June 5, 1992, https://www.lesechos.fr/1992/06/les-offices-darmement-organisent-leur-defense-927424.

Spulber, Daniel F., "Market microstructure and intermediation," *The Journal of Economic Perspectives*, Vol. 10, No. 3 (Summer 1996), pp. 135–152.

"Swiss banker wanted for Siemens, arms scandals in Greek custody," *Ekatherimerini* (online), Apr. 6, 2015, http://www.ekathimerini.com/168860/article/ekathimerini/news/swiss-banker-wanted-for-siemens-arms-scandals-in-greek-custody.

Tallec, Isabelle, and Juliette Cua, "Chronologie de l'Angolagate [Chronology of Angolagate]," *L'Express* (online), Oct. 27, 2009, https://www.lexpress.fr/actualite/societe/justice/chronologie-de-l-angolagate_493244.html.

Trehan, Madhu, "To Jaya Jaitly, others in Tehelka sting: Preying on Tejpal now is opportunism," *FirstPost* (online), Dec. 12, 2013, https://www.firstpost.com/india/to-jaya-jaitly-others-in-tehelka-sting-preying-on-tejpal-now-is-opportunism-1283339.html.

"U-Ausschuss: Gegenabwickler in Erklärungsnot [Eurofighter Committee: Offsets Require Explanation]," *Die Presse* (online), Sep. 13, 2018, https://diepresse.com/home/innenpolitik/5495667/UAusschuss_Gegenabwickler-in-Erklaerungsnot.

Wood, Brian, and Johan Peleman, "The Arms Fixers: Controlling the Brokers and Shipping Agents," NISAT/PRIO/BASIC Report, 2000, Oslo, https://www.prio.org/Publications/Publication/?x=658.

Yavas, Abdullah, "Marketmakers Versus Matchmakers," *Journal of Financial Intermediation*, Vol. 2, No. 1 (Mar. 1992), pp. 33-58.