

Financial crimes unit (SDOE) findings on Submarine Contracts

The document refers to the book-keeping sleight of hand conducted by HDW and its subsidiaries, and parent company, as concerns the calculation of the offset agreements. Despite the wrongdoings, they merely mirror all such offset agreements in the defence sector. A notable exception are contracts undertaken by Lockheed Martin, something that they constantly point out.

More specifically there were instances in which the German company counted among offsets realized, works carried out at the Elefsina shipyards, before they were acquired by them, Greek companies that had no contracted work were shown as having delivered offsets, others that had delivered work that was not part of the offsets and was registered as such (SSA AE, SONAK). There was also no shown transfer of know-how to the shipyards as agreed upon, while the foreseen construction of 1000 railway cars was never undertaken. In other cases the delivered offsets were far below the value that was agreed upon (ELFON, EMEK). Sales of Greek products abroad that were shown to be through efforts of HDW, but were in fact bilateral transactions between the Germanos company and individual customers. This last item was also a replacement for the original offset requirement for the construction of two fast ferry-type ships. Germanos was also a replacement for 300,000 free man hours for refurbishing at least one older type 209 submarine.

In the case of offsets delivered by MOTOMARINE, only six of the contracted 12 landing craft foreseen were delivered at the same price, while two contracted RIB craft were never delivered.

In several cases (sub contracts 1J, 1N, 1O, 1Q, 1G) the contracting companies were not even named.

In many cases there were no data (NAVCOM/RAYTHEON, SIEMENS, ZEISS, PYRKAL) immediately available

There are also cases of the final offset sum being altered without modification to the contract. Modifications to the existing contract, signed by armaments director Travlos, have been found to be without reasonable cause.

Offset Contracts (13/2002) found to not have been realized at all include Nos 1, 2, 3, 4, 5, 7,8, 11, 12,13 worth nominally around 56.000.000 euros. No 6, worth nominally around 31m was not duly signed.

Another very important issue is the violation of the regulation concerning the formation of committees for all the stages of the specifications, financial deliberations, contracting, sub-contracting, contract modifications, work progress, and acceptance. Regulations forbid persons from being on more than one committee and this has been breached on a number of occasions.

There are also discrepancies involving INTRAKOM, which is seen through several documents to be involved in subcontracting work, but which are not borne out in contracts, and a letter from STN ATLAS noting that the firm was to be included at the insistence of the MoD. From the inquiry it was found that works undertaken by INTRAKOM were not part of the offset agreement.

Denouncements reaching the SDOE noted that Swedish shipbuilders KOCKUMS had a better offer but was forced to take back their offer under MoD pressure, while Sweden was given the Erieye project as a replacement. The German firm then used the huge down payment to buy off their Swedish competitors.

The committee also notes that despite all these problems, and others that had surfaced payments continued unhindered. Discrepancies were found in the way payments were made to banks and accounts other than those foreseen in contracts. Also noted was the fact that the MoD sent none of the acceptance related documents of the troubled Papanikolis sub to them.

The committee found that a company called MIE HELLAS LTD was the main interlocutor during contract negotiations. The main persons involved in this company were also involved in 12 other companies in the same office (Michail Matantos, Antonios Hagias, Alexandros Papantoniou). The inquiry found close interrelations between the named persons, HDW, Hellenic Shipyards, and MoD representatives. Suspect payments from MIE were found to HN retired captain Panos Stamou, and real estate purchases worth over 155million drs of which 80 million was from grants or gifts.

Consulting services worth over 8 million euros were paid to various offshore companies and the findings question whether these are anything more than fiction

One very important point it is mentioned that Kontakis (president of shipbuilder's union at the shipyard), and union board members Mihas and Markatos (later prefect and deputy prefect of Piraeus from 2007 – 2010) were in on the deliberations with the Germans and very favorably disposed towards them, despite the fact that 49% of stock was in workers' hands. The opening up of the tax data of Avrokomi Karlafti, legal counsel of Hellenic shipyards, show the suspicious purchase of real estate worth almost 1.3 million euros in 2006.

--Ends--

Acronyms and Defined Parties:

- HDW = Howaldtswerke-Deutsche Werft: German Ship Building Company (Thyssenkrupp Detsche Werft is their parent company)
- Germanos = Greek Electronics Company (battery, sonar, and other electronic parts for submarines are included in products). Have been accused in Pakisitani Sub deals (corruption): <http://www.reporternet.com/Greece/Business/item/6068-Greece-Germanos-Wins-Submarine-Battery-Construction-Project-in-Pakistan>

- Skarananga = Hellenic Ship Yards
- MotoMarine = commercial and industrial enterprises (greek company)
<http://www.motomarine.gr/>
- Michail Matantos = trustee of world ship trust
- Avrokomi Karlafti = legal counsel of Hellenic shipyards
- Ferrostaal = is a provider of industrial services, headquartered in Essen, Germany
- EENB = Association of Hellenic Shipbuilding & Shiprepairing Industries (union)

Summary of Issue

In 2001, Greece ordered the Type 214 diesel-electric submarines to be manufactured by ThyssenKrupp (parent company of HDW) in Germany. By 2005, the deal, worth 1.26 billion euros, became enormously complicated after Greece rejected the first submarine due to technical problems. After a series of other complications, requests for further upgrades, and the eventual collapse of the Greek economy, Greece's financial crimes squad (SDOE) conducted an investigation into the submarine contracts earlier this year.

Conclusions and Acts of Corruption:

In February of 2011, the SDOE concluded that 3 former ministers, and several other public officials, should face prosecution for corruption. They found that U-214 consortium partner Ferrostaal paid 10 – 12 million Euros in bribes.

(http://www.ekathimerini.com/4dcgi/w_articles_wsite1_1_27/02/2011_380364)

In March of 2011, the SDOE reports their findings that more than 100 Million Euros in bribes and payoffs have been made around submarine contracts. Many of the Greek U214 fleet's custom features were reportedly inserted as a way of padding the bill, and allowing more under-the-table payments to be hidden. The revelations also spark a political controversy, as the current socialist PASOK government was in charge when the deal took

place. http://www.ekathimerini.com/4dcgi/w_articles_wsite1_1_27/03/2011_384723

Further revelations in the media:

In its February 7 issue, *Der Spiegel* magazine reported that the lucrative submarine deal, signed in 2000 and in 2002 by the Greek government, was only achieved after the bribery of Greek officials. <http://www.athensnews.gr/issue/13431/37986>

Many of the bribes were hidden in "upgrades" of the vessels including those done by Greek electronics company, Germanos.

Evangelos Venizelos, current Greek Minister of Finance, probed German companies for bribery and corruption charges in his capacity as Minister of Defence:

<http://www.defensenews.com/story.php?i=6254276&c=SEA&s=EUR>

Most Recently, On July 1, the Greek Parliament voted to indict former Defense Minister Akis Tsochatzopoulos for accepting bribes to approve a submarine procurement deal

http://www.ekathimerini.com/4dcgi/_w_articles_ws1_1_01/07/2011_396730

Further Reading:

Date	Source	Article Title	URL
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5/16/2011	Defense Industry Daily	Greece's U-214 Submarine Order: Default & Settlement	http://www.defenseindustrydaily.com/Greece-in-Default-on-U-214-Submarine-Order-05801/
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7/27/2010	Businessweek	Calls for EU to Halt Corrupt Defense Deals	http://www.businessweek.com/globalbiz/content/jul2010/gb20100727_597244.htm

Parliament indicts ex-minister

Majority of MPs vote to indict Akis Tsochatzopoulos over sub bribes

In a move that could prove a significant step toward cleaning up Greek politics, Parliament on Friday voted in favor of indicting former Defense Minister Akis Tsochatzopoulos, who has been accused of accepting bribes in order to approve a submarine procurement deal.

Only 242 of the House's 300 MPs participated in the secret ballot, with 216 of those voting for the former minister to be indicted on charges of accepting bribes and 215 voting for his indictment on money-laundering charges.

Defending himself in a speech before Parliament earlier, Tsochatzopoulos claimed that he was not upset that ruling PASOK was calling for his indictment, saying that the party had changed under Prime Minister George Papandreou and no longer represented him as it had done when Papandreou's father, Andreas, was prime minister.

"I don't feel anger or sorrow," said Tsochatzopoulos, a founding member of the Socialist party. "It is not my party that is indicting me, this is not PASOK."

Tsochatzopoulos, who served in seven different ministerial positions during his lengthy political career, argued that he was being made a scapegoat by his former colleagues. He called Parliament's decision to indict him a "monument to the perversion of the truth."

A judicial council will now meet to decide whether that statute of limitations applies to any of the charges Tsochatzopoulos is facing. If the judges deem that the charges still apply, then the 71-year-old will be called to appear before a special court.

Last month, the parliamentary committee investigating the purchase of four German submarines by the Hellenic Navy a decade ago issued a unanimous decision for the ex-minister to be indicted on criminal charges of bribe taking at the expense of the state and money laundering.

In an interview with Skai Television's "New Files" program last month, the ex-minister once again denied any wrongdoing, rebuffed allegations linking his assets to offshore companies and claimed that the parliamentary investigation was "full of holes."

Tsochatzopoulos conceded, however, that the submarine deal had involved "middlemen who took kickbacks." He reiterated calls for the parliamentary committee to summon all the members of the political and military council that approved the deal, including the current prime minister, who was

then foreign minister, and former Premier Costas Simitis, to give evidence. He said that their testimony was crucial to “clear the matter up.”

ekathimerini.com , Friday Jul 1, 2011 (17:28)

Greece’s U-214 Submarine Order: Default & Settlement

May 16, 2011 15:16 EDT

On Monday Sept 21/09, ThyssenKrupp Marine informed the Greek Minister of Defence that it was canceling “The Archimedes Project” contract for 4 U-214 diesel-electric submarines with Air-Independent Propulsion technology, because the government’s payments had remained underwater for too long. Accumulated payment arrears were over EUR 520 million (then \$767 million), and so ThyssenKrupp and its subsidiary Hellenic Shipyards sought international arbitration, in order to recover some of the payments due under its contract.

That development was the just the latest chapter in a long and continuing saga. If the issue remained unresolved, or arbitration resulted in termination payments but no delivery, Greece might have found itself without a submarine force. Now, a resolution is close – but prosecutions may be equally near...

Greece’s Submarine Programs: Types and Travails



S118 Okeanos painting
(click to view full)

Greece currently fields 8 boats: 4 Glavkos class U-209/1100 boats commissioned between 1971-1979 (S110-S113), and 4 Poseidon class U-209/1200 boats (S114, S117, S118, S119) commissioned from 1979-1980.

In 1989, the Neptune I program began to upgrade the 4 Glavkos class boats. They received flank array sonar and significant electronics upgrades, including the ability to fire UGM-84 Harpoon anti-ship missiles. In 2002, Hellenic shipyards received the Neptune II contract for the “mid life” modernization and repair of 3 Poseidon class boats, which included cutting the hull and

installing an 6.5m long Air-Independent Propulsion section, as well as hydrogen storage tanks for the AIP. Flank array sonar, electronics upgrades, an electro-optic mast with satellite communication capability, and Harpoon missile firing capability reportedly round out the upgrade's major features.

No ship lasts forever, and that's especially true of submarines. While Neptune II proceeded, therefore, the Greek government signed a contract in February 2000 for 3 of HDW's new Type 214 submarines + 1 option. It was the first order for the new class.

Papanikolis (S120), the first-of-class U-214, was laid down in Kiel, Germany in February 2001 and launched in April 2004. In January 2005, HDW's ThyssenKrupp Marine (TKMS) parent company bought Hellenic Shipyards near Athens, Greece, and invested heavily in [modernizing it](#). Submarine work had already been underway since 2002, and Hellenic Shipyards built the next 3 Greek U-214 submarines: S121 Pipinos, S122 Matrozos, and S123 Katsonis.

Once the Papanikolis' sea trials began in 2006, however, the Hellenic Navy found a host of issues with the new submarine. Poor performance from the AIP system that supplements its diesel engines for long underwater operations, problems with the ISUS combat system, poor surface seakeeping in high seas, and hydraulic system issues were among the major flaws reported. The Navy refused acceptance, leaving HDW to fix the boat.

HDW set to work on Papanikolis, but the submarine has been docked in Kiel since 2006 waiting for Greek acceptance. HDW says acceptance is now justified, as the defects have been fixed, but the Greek government refuses to accept the boat. It has raised other issues, such as the ad-hoc nature of several required modifications to avoid disassembling the boat, the number of sea trials that have consumed some of the onboard equipment's operational life – and one rather more traditional reservation, which is not expressed but plays a role. Sailors are famously superstitious, and Papanikolis' tribulations have given it a reputation as an unlucky boat.

In 2010, a provisional agreement was reached. Greece would accept the U214s, and would shift Project Neptune II from 3 upgraded Poseidon Class boats to 1 upgrade plus 2 new U214 submarines, giving Greece a total of 6 U214s.

Contracts & Key Events



U-214 cutaway
(click to view full)

May 17/11: Germany's HDW has reportedly pulled out of the deal to build 2 new U214 submarines and overhaul one U209/1200 Poseidon Class boat at Hellenic Shipyards in Greece, due to "major disagreements" on broader project cooperation between ThyssenKrupp Marine Systems and new shipyard owners Abu Dhabi Mar.

Greek defense minister Evangelos Venizelos said that the pullout will not affect the delivery of the 4 U214 submarines that have been completed at Hellenic Shipyards. The deal in question is a substitution for the original Neptune II plan to overhaul 3 Poseidon Class boats, and add AIP propulsion sections (vid. Sept 15/10 entry). [Greek MoD](#) | [Expatica](#).

May 3/11: [Ekathimerini](#):

"At least 120 million euros was paid in bribes by the German firm that struck a deal with the Greek government for the sale of four navy submarines, according to German court documents seen by Kathimerini.... Two former executives of Ferrostaal, the Germany firm that was part of the consortium which won the contract, gave depositions in Munich concerning the kickbacks paid to secure the deal, which was worth just over 1.2 billion euros."

March 28/11: Greece's financial crimes squad (SDOE) delivers its report.

"Politicians, civil servants, military officials and middlemen are thought to have been paid off as part of the deal. Sources said that probes into the bank accounts of some Greek shipyard unionists also revealed money that was unaccounted for. Last week, a prosecutor called 37 people to answer questions about bribery allegations..."

Many of the Greek U214 fleet's custom features were reportedly inserted as a way of padding the bill, and allowing more under-the-table payments to be hidden. The revelations also spark a political controversy, as the current socialist PASOK government was in charge when the deal went down. [Ekathimerini](#).

Feb 27/11: An investigation by Greece's financial crimes squad (SDOE) has concluded that 3 former ministers, and several other public officials, should face prosecution for corruption. The allegations are that U-214 consortium partner Ferrostaal paid EUR 10 – 12 million in bribes to secure the EUR 1.26 billion deal.

The SDOE is due to deliver its findings to the Athens Prosecutor's Office at the beginning of March 2011. Greek judicial authorities will then make a request to German authorities for details of the financial transactions involved, while asking for the bank accounts of all alleged conspirators to be frozen. [Ekathimerini](#)

Sept 15/10: It took a bit longer, but the first stage of an agreement is now in place. Greece will accept the U214 submarine Papanikolis. A contract to sell of Hellenic Shipyards to Abu Dhabi MAR is signed with government approval, but must be ratified by the Greek Parliament.

The 3rd part isn't final yet. Instead of refurbishing 2 of the U209 boats under Project Neptune II, the Greek government wants to spend EUR 175 million more to convert that into a purchase of 2 more U214 submarines, a move that would keep Hellenic Shipyards open and working for a while longer. [Agence France Presse](#) via Defense News | [AFP via Expatica](#) | [BYM Marine & Maritime News](#) | [Capital.GR](#) | [Reuters](#).

March 11/10: Media reports quote Greek Defense Minister Evangelos Venizelos, who says that:

"We have reached a solution, which should be signed [March 18] and which protects the interests of the Greek navy as it means it will finally receive modern, functional submarines."

Reports say that Greece will acknowledge receipt of the Papanikolis, then sell it to a third party. In return, TKMS will drop a compensation claim for breach of contract. [Agence France Presse](#).

March 1/10: Greece approves the sale of Hellenic Shipyards from ThyssenKrupp Marine systems to Abu Dhabi MAR. The new joint venture will be led by ADM with 75.1% of the share capital of Skaramanga shipyard (HSY), with ThyssenKrupp Marine Systems retaining 24.9%. The move gives ADM something its [October 2009 acquisition](#) of large chunks of TKMS did not include: submarine construction capability.

ThyssenKrupp Marine Systems picked Abu Dhabi MAR in January 2010 as the preferred bidder for a majority stake; no details were disclosed, but TKMS had reportedly said in the past that the shipyards, which depend on Greek navy orders, would be sold at the price of one euro. TKMS reportedly received 5 bids for HSY, but found only Abu Dhabi MAR's to be acceptable. [Khaleej Times](#) | [Reuters](#).

Oct 21/09: [Kathimerini reports](#) that Greek Defense Minister Evangelos Venizelos held talks with ThyssenKrupp Marine Systems CEO Hans Christoph Atzpodien, in a bid to resolve the submarine issue. The basic framework of the deal appears to involve TKMS retaining the Papanikolis for resale, and the other 3 U214 submarines being accepted by Greece pending certain defined criteria. It adds:

"Sources said that ThyssenKrupp appears determined to quit its involvement in [Hellenic Shipyards SA] as early as next month, despite government concerns about the job losses that this might cause. There were, however, discussions between the two sides about how some private involvement in the shipyards could continue.... An unidentified third country is reported to be interested in buying the [Papanikolis] and the two sides have agreed that selling it would

be the best way out.... The two men reportedly agreed that if the technical problems are ironed out, Greece will accept delivery of the remaining three submarines.”

Sept 21/09: ThyssenKrupp notifies the Greek Minister of Defense that it’s formally canceling the Project Archimedes U-214 contract, and says it intends to seek international arbitration for contractual damages.

Unsurprisingly, this announcement is becoming an election issue in Greece. [Capital.gr](#) | [Aviation Week](#) | [Bloomberg](#) | [defpro](#) | [Jane’s](#).

July 2/09: ThyssenKrupp Marine receives a EUR 2.5 billion contract with Greece’s rival Turkey for 6 U-214 submarines, supplemented with Air-Independent Propulsion technology. They will be built at the military-owned Golcuk Shipyard near Izmit, using pre-built sections and equipment supplied by HDW, as well as Turkish electronics and items. Delivery is expected in 2015. Read DID’s [“Turkey Subs”](#) for more.

May 28/09: The Hellenic Navy’s Chief of staff, vice-admiral George Karamalakis, announces the future direction of Greece’s naval procurement. among these items, [DefenceNET Greece reports](#) that:

“The HN has decided to accept the 3 T 214 submarines that are being constructed in Greece but the first submarine of the PAPANIKOLIS class, that was build in Germany, is not going to be received by the Navy. Instead, a new submarine will be ordered, in order to fulfill the demand for 4 T 214 submarines.”

Feb 26/09: Greek U-209/1200 submarine HS Okeanos (S118) is re-launched at Hellenic Shipyards in Skaramangas, following a mid-life refit that added Air-Independent Propulsion. It is the first submarine to be re-launched under the Neptune II program. [Source](#).

Appendix A: Contracts Under Water – Greece’s 2009 Default



U-214 SSK

(click to view full)

Meanwhile, the other 3 submarines are reportedly complete now, or very close to it. Pipinos was launched in April 2007, Matrozos followed in 2008, and Katsonis was launched at the end of 2008. Not one of them has been accepted for service. Sources currently report payments to TKMS of almost EUR 2 billion, but accumulated payment arrears of EUR 524 million (\$770 million): EUR 300 million claimed by Hellenic Shipyards SA, and EUR 224 million owed to HDW.

Greece is facing very large budget deficits, expected to grow to 6% of total GDP in 2009. By dragging the problem out, the government can delay payments and possibly create enough pressure to renegotiate the price. In January 2009, Greek Defence Minister Evangelos Meimarakis lent credence to this view when he said that he would try to renegotiate the submarine contract. In May 2009, there were rumors of a deal that would have Greece accept the other 3 submarines once Pipinos passes acceptance trials, while HDW would be left with Papanikolis and could resell it elsewhere.

TKMS’ filing and notification indicate that these options have all failed. “The Greek state has long ceased to honour its contractual obligations,” said TKMS’ release announcing its cancellation of the contract for default. Commerzbank AG analyst Dirk Nettling is even more succinct: the Greek government “can’t pay, won’t pay, or has other priorities.” As a result, a TKMS spokeswoman told Jane’s that “...continuation of the contract is no longer economically justifiable.”

The cancellation is also set to affect the Neptune II project to upgrade and refurbish Greece’s existing U-209 boats by adding Air Independent Propulsion systems. While S118 has been accepted and re-launched, Jane’s reports that this contract has also been canceled.

This leaves the Hellenic Navy with something of a problem. Submarines have a limited safe lifespan, in part because of the regular squeezing and release of water pressure on their hulls. The youngest Type 209s are already pushing 30 years, which is a long time. Very few submarines can safely last beyond 40 years in service, a milestone that even refurbished Neptune II project boats would reach in 2020.

Given a required lead time of several years from orders to fielding, and the issues that a sustained contract cancellation would raise with potential builders, Greece may find itself with a limited window of just a few years to work out a new submarine strategy and place an order. The alternative would be a submarine force that could face significant operational limitations – and perhaps even no submarine force at all.

A problem its rival Turkey would not have, since Turkey is set to begin inducting 6 of its own U-214 submarines, beginning in 2015.

Germany Targets Greek Ex-Minister for Corruption: Report

AGENCE FRANCE-PRESSE

Published: 16 Apr 2011 11:00

BERLIN - German prosecutors are targeting a Greek former defense minister in a corruption probe concerning a submarine deal, the weekly Der Spiegel reported in its edition to be published April 18.

The weekly said Akis Tsohatzopoulos, who is also the object of an inquiry in Greece, had been named in charges against two former directors of the Ferrostaal company as a recipient of bribes.

Tsohatzopoulos told Der Spiegel, "I have never asked for or received money or other advantages in connection with the sale of submarines to Greece."

The prosecutions office in Munich, which is conducting the probe, was not available for comment April 16.

According to Der Spiegel, the charge sheet alleges that other Greek officials were also implicated in the 2000 deal involving four submarines built by Ferrostaal.

The weekly said Ferrostaal was suspected of paying hundreds of millions of euros in kickbacks to win contracts with foreign governments, including for a gas pumping station in Turkmenistan.

Current Greek Defence Minister Evangelos Venizelos last month accused German companies of encouraging corruption in his country over a long period, naming the Siemens group, Ferrostaal and its former parent company MAN.

He cited "elements" provided by a German legal investigation into Ferrostaal, and a report by the Greek financial authorities which, according to press reports, calculated that \$140 million in bribes had been paid.

A preliminary inquiry was launched by the Greek legal authorities but in view of the supposed involvement of former ministers, one of them identified by newspapers as Tsohatzopoulos, the case had to be sent to parliament.

German Firms Encouraged Corruption: Greek Minister

AGENCE FRANCE-PRESSE

Published: 30 Mar 2011 11:43

ATHENS - The Greek defense minister March 30 charged German enterprises with encouraging corruption in his country over a long period, citing alleged bribery in a deal to buy submarines from the Ferrostaal firm.

"There is an annoying problem ... which is that at a certain period all the big German companies dealing with the Greek state were creating a problem," Evangelos Venizelos told a radio station.

RELATED TOPICS

Europe

He named the Siemens group, involved in a high-profile corruption scandal in the early 2000s, the Ferrostaal company and its former parent company MAN.

"Our European partners should help us monitor the application of transparency rules, which are not violated uniquely or mainly in Greece, but above all in the countries of origin of the enterprises," he said.

He observed that "German law has since changed" and reckoned that the acts of corruption, which notoriously went unpunished in Greece, were "alas not punished in Germany either."

Venizelos launched his accusations while acknowledging that the order of four Type 214 submarines concluded and then extended under the previous Socialist governments of Costas Simitis between 1996 and 2004 were "clearly" tarnished by suspicions of corruption.

He cited "elements" provided by a German legal investigation into Ferrostaal, and a report by the Greek financial authorities which, according to press reports, calculated that \$140 million in bribes had been paid.

A preliminary inquiry was launched by the Greek legal authorities but in view of the supposed involvement of former ministers, one of them identified by newspapers as the Socialist former defense minister Akis Tsohatzopoulos, the case has to be sent to the parliament.

Greece only accepted delivery of the submarines in March 2010 to guarantee the survival of one of its shipyards and after long negotiations with the German authorities. It had blocked delivery in 2006, claiming problems in the construction of the first, the Papanikolis.

Bribes, Corruption Suspected in Greek Submarine Order

March 30, 2011 by Matthew Potter

Procurement fraud and outright crimes have afflicted government spending and contracting since the dawn of history. There have been many recent cases of bribery used to affect contract awards or purchasing decisions. This has included elected officials, civil servants as well as company representatives. There are cases large and small [from accusations against BAE Systems](#) (BAE:LSE) in a multi-billion deal with Saudi Arabia [to a U.S. Army Major who took \\$200,000 in bribes](#) from foreign companies to give them work in Iraq, Kuwait and Afghanistan.

Foreign military sales has always been one area that in the past has seen rampant bribery and corruption. In the last few decades governments have been cracking down on such practices especially the United States. They have made it illegal to use such methods to help win contracts overseas even if those practices were considered part of the cost of doing business. In 2008 for example **Siemens** (SI) [settled with the U.S. government](#) on charges they used such methods to win contracts.

Now [there are allegations that Greek defense and elected officials were bribed](#) to influence the award of a contract for four submarines to a German company. The contract was one of the largest in Greek history and would see one boat built in Germany and the other three in Greek yards.

The Greek government and the manufacturer, **ThyssenKrupp**, ended up having long running dispute about the quality of the submarine leading to the builder to threaten to cancel the deal outright. Greece then came up with the idea of taking delivery of only the first one and perhaps selling it directly themselves to recover some of the costs.

Greece's government is suffering from financial and debt issues and the idea that the contract was inflated in cost due to corruption has only added fuel to the fire of disputes between the government and political rivals.

Corruption distorts contracts so that the buyer may not get the best value for what could be limited funds. It also affects the contracting market as it may not allow a company with better

products the ability to sell those and they cannot or will not pay the necessary bribes to get the work. As more countries follow the U.S. lead in investigating and ending this type of fraud the overall defense market will benefit. Unfortunately stories like this remain much too common.

Read more: <http://www.defenseprocurementnews.com/2011/03/30/bribes-corruption-suspected-in-greek-submarine-order/#ixzz1RnzF63x6>

Submarine bribes reached 100 million euros, report says

New Democracy calls for parliamentary investigation into deal after Financial Crimes Squad probe

An investigation by the Financial Crimes Squad (SDOE) has found evidence that some 100 million euros was paid under the table to Greek politicians and officials in the purchase of four German submarines, sources told Sunday's Kathimerini.

The leaked findings prompted an angry exchange between the government and New Democracy.

The investigators believe that numerous bribes were paid before the contract was signed. It is alleged that one of the ways the bill was inflated, allowing for more under-the-table payments to be made, was for the navy and Defense Ministry to ask for the submarines to be fitted with all sorts of extra equipment.

Politicians, civil servants, military officials and middlemen are thought to have been paid off as part of the deal. Sources said that probes into the bank accounts of some Greek shipyard unionists also revealed money that was unaccounted for.

Last week, a prosecutor called 37 people to answer questions about bribery allegations. Greece ordered the Type 214 diesel-electric submarines, manufactured by ThyssenKrupp in Germany, between 2001 and 2005 but the deal, worth 1.26 billion euros, was plagued by complications after Greece rejected the first submarine due to technical problems.

New Democracy demanded that Parliament launch its own inquiry into the claims. "The continuous revelations confirm the widespread pillaging of public money but the government does not dare to take the initiative to ensure that this scandal is investigated by Parliament," said the conservative party's spokesman Yiannis Michelakis, who pointed out that the procurements had been made when PASOK was in power.

Government spokesman Giorgos Petalotis said that Michalakis was "knocking at an open door" as

SDOE's final report was immediately sent to a prosecutor.

ekathimerini.com , Sunday March 27, 2011 (23:00)

Three ex-ministers identified over submarine deal

Financial Crimes Squad to deliver report to prosecutor's office

An investigation by the financial crimes squad (SDOE) has concluded that three former ministers as well as several public officials should face prosecution over the complex purchase of four submarines by the Greek navy, Sunday's Kathimerini understands.

SDOE is due to deliver its findings to the Athens Prosecutor's Office this coming week and Greek judicial authorities will then make a request to German authorities for details of the financial transactions involved in the purchase of the submarines.

SDOE will also ask for the bank accounts of all those alleged to be involved to be frozen.

Greece had identified technical problems with the Type 214 diesel-electric submarine, manufactured by ThyssenKrupp in Germany, as being the reason for not accepting delivery of the four vessels that it ordered between 2001 and 2005

The first submarine, dubbed Papanikolis, had been docked in Kiel from 2006 until it was finally delivered last year. There was an agreement to build three of the submarines and refurbish another three at Hellenic Shipyards, west of Athens.

It has been claimed that Ferrostaal, a subsidiary of the MAN Group until 2009, which was part of the consortium that won the contract in 2000 to supply the submarines, paid 10 to 12 million euros to secure the deal for the first of these vessels.

The agreement for the four submarines was worth 1.26 billion euros.

ekathimerini.com , Sunday February 27, 2011 (15:24)

[Der Spiegel: Possible bribes in HDW-Greece Submarines Deal](#)

Posted by [keeptalkinggreece](#) in [Politics](#), 2/6/2011

A €55 million heavy bomb exploded in the hands of one prosecutor in Germany and one in Athens currently investigating the case of alleged bribes handed out to “relevant bodies” for the sale of four submarines Type U214 class and the upgrade of three older ones. German weekly DER SPIEGEL report relies on the testimonies of executives of Kiehl-based HDW-shipyard and its Essen-based distributor Ferrostaal.

According to the files, the executives had created a what we can call a ‘bribes squad’, a Team A” that had the money and the authority to bribe decision-makers in order to secure the state contract for the company.

DER SPIEGEL reports of 55 million euros that allegedly followed underwater ways and flowed into questionable channels.

The German prosecutor investigates more than 50 suspects apparently involved in the case for bribery and embezzlement.

The Submarine deal with Greece was signed in 2000 and 2002 and had a volume of 1.6 billion euros. Athens should receive four submarines Type 214-class. In addition three older Greek submarines should be upgraded.

For the **Howaldtswerke-Deutsche Werft AG (HDW)** that was a flagship project at that time. In order to win the billion-euro contract against competition from France, Sweden and the Netherlands, HDW-distributor **Ferrostaal** created an advisory group under the leadership **Hermann Graf von Pückler**.

The group, called “Team A”, had also another exquisite member, whose name was involved in an allegedly 220 million DM bribes case concerning the German Fuchs tanks of Thyssen in 1991.

The Kiehl-based HDW belongs to the shipyard group of the **ThyssenKrupp Marine Systems**

According to Greek daily [Kathimerini](#), a Greek prosecutor contacted his German counterpart on the issue two months ago.



Papanikolis

The delivery of one of the U-boats, the [Papanikolis](#), was extremely delayed as the submarine was found to have numerous technical problems, like excessive propeller cavitation, overheating of the air-independent propulsion system's fuel cells, and excessive rolling in bad weather when surfaced. The Hellenic Navy refused to accept *Papanikolis*; additional problems noted were inadequate air-independent propulsion system output power, inappropriate periscope vibration, sonar flank array problems and seawater leakage into the ship's hydraulics. The *Papanikolis* finally set sail for Greece in November 2010.

Read Original Story in German *Der Spiegel* : [Millionenzahlungen in fragwürdige Kanäle](#)

Probe into German-Greek Arms Deals Reveals Murky Side of Defense Sales

(Source: Deutsche Welle German radio; issued August 12, 2010)



The German submarine consortium, of which Ferrostaal is a member, has exported submarines to 17 countries in the past 60 years, including the Type 214 (above) to Greece. (TKMS photo)

Despite being heavily in debt, Greece keeps spending on arms. A probe into its accounts has led to an investigation into submarine deals with Germany and alleged corruption in the grey areas of the EU's defense sector.

After months of haggling over its involvement in the unprecedented European Union bailout to save Greece from defaulting, Germany finds itself at the center of another financial tangle with the debt-ridden Mediterranean nation - this time involving defense contracts Greece could ill afford and the shadowy deals behind them.

At the same time that German Chancellor Angela Merkel's cabinet was approving 22.4 billion euros (\$29.7 billion) in aid to Greece, prosecutors in Germany began investigating whether

defense contractors had paid millions of euros in bribes to Greek officials in connection with the sale of two German submarines in a deal worth more than a billion euros.

The investigation, which began in May, is focusing on the deal - part of a larger, complicated decade-old contract to provide Greece with a total of six submarines - struck between Berlin and Athens in March as Greece lurched toward bankruptcy. The investigation is also looking at similar defense deals struck between Germany and Portugal, another EU member state teetering on the brink of financial collapse.

German firm at the heart of bribery allegations

The probe is looking into allegations that Ferrostaal AG, one of the German companies helping to build the submarines, was involved in bribery. Ferrostaal executives are suspected by Munich prosecutors of authorizing payments worth millions of euros to politicians to win the initial deal in 2000 through a Greek company called Marine Industrial Enterprises.

According to records unearthed by the German investigation, Ferrostaal allegedly used false consulting contracts to cover up the bribes before distributing payments to "officials and decision-makers" in Greece. The prosecutors also allege that Ferrostaal accepted fees from other companies for bribes paid on their behalf, in effect operating a policy of subcontracted bribery.

While no charges have been brought in the on-going investigation into the submarine deal, several Ferrostaal executives stepped down in May and three company representatives have been indicted, along with individuals in Portugal linked to the Portuguese deals. The company itself could face fines in excess of 120 million euros if found guilty of bribing officials in Greece and Portugal.

Greece's economic crimes unit is also probing the transaction as part of its investigation into all weapons deals made by Athens over the past decade, deals said to be in the region of 16 billion euros in total, to determine whether Greece overpaid or agreed to deals for military equipment it didn't need.

Greece is the largest importer of conventional weapons in Europe and its military spending, the highest in the European Union, is widely accepted as one of the main reasons for the parlous state of its finances.

EU urged to clamp down on defence sector corruption

The revelations and investigations in the deals between Germany, Greece and Portugal have also prompted members of the European Parliament to call for the EU to launch its own probe, with some officials accusing Germany of making their military dealings with Greece a condition for its involvement in the country's bailout and profiting from Athens' profligacy.

German government officials have vehemently denied that Germany took advantage of Greece's spending habits to land lucrative defense deals and have dismissed claims that its involvement in the rescue package, in which Germany was the largest EU contributor of financial aid, was dependent on agreements being signed.

"This is a very difficult matter," Dr. Christian Moelling, a European defense expert from the German Institute for International and Security Affairs, told Deutsche Welle. "If Greece wants to spend the money, then of course it can but at the moment it is spending EU money...or, in fact, mostly Germany's money."

"The problem is that this submarine deal is an old deal. It was signed in 2000 before Greece had this level of financial problems. As with any deal, it is very hard to get out of the contract and the private actors in this deal have every right to get their money."

As well as the submarine deals themselves, it is thought that "offset contracts" were also signed to the tune of one billion euros. Offsets are arrangements made by purchasing governments with their suppliers, requiring the contractors to reinvest a percentage of the value of the deal in the importing country.

Offset deals under scrutiny in addition to illegal payments

"The arms trade is already an incubator of corruption with such large sums of money flowing around, and all that secrecy," Nick Whitney, a European defence expert at the European Council for Foreign Relations, told Deutsche Welle. "It's so easy to avoid clear accountability about what you've bought, and why. The best antidotes are transparency, and competition. But if you add offsets to the deal, it only gets murkier."

"The temptation to look for offsets - compensation for a big export of state capital - is understandable for some countries especially if you don't have an armaments industry of your own, and so can't expect to get compensated on a 'swings and roundabouts' basis."

Dr. Moelling describes offsets as side deals. "Direct offsets are deals which happen thus: the

purchaser will say, for example, 'we want to buy your fighter aircraft but we also want you to provide us with the industrial capability to build the missiles which goes with it.' The seller will perhaps build the factory, pass on the technical knowledge or include the license to build the missiles in the deal for the plane."

"Indirect offsets work in much the same way but the additional deal will include something not attached to original product; we buy the plane, you build a hospital," he added. "These offsets often go beyond just the supplying company and can include participation by the supplier's government. In the case of the submarines, this would be the German government."

Grey area of EU defense sector open to abuse

Under many trade agreements and in most industries, offsets are illegal but the EU allows them in defense procurement where member states can invoke a "national security" exemption. Opponents of offset agreements say they are negotiated among companies with government favoritism and violate the EU's internal market competition rules.

"In the civilian field, offsets are illegal but in the defense sector, they are legal," Dr. Moelling added. "In the EU, article 346 of the current treaty says that any agreement can be overruled if it is claimed to be in the national security. The problem is that there are many different opinions on offsets in the EU. Germany says they are not helpful as they blur the actual price of products. Greece meanwhile has a very active offset policy while other countries have no official policy. Offsets aren't part of any typical market so they're very hard to monitor and are highly politicized."

"The European defense agency recently brokered an agreement amongst European member states to limit offset to 100 percent of the value of the arms contract," Nick Witney said.

"Previously, many member states were looking for a lot more. Austria was the most striking case - they used to demand 300 percent offset. In such circumstances, weapon-buying becomes the least important part of the transaction - the big money is in the offset. So any pretence that you are buying the best weapon at the best price for your military needs goes out of the window – no-one can really disentangle why you've bought what you've bought."

The EU has been called upon to tackle the "national security" exemption invoked by member states when dealing in offsets. The EU is planning to introduce a new "defense procurement directive" which will restrict the areas in which governments can use the exemption and demand that the offsets they are involved in are necessary for the protection of security

interests and do not break competition rules.

"It's not only on the weapons side of the deal that competition gets distorted," Witney added. "If the arms seller agrees to buy 1,000 trucks from you in compensation, what's that done to all the rules of the single market about fair trade in trucks? The treaties make clear that, although 'national security' gives member states latitude to ignore single market rules in their arms purchases, they must not in doing so distort competition in non-military goods."

-ends

Calls for EU to Halt Corrupt Defense Deals

Critics are asking the European Commission to crack down on pricey military sales to indebted member states, especially those involving unrelated side deals

By [Valentina Pop](#) , July 27, 2010

MEPs and defence experts are calling on the European Commission to go after market-distorting and allegedly corrupt side deals attached to big weapons purchases between member states, such as the ones greasing Germany's submarine sales to Portugal and Greece.

As EU officials are packing their holiday suitcases in Brussels, prosecutors in Germany, Portugal and Greece are tracing the complex trails of alleged bribes and side-contracts associated with the German submarines that Portugal and Greece signed up for at a price of more than €1 billion.

The hypocrisy of allowing Greek and Portuguese governments to allocate huge parts of their budgets to questionable defence purchases while they are being pressed for austerity measures to trim their deficits has already made headlines such as "[The Submarine Deals That Helped Sink Greece](#)" in the *Wall Street Journal* earlier this month.

"What's striking about Greece and Portugal is the inappropriateness of these purchases," Nick Witney, a defence expert with the European Council on Foreign Relations, a London-based think tank, told *EUobserver*. "It makes no sense at all to urge austerity and at the same time encourage them to buy weapons. But where there's a nexus of security, secrecy and lack of competition, there is always an open field for corruption," he noted.

Munich-based investigators in March opened a case against the German engineering group [Ferrostaal](#), which is [suspected of paying bribes](#) to secure defence contracts in Portugal and Greece and of organizing bribery payments on behalf of other firms for a fee.

The investigation has meanwhile spread to Portugal and Greece, and touches on former party colleagues of European Commission president Jose Manuel Barroso, who was prime minister at the time the contract was signed. Mr Barroso has denied any involvement in the alleged bribery scheme and says he had nothing to do with the negotiation of the contract, which was the responsibility of the defence minister.

Along with the acquisition per se came "offset contracts" to the tune of €1 billion, meaning direct foreign investments from Germany and business opportunities for Portuguese companies in the German market.

Under EU law, offsets are forbidden, except in the defence sector, where member states invoke a "national security" exemption.

As it turns out, a lot of these offsets were actually existing investments. Seven Portuguese executives and three Ferrostaal representatives have already been indicted. According to the public prosecutor's office, the Portuguese state was misled in these deals and suffered damages of at least €34 million.

According to estimates by the European Defence Agency, 25 percent of the offsets in Europe are non-military and have no direct connection with the purchase.

"These contracts totally violate the EU's internal market competition rules," Portuguese Socialist MEP Ana Gomes told *EUobserver*. "They are contracts negotiated among companies with government favouring and in total disregard of the competition rules. There are plenty of reasons why the European Commission should investigate, and make it an exemplary case to deter such behaviour from now on from any member state."

So far, the commission has turned a blind eye to the non-military contracts occurring alongside large defence procurements.

A new "defence procurement directive" which needs to be transposed into national legislation by August 2011 is set to shed more light into the way such deals are done and restrict the areas in which governments can invoke the "national security" exemption to internal market rules.

Member states will need to prove that the offsets are necessary for the protection of security interests and not distort competition on non-military markets.

During his hearings as internal market commissioner, Michel Barnier said the defence offsets "bring about discriminations which contradict the [EU] treaty." While acknowledging the "traditions and sensibilities," he said these procedures had to be "put to an end."

But to Ms Gomes, the commission is missing an opportunity to "expose a very corrupt business that involves Portuguese, German companies, government officials and military people."

In a time of budget austerity and market jitters, the two submarines acquired by Portugal account for about 40 percent of its defence spending until 2023.

"We don't have money to equip properly our military and security forces, we are wasting this money in a very corrupt business and violating competition," Ms Gomes points out.

Voluntary code of conduct

A "voluntary code of conduct" adopted by all member states except Romania last year meanwhile puts some limits on offsets, such as requiring that the value of these contracts not surpass 100 percent that of the actual purchase.

Apart from being "voluntary," the code has also come under fire for lacking any reference to corruption, despite the fact that the defence sector is one of the most prone to this phenomenon, according to Transparency International.

"We would have hoped EU agencies required high standards, but this is not the case," Mark Pyman, the watchdog's defence expert told this website.

He also said that market-distorting deals are "clearly a question of internal market" for the Commission to investigate.

"We need clear guidance how governments conduct and audit offsets and an EU framework putting transparency at the core," he concluded.

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