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By the International Consortium of Investigative Journalists

The Business of War: Making a Killing

1. Making a Killing: The Business of War

In February 2002, Belgian authorities issued an international arrest warrant for Russian arms dealer Victor Bout on charges of money laundering and conspiracy. Days later, Bout – who allegedly also supplied weapons to the Taliban in Afghanistan – sauntered into the studios of a Moscow radio station a few blocks from the Kremlin to protest his innocence. "What should I be afraid of?" he asked, live on air, as Russian police claimed they could not find him. Bout believed he was untouchable, and with reason. In order to operate one of the largest arms-trafficking networks in the world, he had cultivated influential friends – from African heads of state to senior figures in Russia's post-Soviet intelligence world.

Bout's swagger is not altogether unique. He epitomizes a new breed of opportunists that has come to dominate the global landscape of conflicts since the end of the Cold War. Gone is the superpower ideological divide that once gave a strange sort of order to the world's wars. In its place are entrepreneurs, selling arms or military expertise and support, and companies, whose drilling and mining in some of the hottest spots often prolong conflict and instability. Additionally, the military downsizing that followed the end of the Cold War and the collapse of the Soviet Union flooded the market with surplus arms and trained soldiers looking for a job.

As Pete Singer, an Olin Fellow in the Foreign Policy Studies Program at the Brookings Institution, said: "This incredible dump of goods and services has made it much easier for non-state actors to fight a war."
A nearly two-year investigation by the Center for Public Integrity's International Consortium of Investigative Journalists into the business of war has found that these non-state actors – despite their appearance of being freelancers – have copious connections to intelligence services, multinational corporations, political figures and criminal syndicates in the United States, Western and Eastern Europe, Russia, Africa and the Middle East. Often, they work as proxies for national or corporate interests whose involvement is buried under layers of secrecy. "Western chancelleries have not renounced their self-proclaimed right to influence the course of events," the French political scientist Jean-Francois Bayart wrote in the journal *African Affairs* in April 2000. "But they now prefer to act through private operators, including both commercial companies and non-governmental organizations, and even in the field of defense."

Private military companies, or PMCs as the new world order's mercenaries have come to be known, allow governments to pursue policies in tough corners of the world with the distance and comfort of plausible deniability. The ICIJ investigation uncovered the existence of at least 90 private military companies that have operated in 110 countries worldwide. These corporate armies, often providing services normally carried out by a national military force, offer specialized skills in high-tech warfare, including communications and signals intelligence and aerial surveillance, as well as pilots, logistical support, battlefield planning and training. They have been hired both by governments and multinational corporations to further their policies or protect their interests.

These companies do not represent the dark underbelly of war commerce and, indeed, their supporters argue that PMCs save lives and bolster security, all while being more cost-efficient than national militaries or international peacekeeping operations. But many operate in the same black hole of information that allows war profiteers like Bout to work with impunity.

War or criminality?

Much of what has been called war during the past decade – especially in places like Sierra Leone and Angola – is merely an extreme form of criminality. Some of the arms dealers and entrepreneurs tracked in the ICIJ investigation crossed regularly between the secretive worlds of war commerce, organized crime and terrorism. One measure of their influence is the deadly trade in arms. Compared to the legal trade in arms, the number of weapons shipped illegally is small – about 10 percent of total world sales. But small arms have been the weapons of choice in 90 percent of the conflicts since 1990 and were responsible for almost 100 percent of the killing. Arms dealers such as Bout, Leonid Minin and Jacques Monsieur have been at the forefront of the most extensive yard sale in history – a massive unregulated sell off of low price surplus armaments into the most fragile, conflict-ridden corners of the Earth. The weapons, mostly from state-owned Eastern European factories, have found their way to Angola, Sudan, Ethiopia, Colombia, Congo-Brazzaville, Sri Lanka, Burundi and Afghanistan – conflicts in which up to an estimated 10 million people have died during the past decade.

It is hard to imagine that a few individuals could have such influence, but as Tom Ofcansky, a specialist at the U.S. State Department's Bureau of Intelligence and Research, pointed out: "The impact of a few planeloads of arms, as we've seen repeatedly in Africa, had a devastating impact on fragile African societies." Two helicopter gunships piloted by South African mercenaries, for example, altered the balance of war in Sierra Leone in 1999 in favor of the government. Arms shipments were bolstered by highly trained soldiers and pilots – war veterans from apartheid South Africa, the Ukraine, the Israeli Defense Force, U.S. Special Forces and the British Special Air Services – who came onto the market, selling their services.

The entrepreneurs and their sponsors did not invent this world. Large parts of Africa and parts of South Asia and Latin America have experienced state collapse, where leaders are no longer able to impose law and order. However, developed nations have aided or, at a minimum, turned a blind eye to the activities of their nationals which are fueling wars. "You have situations, where states are collapsing or completely out of control," said Johan Peleman, a Belgian arms investigator. "They invite the sort of investors that thrive on this lack of oversight, on this lack of control, on this lack of interest in the background of the investor."

Some African governments are little more than criminal syndicates – warlords such as Charles Taylor, the president of Liberia, or more sophisticated elites, such as the rulers of Angola. But to sell diamonds and timber and oil onto the world market requires foreign partners. The people doing the extracting, the bribing, the arms dealing, and the deal-making are South African, Belgian, American, Israeli, French, Ukrainian, Lebanese, Canadian, British, Russian, Malaysian, and Syrian. They are a class of entrepreneur that operates beyond borders, often unaccountable to shareholders and unfettered by the regulation they would encounter in their own countries. They have become influential political players in the countries in which they operate. "You have presidents that then attract investors that are just out to make a quick few million, mostly at the expense of the local population or the long-term situation of that country," says Peleman. "At the same time, real Mafia organizations and organized crime are attracted to this kind of situation."

The end of the Cold War led to a profound disengagement of the United States and its allies from formal involvement in the wars of the developing world. The West's reluctance to intervene in small wars was driven by the 1993 debacle in Somalia, when 19 U.S. soldiers and 1,000 Somalis died in a disastrous attempt at ridding the country of the warlord and food profiteer, Mohammed Farrah Aideed. Even the notable exception to this trend, the Balkans, was left to fester for years before American and NATO power was brought to bear on the thuggish regime of Slobodan Milosevic, despite the fact that the former Yugoslavia was on Europe's doorstep and its implosion threatened the integrity of the Atlantic alliance. In most instances, the big powers withdrew their direct sponsorship of rebel movements and regimes, which in turn had to become self-financing businesses to pay for the weapons, training and mercenaries they needed to overthrow governments or protect their tenuous hold on power.

When Jonas Savimbi, the leader of Angola's rebel UNITA forces, refused to accept his defeat in elections in Angola 1992, he paid for his arms by seizing the diamond fields in the northeast of the country. He created an elaborate mining operation and buying system and imported a workforce from neighboring Zaire (now Congo). He also recruited a network of Belgian and South African diamond dealers, a structure that was replicated in Sierra Leone. Wars that had been shaped by U.S.-Soviet competition were overtaken by wars in which governments, guerrilla groups and criminal organizations - sometimes interchangeable - battled it out for access to wealth, potential wealth or trafficking routes. Often the conflicts reached a point of equilibrium at which both sides could loot and profiteer. David Keen of the London School of Economics wrote in an International Committee of the Red Cross book on war, money and survival that the perception of a civil war in which the combatants actively seek to win the war is increasingly faulty. "Civil wars spawn their own political economy, from which all sides of the conflict might benefit. As a result, some parties may become more anxious to prolong a war than to win it."

The Democratic Republic of the Congo went back to war in 1998 over political differences between President Laurent Kabila and his erstwhile mentors in Rwanda and Uganda. Yet the original cause of the conflict was obscured and forgotten as occupying armies on both sides looted the country's resources. War brought no one closer to developing the Congo. It could only support a plunder economy, the most basic of mining operations – digging for coltan or diamonds or stripping forests.

An orphan child

There have been notable attempts – in France, Switzerland and Italy – to clamp down on criminal networks that have profited from war. But these have been hampered by a lack of intelligence and law enforcement coordination.

When Minin, a Ukrainian arms dealer, was arrested with bags of cocaine and diamonds in his pockets and prostitutes on his lap in a hotel room in Monza, Italy, it took weeks for the authorities to find out that he already had been convicted of fraud in Germany, banned from Switzerland and Monaco, that there were bulging files on his criminal activities in Belgium and France, and that he was, in fact, wanted by the Italian police in connection with alleged Mafia activities and drugs and arms trafficking. "The African arms trafficking issue was an orphan child in the greater scheme of things," Ofcansky, the U.S. State Department arms specialist, said.

The United States, despite having the best anti-arms trafficking legislation in the world, lost interest in the global trade outside its borders just as that trade was mushrooming, according to a senior U.S. Customs official who spent decades investigating the black market in weapons. Up until 1995, Customs agents tracked international weapons trafficking through intelligence and undercover operations, he said. During the Clinton administration, there was a change in emphasis – one that extended to the Bush administration. "The change of attitude by the administration severely restricted us in our work," the agent told ICIJ. "People were basically saying, why are we sticking our noses in these matters? Okay, there's a guy from Russia selling weapons to Ethiopia. Why should we care?" Monitoring arms trafficking to Africa, one law enforcement official said, was a part-time job at Interpol.

International arms embargoes, meanwhile, were ineffective and seldom enforced. Although the United Nations resorted to publicly outing culprits like Bout, no one was prosecuted for violating U.N. arms embargoes. And Western intelligence agencies adopted a tolerant attitude when it suited them. In September 2000, Monsieur, a Belgian arms dealer, told a French judge of having been contacted in Brussels by the CIA and, with the blessing of the French civilian intelligence agency, of having sent tens of millions of dollars in weapons to Croatia. From 1991 to 1995, he found his best markets in Croatia and Bosnia, even though the two countries were under a U.N. arms embargo to which the United States paid public lip service. Monsieur also dealt arms in Iran, Qatar, Zaire, Burundi and Congo-Brazzaville.

Indeed, the failure of intelligence agencies to share information hindered law enforcement. "Despite the fact that it is a secret world, we were at least able to find out some very interesting inner workings of the arms trafficking trade," said Ofcansky. "But, again, what does one do with that information? Much of it is highly classified and cannot be shared. I think this is another challenge facing the West in this proliferation of secret worlds. And there's going to have to be a rethink, a more generous declassification process eventually, to help come to terms with some of these problems."

The arms dealers cannot be viewed in isolation, however. The diamond industry took little action to police itself as gemstones became one of the prime currencies in Africa's wars and, it was later revealed, for terrorists. With so-called conflict diamonds being laundered through the exchanges of Antwerp and Tel Aviv, the industry responded only after it was challenged by nongovernmental organizations such as Global Witness, whose campaign against blood diamonds created so much bad publicity that the industry was forced to devise measures to clamp down on stones from conflict zones.

Blue chip corporations were squeamish about investing in lawless societies, but large oil companies, which followed the natural deposits, had no choice but to engage. Most turned a blind eye to how their involvement helped fund various despots or conflicts. But, according to numerous court cases, statements by former officials and press exposés in France, the now-defunct French state oil company, Elf Aquitaine, went beyond indifference, financing the purchase of weapons and hedging its bets in Congo-Brazzaville and Angola by supporting and helping arm both sides.

September 11

The failed states within whose boundaries the wars were conducted helped launch new and dangerous movements, which thrived in a world of lax banking rules, secretive arms networks, and surreptitious financing methods. Michael Westphal, the deputy assistant U.S. defense secretary for African affairs,

warned in April 2002 that 40 out of 48 African states were too weak to prevent members of al Qaeda or other terrorist organizations from transiting, stationing themselves, or raising funds and planning operations from their territories. "I think the September 11 tragedy underscored the fact that the West could no longer afford to ignore or give a very low priority to failed states," Ofcansky said. "These are breeding grounds not only of arms traffickers, organized crime, but also of terrorists."
The aftermath of the Sept. 11, 2001, terrorist attacks on the United States showed what could be achieved with greater political will. Bout, the Russian arms trafficker, operated with impunity for years in Africa's conflict zones. Even when the United Nations cited him frequently in its reports on individuals and companies involved in the shady world of arms and diamonds dealing in Africa in 2000, Bout continued to ply his trade. If he felt uncomfortable or under scrutiny, he would simply move his planes to a new base – from Belgium to South Africa to Swaziland to Equatorial Guinea. For years, his head office was in the United Arab Emirates because the free trade zone allowed him to come and go at will with very little oversight.

U.S. authorities in 1999 became aware that Bout was also supplying weapons to the Taliban and sought the assistance of Belgium and South Africa in investigating him. But after the Sept. 11 attacks, Bout was more than a bad guy, he was an enemy in the war on terrorism. He fled back to Moscow where, although he remains at large, his operation appears to be largely crippled. Bush administration officials initially opposed international moves to impose strict controls on the purchase and sale of diamonds, but softened their stance after reports that Osama bin Laden made good use of the diamond trade in West Africa, employing the dealers and networks that had helped to fund rebel forces in Angola and Sierra Leone. U.S Rep. Tony Hall, an Ohio Democrat who sponsored legislation to place trade sanctions on countries that sell diamonds to finance war or terrorism, said after the legislation was approved that reports on Bin Laden's role in the trade "put us over the edge."

But the ability to launder conflict diamonds through the official system remains. A U.S. government report in February 2002 found that the new process the industry has devised to police itself is inherently flawed. And the evidence seems to suggest there will be less, not more, effort devoted to policing criminal networks trafficking in the war zones of the world. While the wars in Angola and Sierra Leone ended in 2002, fresh conflict erupted in Liberia, Congo-Brazzaville, the Central African Republic, and fighting continues in Sudan and the Congo. Afghanistan continues to threaten a return to warlordism, and the United Nations, fearing a resumption of hostilities in Sierra Leone, has extended its peacekeeping mandate there. Ofcansky, the U.S. State Department official, said there is a crying need for international law enforcement aimed at curbing global criminals. "What are needed are U.N. inspection teams in ports and airports, with the authority to detain aircraft or ships, or arrest people – that requires a significant change in the international system. But that's not going to happen anytime soon."

2. Privatizing Combat, the New World Order

In 1998, unbeknownst to most Americans, the United States had a military presence in a remote African war that drew little attention from the media. Unlike other U.S. interventions in Somalia, Bosnia, Haiti and Kosovo, there was no hand-wringing over whether a deployment was justified by U.S. national interests, whether troops would be spread too thin, whether American men and women should be put in harm's way in a fight that had little to do with Main Street America, or whether the level of barbarity justified, on its own merits, the deployment of U.S. troops on humanitarian grounds.

The conflict in Sierra Leone, in which the rebels of the Revolutionary United Front displayed a ghastly predilection for amputating the limbs and noses of their victims, could certainly compete with the horrors of "ethnic cleansing" in Bosnia and Kosovo and the man-made famine engineered by warlords in Somalia. In November 1998, the RUF was in the middle of an orgy of looting, murder and decapitation, an operation codenamed "No Living Thing." There was international intervention aimed at stopping the bloodshed. Sierra Leone's demoralized and under-equipped national army was bolstered by Nigerian troops – flying the colors of the West African peacekeeping force, ECOMOG – and a handful of South African mercenaries in helicopter gunships who made constant forays into the battle zones to attack the RUF. In Freetown, the country's capital, two large transport helicopters circled in the air, backing up the Nigerian troops. Painted on their fuselages were American flags.

This small U.S. contribution to defending Sierra Leone was not conducted by an elite unit of the Army, Navy or Marines, but by a private, Oregon-based company, International Charter Incorporated of Oregon (ICI), managed in part by former U.S. Special Forces operatives. ICI is one of several companies contracted by the State Department to go into danger zones that are too risky or unsavory to commit conventional U.S. forces. It also has been active in conflicts in Haiti and Liberia. ICI's role in Sierra Leone was to back up the Nigerian troops, providing transport and medical evacuation services. The hot combat, as one former ICI employee explained to the International Consortium of Investigative Journalists, was left to the South African mercenaries. But ICI personnel inevitably and often were shot at and forced to return fire, according to team members interviewed by ICIJ, a right these sources claimed was explicitly extended to ICI in a letter from then-U.S. ambassador to Sierra Leone, Joseph Melrose. The State Department did not respond to requests for comment by telephone or through the Freedom of Information Act on whether such a letter was issued. ICI refused to respond to a number of questions put to the company on several occasions.

The United States had little real interest in Sierra Leone itself. U.S. involvement was driven by the fear that the instability and anarchy caused by the RUF and its sponsor, Liberian President Charles Taylor, would prove a danger to Washington's ally Nigeria, an oil-rich nation that is the fifth largest supplier of crude to the United States. For ICI, the mission to Freetown was business, but it also advanced U.S. foreign policy. ICI's deployment is part of a global trend of military outsourcing and foreign policy by proxy that has become far more common since the end of the Cold War. With the collapse of the Soviet Union, the nature of international conflict shifted from U.S.-Soviet competition in client states to regional and ethnic conflicts requiring peacekeeping or other engagement. At the same time, the end of Cold War resulted in reduced superpower defense budgets, forcing even high-ranking military officers to sell their talents in the public sector. This collision of supply and demand resulted in a new age of military and security services on the world market.

In fact, a nearly two-year investigation by ICIJ identified at least 90 private military companies, or PMCs (as some of these new millennium mercenaries prefer to be known), that have operated in 110 countries worldwide. Most of these companies – defined as providing services normally carried out by a national military force, including military training, intelligence, logistics, combat and security in conflict zones – are headquartered in the United States, Britain and South Africa, though the vast bulk of their services are performed in conflict-ridden countries in Africa, South America and Asia. Eleven of the companies identified by ICIJ are no longer active, and the operational status of 18 others could not be determined.

"Mercenaries" are officially outlawed under Article 47 of the Geneva Convention, which defines them as persons recruited for armed conflict by or in a country other than their own and motivated solely by personal gain. However, few modern PMCs fit that definition and, indeed, spokesmen for such companies insist they rarely engage in combat and provide military skills only to legitimate, internationally recognized governments. The ICIJ investigation found that a wide range of companies – from large corporations that offer military training, security, landmine clearance and military base construction to start-up entrepreneurs offering combat services and tactical training – are in what has become the complex and multibillion-dollar business of war.

Since 1994, the U.S. Defense Department has entered into 3,061 contracts with 12 of the 24 U.S.-based PMCs identified by ICIJ, a review of government documents showed. Pentagon records valued those contracts was more than $300 billion. More than 2,700 of those contracts were held by just two companies: Kellogg Brown & Root and Booz Allen Hamilton. Because of the limited information the Pentagon provides and the breadth of services offered by some of the larger companies, it was impossible to determine what percentage of these contracts was for training, security or logistical services.

Traditionally, the U.S. government provided military training to foreign governments directly. That changed in 1975, when Virginia-based military construction company Vinnell Corp. won a $77 million contract to train the Saudi Arabian National Guard to protect oil fields. The Saudi deal is considered the first time a U.S. civilian company obtained an independent contract to provide a foreign government with military services, a development initially greeted by significant media skepticism and vitriolic debate. Since then, the contract has been renewed with far less attention. Copies of 1991, 1995 and 2000 contracts, obtained by *U.S. News & World Report* and reviewed by ICIJ, show a total estimated value of nearly $500 million, and include training in counter-intelligence, "chemical defense" and other areas of operational security. Vinnell refused to comment on the contracts. From 1995 to 2000, subsidiaries of Vinnell's parent company BDM reportedly obtained more than $150 million in contracts to provide logistical support and other services to the Saudi air force.

The U.S. Defense Department has increasingly turned to outside vendors for logistical support, one of the most heavily out-sourced sectors for the armed forces in both peacekeeping and wartime. In Bosnia, for example, the ratio of contractors to American soldiers has ranged from one in 10 to nearly one-to-one, according to various defense analysts. The trend gained momentum after the 1991 Gulf War, in which troops were heavily supported by a panoply of private contractors. A 1995 report of the Defense Science Board, a standing committee that advises the Pentagon on technological, scientific, and other issues, suggested that the Pentagon could save up to $6 billion annually by 2002 if it contracted out all of its support functions to private vendors, except those that deal directly with war fighting. The trend has persisted, as evidenced by a 2002 state-of-the-military review in which Defense Secretary Donald Rumsfeld emphasized the success of the department's outsourcing of non-core responsibilities, stating that he would "pursue additional opportunities to outsource and privatize."

The strong links between the U.S. government and many of the private military companies that contract with them has presented questions regarding the revolving door between government and the private sector. In 1992, the Pentagon, then headed by Defense Secretary Dick Cheney, paid Brown & Root Services $3.9 million to produce a classified report detailing how private companies could help provide logistics for American troops in potential war zones. Later in 1992, the Pentagon gave Brown & Root an additional $5 million to update the report. Brown & Root (now called Kellogg Brown & Root, or KBR) is a subsidiary of Halliburton Corporation, which Cheney, the U.S. vice president, headed as CEO from 1995 to 1999. Brown & Root was also awarded contracts in 1995 and 1997 to provide logistical support in the Balkans, where the U.S. military has been enforcing the 1995 Dayton Peace accord that ended the war in former Yugoslavia. Those contracts mushroomed to $2.2 billion worth of payments over five years, according to the General Accounting Office, the investigative arm of Congress.

Brown & Root is hardly the only PMC that raises questions about the revolving door. Frank Carlucci, who served as defense secretary in the waning years of the Reagan administration, was chairman of BDM when it acquired Vinnell; he is still chairman of the Carlyle Group, a merchant banking firm that owns BDM and counts a plethora of former government officials, including former President George H.W. Bush, his secretary of state, James Baker, and his director of the Office of Management and Budget, Richard Darman, as consultants, advisors, and executives. During Carlucci's tenure at BDM, the company greatly expanded the number of contracts it had with the U.S. government; by 1994, the company had revenue of $774 million, up from the $295 million the company grossed in 1991, the first full year that the Carlyle Group owned the company.

Wall Street has noticed the booming business of both foreign and domestic PMCs. Security companies with publicly traded stocks reportedly increased in value at twice the rate of the Dow Jones industrial average in the go-go 1990s. Revenue from the global international security market was projected to rise from $55.6 billion in 1990 to $202 billion in 2010, an estimate that has risen sharply since the Sept. 11, 2001, terrorist attacks on the United States. The stock of guard providers Wackenhut Corp. rose 26 percent between Sept. 10 and 17, while that of Armor Holdings Inc., which provides a wealth of products and services for the military and law enforcement, traded at 31 times its 2002 projected value. Fortune magazine named Armor Holdings, a Florida-based conglomerate, one of "America's 100 Fastest Growing Companies" in 1999. The company specializes in security products and services with myriad subsidiaries involved in everything from bulletproof vests and fingerprinting powder to computer security systems and landmine reduction services.

Like the defense industry generally, the trend among PMCs has been toward mergers, acquisitions, and consolidation. In August 2001, Armor Holdings acquired O'Gara-Hess & Eisenhardt Armoring Company, the world's largest armored transport provider, boosting its 2001 earnings to $292 million. L-3 Communications, which has nearly $2 billion in annual revenue, was formed in April 1997 with the purchase of business units that were spun off after Loral Corporation and Lockheed Martin merged in 1996. L-3 Communications bought Military Professional Resources Incorporated (MPRI), which consults for and trains armed forces around the world, in July 2000.

As the industry continues its rapid growth, foreign governments are trying to figure out how - or if - to regulate it, thereby deterring PMCs from becoming vehicles for clandestine foreign policy, arms trafficking, or simply waste and mismanagement. The United States and South Africa are the only countries that exercise some regulatory oversight of domestic PMCs; other governments have acknowledged the need for the services PMCs offer, but have yet to develop a structure to oversee them.
In early 2002, the British government's Foreign and Commonwealth Office released a report titled "Private Military Companies: Options for Regulation." The report argued that PMCs could actually aid in low-intensity conflicts and proposed regulating them as soon as possible rather than leaving them to operate unchecked. The British press, however, had a field day with the notion that "mercenaries" would take the place of blue-helmeted U.N. soldiers, and a public outcry ensued. The report also pointed to the United

States as the only place in the world where PMCs have become “major military corporations,” effectively licensed for over two decades “without apparently giving rise to major problems.” Ooutsourcing and civilian contracting compromise our fighting forces, nor our ability to fight and win the next war.”

A ‘national resource’

MPRI – headquartered in an office suite that looks more like a Fortune 500 company than a military command center – is located in northern Virginia, home to the Pentagon and the galaxy of defense-related companies that orbit it. Portraits of MPRI’s founders and CEOs in uniforms decorated with the stars and bars denoting the highest ranks of the U.S. military line the office walls. President Carl Vuono served as army chief of staff from 1987 to 1991 and oversaw the U.S. invasion of Panama and the Gulf War; Harry E. “Ed” Soyster was the former head of the Defense Intelligence Agency; and Crosbie Saint was the former commander of U.S. Army Europe.

MPRI was founded in 1988 as a military training consultancy by three generals who found themselves retired years earlier than they expected. “The concept was that there’s a national resource in retired military people,” Soyster told ICIJ. By providing training privately, MPRI’s founders saw themselves as freeing scarce infantrymen for combat. The company grew to become profitable in a couple of years and, in May 2002, MPRI reported annual sales of $95 million. According to MPRI’s Internet site, the company employs 700 people and has more than 12,000 former servicemen from the military, law enforcement and other fields available on a contract basis. The company’s first customer was the Defense Department, which hired MPRI to staff a colonel’s training course, and its business still consists largely of defense contracts for training and support services.

According to Soyster, as the Cold War ramped down, the company saw another potential market in former Warsaw Pact states trying to move toward NATO aid and membership. After seceding from Yugoslavia, Croatia approached MPRI to restructure its military. “They literally came to us and said, ‘we know what we want but we don’t know how to do it because we’re a bunch of Communists,’” Soyster said. The MPRI contract with Croatia, signed in September 1994, was one of the first training contracts between a modern PMC and a foreign government, Soyster boasted. It turned out to be a mixed blessing for the company. The United States had wanted to restrain Serb-led Yugoslavia without a messy U.S. military commitment and saw a reinvigorated Croat military as essential to that goal. MPRI officials said at the time that the company’s contract was simply to teach the Croatians Western military principles and that tactical training was not included in the plan. In August 1995, less than a year after MPRI moved in, the Croatian army launched a lightning offensive that recaptured Serb-held enclaves of Croatia – a battlefield success the Croats had been unable to achieve in the previous four years. The Croat offensive led to further military action by the neighboring Bosnians against Serb-held positions that ultimately resulted in peace talks ending the Yugoslav war. But the military push forced more than 150,000 ethnic Serbs from their homes and left an “ethnically cleansed” Croatia.

A 1996 report by a U.S. congressional subcommittee found that the Clinton administration had encouraged Croatia to allow arms from Iran and other countries to transit its territory in violation of a U.N. arms embargo in order to bolster beleaguered Bosnian forces. Congressional investigators looked into MPRI’s role in the region, but their final report, much of which remains classified, said there was no evidence to back up European accusations that the U.S. government directly contributed military intelligence and weapons to the Bosnian army.

Soyster denies that MPRI acted under the tacit direction of the U.S. government in the Croatian deal. “We went over and taught democracy transition because that is what (the Croatians) wanted. They didn’t ask us to do anything else, and we wouldn’t have risked the reputation of this company to give that,” he said. MPRI’s operations became controversial again in 1999, when the State Department temporarily suspended its contract to equip and train the Bosnian army, a program outlined in the 1995 Dayton Peace accord. News reports attributed the suspension to concerns that weapons from the program were being diverted to Muslim guerrillas in the neighboring Serbian provinces of Kosovo and Sandzak.

Far away from the corporate office of MPRI, dozens of small companies across the United States are quietly offering downscaled versions of military training, according to ICIJ’s investigation. Even smaller outfits are going global, establishing offices and training centers in multiple countries or boasting of the ability to send mobile training teams anywhere in the world. The Nevada-based Sayeret Group says it has tactical teams that can deploy to anywhere in the world in support of security, protection and direct action operations. Pistris Inc., a Massachusetts-based maritime security company which maintains its own fleet of vessels, also claims it can provide fully equipped, mobile protection teams to provide waterborne security of oil fields, ports and vessels throughout the world. Trojan Securities International, a company established by former British military and American law enforcement, maintains training centers in Arkansas, where the company is based, as well in Ecuador to accommodate the company's work in Latin America.

In addition, a number of British companies have moved to expand operations and set up shop in the United States. London-based TASK International, which cites its niche market as the training of military and police forces, recently established an office in Miami – a move, the company's director of operations explained, to handle contracts the company holds in the Caribbean. The company is currently training the Jamaican police and in the past has trained the presidential guard in Nigeria, the royal police in Malaysia and the special forces of the United Arab Emirates.

Though these groups may seem marginal, several have received new, multimillion-dollar contracts from the U.S. government since Sept. 11. Blackwater Lodge of North Carolina, Surgical Shooting Inc. of California and Automation Precision Training of Virginia were awarded contracts worth more than $60 million by the U.S. Navy in September 2002 for military training.

Many of these companies also train foreign clientele, both abroad and at their U.S. facilities. Ground Zero U.S.A., based in Marion, Alabama, lists an international training schedule for 2002 that includes programs in England, Scotland, Ireland, Mexico, Canada and Norway, and Sayeret can provide a mobile training team to travel to any location in the world at the client's request, according to Sayeret Group President Duke Piper. Piper told ICIJ that the company takes special care to vet clientele and works closely with an investigative firm that runs background checks on all prospective clients. Though he declined to divulge what foreign clients the company has trained since its founding in 1991, Piper said Sayeret had recently worked with Philippine law enforcement personnel.

While Piper believes self-regulation within the industry is necessary, he admits that little oversight currently exists for those who choose to bypass the licensing system. "There are no regulations or laws saying you have to do X, Y, Z. It's more of an integrity or ethical issue that comes into play," Piper said, adding that "some people do choose to operate behind the scenes or under the table."

Underwhelming oversight

Though the U.S. system for licensing PMCs was constructed to prevent exactly those kinds of operations, oversight of the process – and of the contracts themselves – is far from comprehensive. Defense services, including training, are considered military products under U.S. law, and their overseas sales are regulated just like American-made guns or tanks. The International Traffic in Arms Regulations Law (ITAR) requires PMCs to obtain approval from the State Department before selling their services to a foreign government. State's Office of Defense Trade Controls reviews contract proposals to ensure they do not violate sanctions or other U.S. policy.

However, PMCs can also sell their services abroad through the Defense Department's Foreign Military Sales (FMS) program, which does not require any licensing by State. Under FMS, the Pentagon pays the contractor for services offered to a foreign government, which in turn reimburses the Pentagon. Vinnell's contract to train the Saudi Arabian National Guard and MPRI's contracts to train the Macedonian and Bulgarian militaries came under the FMS program. Steve Schooner, a government contract expert and law professor at George Washington University, said companies will often seek FMS support in order to avoid the lengthy ITAR licensing process and gain the backing and stability of the U.S. government.

The politics inherent in the licensing process subject it to lobbying from companies and government entities, alike. Through corporate consolidation, some PMCs also have gained considerable resources to work the licensing process. For example, MPRI now has the power of L-3 Communications' substantial legal department behind it. And sometimes, one department of the government will lobby another on behalf of a PMC. An April 2001 Pentagon memo, obtained by ICIJ, noted that MPRI "may need our help or moral support in getting the … license from State," necessary for the company's proposed contract to train military forces in oil-rich Equatorial Guinea, which the Pentagon memo referred to as the "Kuwait of the Gulf of Guinea."

Soyster acknowledged that MPRI's applications for overseas export licenses include descriptions of how the company's presence in a given country would benefit U.S. interests. Charles Snyder, the deputy secretary of state for African affairs, said that in reviewing licenses, such as MPRI's proposal for Equatorial Guinea, his staff considers the contract's value to U.S. policy in the region. "We can see some merit in using an outside contractor, because then we're not using U.S. uniforms and bodies," he said. "A country like Equatorial Guinea is going to get [training] from somewhere, so we'd rather have U.S. contractors on the ground. That way at least we'd have feedback from professional trainers as to whether this is having any impact or not."

Under ITAR, Congress must be notified of all defense services contracts worth more than $50 million, though in practice, the State Department generally submits all potentially contentious applications to Congress, said Douglas Johnson, spokesman for the department's Office of Defense Trade Controls. The public, however, has little if any chance for a glimpse into the reach of PMCs. The Arms Export Control Act – which ITAR amended – still stipulates that the names of countries and types of defense articles involved in each contract "shall not be withheld from public disclosure unless the President determines that the release of such information would be contrary to the national interest." According to Johnson, State Department lawyers have interpreted the clause to mean that all information outside of a list of countries and defense articles should be withheld. Therefore, the only information available to the public about contracts between a private U.S. military company and a foreign government is which country the contract was performed in and what services were exported – and then only through the Freedom of Information Act. (In May 2002, the Justice Department issued new guidelines allowing companies to challenge the release of information about them to the public under the Freedom of Information Act, further hindering public disclosure.)

After contracts are approved, oversight is weak. The General Services Administration maintains a list of companies barred from doing business with the government, but no single government-wide agency monitors the performance of companies that do get contracts. Schooner, the federal contracts expert, said that while government agencies began using performance evaluations of outside contractors six years ago, implementation is "spotty at best." The Defense Department tasks several different agencies with oversight, depending on the type of contract. In the Balkans, for example, agencies responsible for contracts include the Army Corps of Engineers, U.S. Army Europe, Defense Contract Management Agency, Defense Contract Audit Agency and Army Task Force Commanders. A May 2002 GAO report that looked at extra costs incurred in 2001 by the Defense Department's overseas contingency operations found that no one in the Defense Department knew the number of contractors in the Balkans, what they were contracted to do or the government's obligations to them.

Oversight is further weakened, according to Schooner, by the increased use of "cost-type" contracts, in which the government pays the contractor a base amount, along with additional fees for services that are often initiated by the contractor and later approved by the government. A September 2000 GAO report found that effective oversight of Brown & Root's contract in the Balkans was impaired by the government's confusion about its authority over the contract and insufficient training of Army auditors, among other things. The report also found that although the Army had a process in place to review Brown & Root's requests for "new work" or additional services – which comprised more than 90 percent of the fees paid under the contract – the requests were approved but not routinely reviewed. Between 1996 and 2000, the GAO estimated that Brown & Root collected more than $2.1 billion in additional costs, which nearly doubled the amount agreed to in the original contract. Brown & Root called the GAO criticisms "subjective opinion."

In February 2002, Brown & Root paid $2 million to settle a lawsuit filed by the U.S. government that claimed the company inflated prices for maintenance and repair work at the Fort Ord military installation in Monterey, California. Brown & Root denied any wrongdoing and said it settled the suit only to avoid further litigation. In a review of nearly a dozen private military company contracts, ICIJ found that the contractors frequently were tasked with creating their own performance evaluations. In its multiyear contract to provide simulation exercises for U.S. troops in Europe, Logicon, an information technology company owned by defense giant Northrop Grumman, was required to prepare a "Quality Control Plan" laying out evaluation processes. DynCorp's contract to provide security guard services for U.S. Army installations in Qatar required the company to create a quality control program that, while mandating regular meetings with the government, contained "processes for corrective actions without dependence on government direction." The contract also licensed DynCorp employees to use deadly force and gave them access to classified information.

'Winners and losers'

Despite scandals and poor reviews, the contracts keep piling up.

Amid the government lawsuit against Brown & Root – and the critical GAO report – the Army awarded the company a 10-year contract in December 2001 to provide base-support work overseas under its Logistics Civil Augmentation Program, or LOGCAP, the value of which could run into the billions of dollars. Some of MPRI's overseas ventures have produced unsatisfied customers. In Colombia, the company was contracted in 2000 to help restructure the Colombian military as part of Washington's war on drugs. But Colombian defense officials called the training useless and said MPRI advisors had "reinvented the wheel," noting that no one on the company's staff in Colombia spoke Spanish. Reportedly under pressure from Colombia, the Pentagon did not renew the one-year contract. Pentagon officials publicly backed the company's performance, and Soyster told the St. Petersburg Times that MPRI had fulfilled the requirements of its $4.3 million contract.

In Macedonia, where MPRI has been operating since 1998 as military advisors for the Macedonian armed forces, the army chief of staff lambasted the company's reforms in a July 2002 interview with a local newspaper as "catastrophic mistakes" that created military units only on paper. In Nigeria, where MPRI was tasked to overhaul the Nigerian military, Army Chief of Staff Gen. Victor Leo Malu questioned MPRI's proposal to cut almost a third of the armed forces as well as the motives behind the company's request for sensitive documents and information. Soyster attributes much of the dissatisfaction to those who might find themselves on the outside of MPRI's suggested reforms. "There are winners and losers if you make changes, and (Malu) could have been a loser," he said of the Nigerian general, who was later replaced as army chief of staff.

DynCorp, another recipient of sizable contracts, was caught in a scandal in 2000 when two employees deployed on the company's $15 million annual contract for logistical support in Bosnia and Kosovo alleged that several of their colleagues had colluded in the black-market trade of women and children. DynCorp later said the company did not tolerate such behavior and fired those accused of the offenses. According to media reports, DynCorp also fired the employees who made the allegations for unrelated charges, including allegedly tampering with time cards. Both sued the company for wrongful dismissal, and an employment tribunal in Britain, where one suit was filed, ruled in August 2002 that the dismissal was unfounded and retaliation for the disclosures. A DynCorp spokeswoman said the company planned to appeal. The other suit was settled out of court soon after.

Defense contracts are among the government's most expensive and numerous, and the companies that win them among the country's largest – companies that legislators don't want to alienate. A review of lobby documents from 1995 to 2001, obtained by ICIJ, shows that PMCs take a strong hand in their futures through lobbying. Wackenhut,

Brown & Root, Booz Allen Hamilton, Betac Corp., Armor Holdings, Logicon and Cubic Corp. have all employed lobbyists to advocate for their interests on Capitol Hill. Most lobby on Defense Department appropriations and national defense authorization bills, the major spending legislation for the Pentagon. In addition, Betac lobbied on intelligence authorization bills, Logicon on outsourcing of government programs and Armor Holdings on "foreign relations for export of products."

These companies are often the only ones capable of providing the large-scale and complex services and products the military needs. A factor is the change in the nature of warfare: in the United States, fewer individuals are doing the actual fighting, while massive support systems are required to maintain the world's most modern forces. The requirements of high-technology warfare have dramatically increased the need for specialized expertise, which often must be drawn from the private sector. In Afghanistan, for example, contractors from Northrop Grumman were hired by the Air Force to man Global Hawk, the newest and most advanced surveillance plane, because they designed the unmanned drone and had the expertise to run the system. As a result, the line between frontline activities and logistical support is further blurred.

"There's a view that if companies do bad things, that's just too bad because the nation's defense is more important than anything else and there are some firms we can't not do business with," Schooner said, citing high-tech weapons manufacturers as an example. "There's a long-running tradition that the government tends to debar small and unimportant contractors because it can, and tends not to debar large important companies because it can't – we need them."

But small contractors also play a role. ICI of Oregon, with a permanent staff of just five employees (they contract additional employees as needed), reported annual sales for 2001 of $8.8 million. The company was incorporated in 1994 by Brian Boquist, a Special Forces lieutenant colonel in the Army Reserve who is making his second run for a seat in the U.S. Congress. Boquist is also a former executive of a subsidiary of Evergreen International Aviation, a private air freight company based in Oregon that has reportedly taken on sensitive missions for the U.S. government.

ICI has aided extremely risky peacekeeping operations in Liberia, Sierra Leone and Haiti, and evacuated peacekeepers, aid workers and diplomats from combat zones. In one instance, an ICI helicopter was dispatched from Freetown to a remote village in Sierra Leone to collect a senior Nigerian officer. But in the 30 minutes it took the ICI crew to reach the village, rebels had attacked and the helicopter came under anti-aircraft fire. "I said, someone is here, and they've got some heat, but where is my army?" a member of that ICI team said in an interview. "I could see we didn't own the village anymore, and I'm about to be shot out of the sky. We drove [flew] up the road, looking for the guy we needed to get out. Then I saw 300 of our guys [Nigerians] running down the road in complete disarray, with their leaders in front." The helicopter landed but was mobbed by the desperately fleeing soldiers and had to take off again, with men hanging from the helicopter's doors and landing skids as it flew out under heavy fire.

ICI brings an unorthodox approach to the conflicts of the third world. For a start, its pilots fly in Russian helicopters and use Russian crew. One former ICI employee described the Russian Mi-8 helicopters as "damn ugly, but they're tough as woodpecker lips – they fly and they keep flying." ICI – whose Web site boasts that the company was the "1998 U.S. Dept. of State Small Business Contractor of the Year" – also has been supporting a U.S. military training program in Nigeria. In addition, the ICI Foundation, a charitable organization founded by Boquist, developed a medical training program under U.S.-government auspices in southern Sudan, where Washington has pumped in at least $13 million in recent years in support of the rebel opposition. (DynCorp is another key contractor in southern Sudan.) That a small company like ICI has been involved in so many operations is indicative of the changing nature of war. The lean military of the new millennium cannot be everywhere at once, so contractors fill in the gaps. That need grew exponentially when the Bush administration responded to the Sept. 11 terrorist attacks with its war on terrorism.

The increasing scope of the war has led to a bonanza for PMCs. For example, ArmorGroup, the services arm of Armor Holdings, was hired by the British government to provide security for British embassies around the world after a diplomat was killed in a bombing believed related to the al Qaeda network. Kellogg Brown & Root has built camps in Guantanamo Bay, Cuba, for U.S. detainees and is providing logistical support for U.S. military bases in Uzbekistan. MPRI says it is supporting homeland security in the United States and hopes to be hired to train the newly constituted Afghan army.

Many worry, however, that the inadequate oversight system now in place will never be able to keep up with the sheer volume and geographical spread of the hundreds of Pentagon contracts being issued. The May 2002 GAO report predicted that weak oversight would remain a problem. "With the involvement of contractors in the efforts to combat terrorism, the potential exists for a similar condition (as in the Balkans) in Afghanistan and the surrounding area." At the request of the Senate Armed Services Committee, the agency has begun a review of the oversight of defense contractors in deployment missions worldwide. That report is due out in mid-2003.

3. Marketing the New 'Dogs of War'

The Liberation Tigers of Tamil Eelam have been fighting one of the world's longest and bloodiest terrorist wars, but July 24, 2001, marked their most devastating attack in 18 years of fighting against the Sri Lankan government. In virtually destroying Bandaranaike International Airport in the capital of Colombo, the Tamil Tigers cut the country's only link to the outside world.

Half of the civilian fleet of Sri Lankan Airlines, the national carrier, was destroyed. The Sri Lankan Air Force lost almost a third of its assets – Russian transport helicopters and fighters, Israeli interceptors, and Chinese trainers. The cost of the attack was estimated to exceed $500 million. Tourism vanished overnight, trade collapsed, and Sri Lanka's economy slumped.

The long-term impact of the Tigers' attack was magnified by the conduct of the City of London, the financial nerve center of the United Kingdom. Brokers at the Lloyd's of London insurance market imposed massive war risk surcharges on shipping to Sri Lanka. The shipping-dependent nation suddenly faced the loss of trade and even essential food imports. With insurance surcharges rising to a multiple of freight rates, costlier air transport replaced surface ships. At a stroke, the country faced rampant hyperinflation and economic collapse. The terrorist Tigers had struck the blow, but it was the London financiers whose conduct now threatened national survival. Sri Lanka's High Commissioner in London, Mangala Moonasinghe, was instructed to open negotiations, not with the Tamil Tigers, but with the City's brokers.

Eight Sri Lankan government negotiators flew to London on Aug. 17, 2001, to meet with Lloyd's underwriters and their War Risks Committee. After three days of talks, the Lloyds team set up a "London Market Sri Lankan War Facility." The rates for ships sailing to Sri Lanka would still be high, despite the Sri Lankans agreement to pay, within seven days, a bond of $50 million against any claims that might be lodged for damage to vessels heading for or in Sri Lankan waters. The Sri Lankan government was also required to commission a full security review of its airport and seaports and to implement any recommendations.

The London brokers recommended that the Sri Lankan government hire a British-based company, Trident Maritime, to carry out the security survey, in conjunction with another security consultancy, Rubicon. In Trident, the Sri Lankans had hired Tim Spicer, a man simultaneously at the center of a number of scandals provoked by his global mercenary activities and of an effort to legitimize the status and sanitize the image of the country's "dogs of war" – soldiers of fortune who have mounted coups, guarded British, U.S. and Arabian dignitaries and ambassadors, engaged in civil wars, and run sabotage and terror activities from behind hostile lines. From the Contra campaign in Nicaragua to organizing and training Afghan or Kosovar insurgents, British mercenary operators have been employed by the CIA, the Drug Enforcement Agency and the U.S. State Department, as well as by Britain's own Secret Intelligence Service (SIS).

After decades of controversial intervention in the developing world, these private military enterprises are seeking legal recognition and standing. They wish for re-branding as peacekeepers and conflict resolvers. Politicians in the West seem quickly to have accepted a convenient if illusory dichotomy just as it has been handed to them – contrasting the old-style (and bad) "dogs of war" with the new-style (and good) private military companies, or PMCs, of the 1990s and beyond.

Although the acronym is now nearly universal, PMC (in the sense of mercenaries) was unheard of in the English language prior to late 1995. The new label has done much to improve the image of private soldiers, if little to affect the reality of their activities. The term has commonly been used to refer to Executive Outcomes and Sandline International, two names used by a single group of British and South African businessmen and ex-military officers. Their interventions in Angola, Sierra Leone and Papua New Guinea during the mid 1990s aroused repeated concern, setting off the current debates on "PMCs." The most prominent figure from those debates was Spicer, a 50-year-old ex-British army officer who signed up as a mercenary in 1996. Although his profile is lower now, Spicer's adventures with Sandline resulted in police and customs investigations, raids on his home and offices, arrest, incarceration and deportation.

Spicer's exploits in Papua New Guinea in 1997 and Sierra Leone in 1998 left a trail of judicial, government and parliamentary inquiries in their wake, not to mention the collapse of one government in Papua New Guinea. In 1997, the foreign secretary of the newly elected British government, Robin Cook, proclaimed that Britain would henceforward pursue a novel "ethical foreign policy," in which humanitarian, environmental and moral considerations would be as important as traditional national interests. Spicer and his men quickly made Cook's "ethical foreign policy" a laughing stock.

British audiences saw pictures of a Royal Navy ship helping service a Russian-made helicopter on behalf of Spicer's mercenary force. And, in February 1999, a scathing parliamentary report found that Foreign Office officials and diplomats had withheld information from the government about Sandline's plans to export arms to Sierra Leone in violation of United Nations sanctions. Until the row broke out, Spicer and his men from Sandline had been attempting to restore the government of ousted President Ahmad Tejan Kabbah – and in so doing to win access to diamond and mineral concessions for his businessmen backers.

Cook, the British foreign secretary, faced calls for his resignation, but managed to hang on to his job until being demoted in a later cabinet shuffle. In Papua New Guinea the year before, Spicer's intervention had already had more serious consequences. He had arrived on the islands with 70 hired guns, mainly South Africans. They were there to attack rebels on the detached island of Bougainville, home to the world's largest and must lucrative copper mine, recover it and restore it to operation. His arrival provoked riots. The army rebelled and staged a coup. Spicer became the new military target. He was arrested, handcuffed, jailed and interrogated. At one point, he thought he was about to be summarily executed. Police found he was carrying $400,000 in cash. Army chiefs accused his company, Sandline, of having made corrupt payments through a Swiss bank account to Mathias Ijape, then the defense minister of Papua New Guinea. In the wake of the scandal, the country's prime minister, Julian Chan, resigned, and his government collapsed.

Although he agreed to be interviewed for this report, Spicer refused to discuss his operations for Sandline International. He had not complained, he said, about British newspaper reports that had accused him and Sandline of improper financial conduct, including bribing government ministers. But "we thought about it," he said. His operations accomplished no good purpose. The countries where Spicer and his Sandline and Executive Outcomes colleagues intervened – particularly Angola and Sierra Leone – remain poor, unstable and underdeveloped, despite having rich resources which the private soldiers had sought to secure for the benefit of their mercantile patrons. Spicer's short career with Sandline International ended late in 1999 and, having moved into other ventures, he is a relatively minor player in the rapidly expanding private military and security business. But he may have one decisive victory to his credit – he was the public face of a campaign that sold political elites and the media on the concept of the "private military company."

In 2002, Spicer pronounced his creed – that the world was waiting for "the speed and flexibility with which they [PMCs] can deploy, rather than wait for the U.N. to form a force." He went further still, arguing that PMCs were ideal vehicles to aid the Northern Alliance forces that fought against the Taliban or the Iraqi resistance to Saddam Hussein. He even suggested that it might be in the international community's interest if PMCs were hired to intervene in long-running conflicts in Sudan or topple leaders like Robert Mugabe of Zimbabwe. In short, he proposed the overt shifting of significant foreign policy objectives to mercenary companies – an idea that would have been met with derision only a few years before – yet he received a respectful hearing.

Joining the secret world

Spicer was never fully signed up to the old-boys network that clusters in the confines of the Special Forces Club – an elite private social organization in central London whose membership is limited to serving and former members of the Special Forces and intelligence services from Britain, the United States and selected Allies. He would not say whether he had been refused membership. "I don't really discuss my personal life at all," he responded.

In 1970, when he was 18, Spicer was in the United States, bumming around Oklahoma, "fashionably anti-war" in long hair and wearing a shirt made from the North Vietnamese flag, as he described himself in his autobiography. He later went home to England, abandoned attempts to get into a university, started a college law course, and took his first steps into the secret world, signing up as a volunteer trooper with 21 Special Air Service (SAS).

The Special Air Service regiment, the brainchild of Col. Sir David Stirling, was created to carry out commando raids in World War II. The SAS regiment was disbanded after the war, but then reborn after assiduous lobbying by Stirling. The formal, full-time regiment is known as 22 SAS; Spicer volunteered for one of the two part-time reserve "territorial" SAS regiments Britain maintains, 21 SAS. Its members work most of the year in civilian jobs. The two reserve regiments, especially the Chelsea-based 21 SAS, have frequently served as a formal and informal recruiting center for mercenary operations, both officially sanctioned (but deniable) and otherwise. Members of the volunteer SAS units may even be permitted to join the so-called "R" (reserve) squadron of 22 SAS, and to take part in active military operations while holding down their civilian jobs.

Spicer flunked the law course, but was able to join 21 SAS on an exercise in Germany. In 1974, after failing to pass the British Army officer's selection board, he contemplated trying to enter the SAS world sideways by enlisting for a still-secret operation against rebels in Dhofar, Oman. The SAS had supported and protected Sultan Qaboos, the ruler of Oman, after he mounted a coup in 1970 to depose his father. The Dhofar operation involved a continual stream of British Army officers, especially from the SAS, swapping in and out of their British uniforms to take the Sultan's pay and exercise his command.

However, his military ambitions remained frustrated. Spicer's 1999 autobiography describes how he spent the 1970s and 1980s far from involvement with the secret world of special operations that he apparently desired to join. In 1975, after passing the British officer's entry course on his second attempt, he was posted to train at Britain's equivalent of West Point, the Sandhurst Royal Military Academy. After six months there, he reached the pinnacle of an otherwise unremarkable 18-year military career, winning the Academy's Sword of Honour for best cadet. He was commissioned into the Scots Guards, an elite regiment which shared the ceremonial duty of guarding the Queen in London. But it was not until the last years of his military career, which ended in 1995, that he was able to get into the Special Forces world, concluding his military career by working for a series of Special Forces commanders.

In 1978, Peter de la Billiere, then a brigadier, became director of the U.K. Special Forces. De la Billiere was responsible for overseeing the SAS's most famous operations of the decade, among them the recovery of hostages from the Iranian Embassy siege in 1980, and for commanding Special Forces operations in the 1982 war with Argentina to recover the Falkland Islands. In 1990-1991, as general, he commanded British forces in the Gulf War against Iraq. In April 1992, de la Billiere returned to London and retired from his military career. He immediately took up a new post as the British government's "Middle East adviser." The job involved selling military services to and obtaining or retaining British bridgeheads in the Gulf. Spicer, who had spent the Gulf War as a lecturer at the British Army's staff college, heard that de la Billiere would need a military assistant. He applied for and got the job, and finally entered the secret world of the Special Forces. De la Billiere's office was in the Duke of York's headquarters off of Sloane Square in London, where the offices of the directorate of Special Forces were also located. Soon after joining de la Billiere, Spicer contacted fellow ex-Scots Guards officer Simon Mann and "co-opted" him into the operation, according to Spicer's autobiography. Mann, an anti-terrorism and computer specialist, who had left the SAS in 1985, later went on to found Executive Outcomes in the United Kingdom in 1993.

According to Spicer, de la Billiere and Mann were employed "as liaison with the rulers of the Gulf States." According to a business associate of Mann's at the time, who spoke on condition of anonymity, this story was "absurd." British ambassadors were hired to do that job, and given the staff and resources to do so. Mann's "real job," according to the associate, was "to help Peter de la Billiere market the training services of 22 SAS" and thus gain new clients for Britain's official mercenaries. Meanwhile, according to his autobiography, Spicer moved "down the corridor" to work directly for the Director of Special Forces on "highly classified" projects. Mann did not comment on the nature of his work with de la Billiere.

The government's motive in employing de la Billiere and Mann was not necessarily or even primarily to earn money. By placing British appointees in key security or defense posts, Britain could gain information, win influence, influence policy, recruit informants and even agents. In these sensitive operations, the enemy was not necessarily the likes of Saddam Hussein, but rather political and commercial rivals including France and the United States.

Toward the end of Spicer's stint in the Special Forces directorate, Mann offered him a military contract in Angola, which Spicer declined. Instead, he continued his military career until early 1995, finally being employed as spokesman for former SAS commander Gen. Michael Rose, then head of the U.N. protection force in Bosnia. Disappointed not to have been put in line for senior military staff jobs, Spicer retired from the military and followed de la Billiere, who had joined the merchant bank Foreign and Colonial, in the City of London. But Spicer was soon ill at ease with the new job. What happened next was the train of events that Spicer calls "this PMC project."

Unsettling outcomes

Like the offer of a military contract in Angola, the "PMC project" was offered to Spicer by his former Scots Guard colleague, Simon Mann. Mann was the scion of a wealthy brewing family, and the fifth generation in his family to attend Britain's top private school, Eton College. His upbringing put him at the center of the British establishment. He could not have been better endowed with connections in the military, diplomatic, intelligence and financial world.

After leaving the SAS in 1985, Mann's first commercial venture was not as a mercenary, but in the new field of computer security. Mann joined forces with a former insurance broker who had pioneered computer insurance and had been a manager for Control Risks, a large and reputable risk assessment consultancy that was founded by ex-SAS officers. They raised finance and founded a company called Data Integrity. Mann's role was to sell new lines of computer insurance policies against accidents and hackers. The company did well, but not well enough for the venture capitalists who had funded it. It began to drift, and Mann began to lose interest.

As the company wound down during 1990, Mann's old-boy network had put him in touch with oil entrepreneur Anthony Buckingham. Buckingham, also ex-military, has been described in some press accounts as a former member of Britain's naval special forces, the Special Boat Service, although the description has never been confirmed. After working in the North Sea oil industry as a diver, Buckingham moved into the oil industry, working initially with Ranger Oil of Canada.

Buckingham later founded his own company, Heritage Oil, which he ran from the modern, glass-fronted "Plaza" building at 535 King's Road, Chelsea. A first floor suite in the building provided offices for Buckingham's management company, "Plaza 107" – named for the number of his rented suite, 1.07. Inside, a single receptionist handled incoming calls to more than 18 different companies. From the Plaza suite, Buckingham, Mann and others ran businesses that included oil, gold and diamond mining, a chartered accountancy practice, and offshore financial management services. To this, they would add military ground and aviation companies. Buckingham could not be reached for comment.

In May 1993, UNITA rebels opposing the Angolan government of President Jose Eduardo dos Santos had seized Heritage's oil installations in Soyo and shut down the oilfield. After losing control of Soyo, the Angolan government asked for more mercenary help. Their request was directed to Ranger Oil, which ran Angola's offshore oilfields. The approach led Buckingham to hire what had been up to that time an exclusively South African mercenary group, Executive Outcomes.

According to a classified 1995 British Defense Intelligence Staff (DIS) report, Ranger then gave Buckingham and Mann a $30 million contract to set up a defense force. On Sept. 7, 1993, according to the intelligence report, Mann and Buckingham registered Executive Outcomes as a U.K. company to run the joint venture with the South African EO. The British intelligence report on Executive Outcomes is classified "Secret U.K. Eyes Alpha," a special security designation indicating that it should not be given to or seen by U.S. or any other friendly intelligence agencies. Sections of the report are based on South African intelligence service reports of the same era, which could have been obtained through bilateral exchange or through secret operations.

The report stated that South African intelligence suggested "so successful has EO [Executive Outcomes] proved itself to be, the OAU [Organization of African Unity] may be forced to … perhaps offer EO a contract for the management of peace-keeping continent-wide." British intelligence's assessment of the situation also described the rise of Executive Outcome's "widespread activities" as a "cause for concern." Information about the real owners of Executive Outcomes (U.K.) does not appear on British company records. According to these public records, the owners and directors of EO were Eeben Barlow and his wife Sue. The names of Buckingham and Mann are not listed. Barlow was a former officer of the South African Defense Forces (SADF), who helped found the original South African Executive Outcomes in 1989. Barlow and his wife gave an address in Alton, Hampshire, England. But Barlow's real location was Pretoria from where, together with fellow ex-SADF officer Lafras Luitingh, he directed his company's forces in their battle against UNITA. He recruited 500 men, "mostly ex-members of the SADF special forces," according to the intelligence report. At least 24 SADF officers were also persuaded to resign and join Executive Outcomes. Troops were ferried to Angola from a small airport near Johannesburg.

Although the company's primary interests were in Angola and Sierra Leone, the British Defense Intelligence Staff suggested that Executive Outcomes also had "involvement," or at least had sought contracts, widely throughout the continent, including in Zambia, Rwanda, Burundi and Zaire. It also noted the new modus operandi, which Buckingham and Mann had introduced on joining forces with EO. "It has secured by military means key economic installations (diamonds, oil and other mineral resources) [and] … secured for itself substantial profits and disproportionate regional influence." "It appears that the company and its associates are able to barter their services for a large share of an employing nation's natural resources and commodities," the report said, concluding that, "On present showing, EO will become ever richer and more potent, capable of exercising real power even to the extent of keeping military regimes in being …. [I]ts influence in sub-Saharan Africa could become crucial."

Like Executive Outcomes, the entrepreneurial Buckingham had been gaining influence, but his area of interest was the United Kingdom. He added corporate financial and lobbying expertise to Plaza 107, which he had started in 1994. An experienced financier, Michael Grunberg, resigned his partnership in a prominent management accountancy firm and joined Buckingham's King's Road-based network. The entrepreneur also persuaded the leader of Britain's Liberal Party, David Steel, to become a director of Heritage Oil and Gas. The one-time marine and diver – the sort of man whom colleagues considered as quite ready to lift his fists for a pub brawl – was gradually securing influence and access at every level of the British establishment that counts.

Buckingham also recruited a former British secret service "friend" – that is, a former SIS intelligence officer – to support his activities that could embarrass those establishment connections. Rupert Bowen, whose overt career as a British diplomat in Europe and Namibia was later identified as cover for Secret Intelligence Service work, left his post in Namibia and joined Buckingham's growing oil and military empire at the start of 1994. Bowen at first worked alongside a public relations company, GJW Government Relations, which supported Buckingham's activities, and later took a post with his Branch Energy group. He did not officially take part in EO operations. GJW Government Relations denied that Bowen had ever been an employee, but conceded that their founder director Andrew Gifford was also at that time a director of Buckingham's Heritage Oil. Bowen could not be reached for comment.

In March 1995, Buckingham traveled to Baghdad to attend a meeting with Safa Hadi Jawad, Iraq's oil minister. The Iraqi government was seeking foreign partners to invest in its oil industry once sanctions were lifted. They were offering the inducement of stakes in some of the world's biggest oil fields. Among the 200 oil executives who smelled fresh money in the Baghdad air, there was no one from the United States or the United Kingdom – except Tony Buckingham. On their journey across the lobby of the Al Rasheed Hotel, they tramped over a floor mosaic depicting a snarling, feral image of former President George Bush. Some stopped for photographs.

By 1995, the presence of the South African mercenaries in Angola had made a significant impact on the war between government and UNITA forces. Soyo and its oil installations were recovered, and a peace protocol negotiated. Meanwhile, Buckingham and Executive Outcomes were moving in on Sierra Leone. In May 1995, the Freetown government confidentially advised the British and American ambassadors that the country had contracted for South African military assistance. Subsequently, Bowen disclosed that the government was hiring Executive Outcomes. Thus began a two-year Executive Outcomes operation to "pacify" Sierra Leone, which ended in February 1997.

Selling soldiers of fortune

The skies around Executive Outcomes had been darkening for some time. Though buoyant with its military and financial success, the company had engendered growing hostility from South Africa's new government of national unity and in the OAU. Facing international pressure, President Nelson Mandela ordered the enterprise shut down. Anti-mercenary laws were passed in South Africa in 1998.

Until 1995, there was no public awareness in Britain of the range of Buckingham's business activities and methods, or that he had arranged and helped finance Executive Outcomes in Angola. Then a report in Britain's *Observer newspaper* in September 1995 highlighted the links between EO and Buckingham and pointed out that British liberal politician David Steel was a non-executive director of Buckingham's oil company. The event was the start of trouble and publicity for the Heritage principals, Simon Mann and Tony Buckingham. Buckingham's deal with EO began to emerge, eventually prompting Steel to resign from Heritage. Mann phoned Spicer, and asked him to come to a meeting with him and Buckingham.

In October 1996, the three men met for lunch in an Italian restaurant just off King's Road in Chelsea. According to Spicer, Buckingham and Mann told him that they "felt it would be better to make a fresh start" in the military business. "It was becoming clear that EO … carried a lot of political baggage," Spicer observed. According to his autobiography, Spicer was asked to consider taking on the project. "Tony asked me if I would be interested in setting up the sort of organization that has now become known as a private military company."

Buckingham and Mann's plan, as portrayed by Spicer in his autobiography, was for Executive Outcomes was to be rebranded, restyled, sanitized and relaunched. He does not say explicitly that the Chelsea meeting planned to manipulate public and political opinion by launching the PMC concept. However, an exhaustive search of English language publications shows that the phrase was never used in the context of mercenary operations (and hardly used at all) until three weeks after the King's Road lunch. Then, after four EO soldiers were captured in Northern Angola by UNITA forces in November 1995, an Agence France Press report described them as working for the "private military company Executive Outcomes."
As its activities became increasingly controversial in the mid 1990s, EO blended into Sandline International. The companies operated from the same glitzy, glass-fronted offices Buckingham maintained in King's Road, Chelsea. The military companies operated interchangeably, within the premises operated by Heritage Oil and Gas, and Branch Energy, the oil and mineral companies run by Buckingham.

The words "private military company" did not appear in English language publications again until 1997, after Spicer and Buckingham had begun a new contract to support the Papua New Guinea government to fight dissidents on the island of Bougainville and to re-open a lucrative copper mine. The operation was not an auspicious start for the re-branding operation.

Facing popular and local military hostility to the operation, Spicer and his South African mercenary force were arrested and jailed soon after they arrived. The Royal Australian Air Force intercepted and grounded an Antonov freighter intended by Sandline to ship helicopters and weapons to the Sandline troops. Spicer was initially arrested for illegally importing arms, and was detained on charges of possessing an unlicensed pistol and 40 rounds of ammunition. The charges were set aside after he agreed to face questioning by a government commission of enquiry. He was freed on March 27, 1997, to return to the United Kingdom.

Turning to PR professionals

Faced with another imminent downturn in their image in the wake of the debacle in Papua New Guinea, Buckingham and his partners turned to a leading London public relations consultant, Sara Pearson. Pearson, 49, runs Spa Way, a public relations agency for upmarket British retail and food stores. Her other clients include dental clinics, fresh breath companies and hair stylists. She claims that Spa Way is the only public relations consultancy in Britain to "guarantee [the] pre-determined media coverage" it will deliver, including "key messages" and angles that journalists will take. If the tally of favorable items does not reach the guaranteed level, the customer gets a refund, Pearson says, noting by contrast that, "PR has, in the past, been very wishy-washy and girly."

Pearson said that she was called in at the last moment to assist Sandline International in "crisis management." Spicer was already airborne, on a plane back home to London. "I was approached by Michael Grunberg and asked if I would manage the homecoming of Spicer," she says. Her advice was to limit Spicer's comments and exposure to the press as much as possible. Asked where the term PMC had come from, Pearson replied, "I am not entirely sure. It started to creep into the vocabulary…. At the very beginning, in the Papua New Guinea incident it was still 'dogs of war.' Then it became 'mercenaries' and then subsequent to the Sierra Leone business the words 'private military company' crept into the vernacular." She had not invented it herself.

Peace and conflict researcher Owen Greene of Bradford University in the United Kingdom recalls the phrase gradually entering the nongovernmental organization (NGO) vocabulary around 1997, although he had no idea where it had first been used. "People came up with this as a brand new idea," he said. "It was trying to find a word that gave them some respectability – a cleaner term." It was a convenient term, Pearson agreed. "It certainly took a lot of emotion out of the situation." "I like it," Grunberg told ICIJ. "It sums it up quite neatly." When asked by ICIJ, both Spicer and Grunberg at first disavowed inventing the term. Spicer then said, "To be honest I don't really care who coined it. It either came from somebody or it came from us. It's a good term. I'm happy to take the credit if you want to say I invented it. I'm not saying 'not invented here.'" Grunberg also said the PMC term "didn't come from within our organization [Sandline]," but then added, "You can put it down to me if you like…I'd like to stand up and take credit for it."

By 1997, the PMC term was being used in discussions within the African NGO and aid community, but had not achieved wide currency. It appeared again in press reports of hearings before the South African Parliamentary Defense Committee, in which Executive Outcomes' chief executive Nick van den Bergh argued against Mandela's plan to criminalize their activities. Despite these initiatives, when the London International Institute of Strategic Studies held a conference on "private armies and military intervention" on March 28, 1998, most speakers – except Spicer – mainly used the language of "mercenary companies," "private armies," "military companies" or "foreign soldiers."

Spicer and Executive Outcomes do not admit that they hoped to change the English language at their Chelsea meeting and the IISS conference, the trail is nevertheless clear from then on. To the surprise of many attendees, Spicer turned up and spoke at the conference. The same day, Sandline International published a four-page "white paper" titled "Private Military Companies – Independent or Regulated." In May 1998, Spicer used the term extensively in an opinion column that was published in Britain's Daily Telegraph under the headline, "Why we can help where governments fear to tread." He told readers that Sandline and its like were "part of a wholly new military phenomenon," modern professionals who might even hand out "promotional literature."

If nothing else, Spicer possessed abundant *chutzpah*. He was attempting to polish the image of mercenaries while at the very nadir of his reputation. Five days after his IISS speech, his Chelsea home and King's Road offices were raided by British Customs agents, looking for evidence of his prohibited arms shipments to Sierra Leone. Six days later, a documentary aired by the British network Channel 4 launched a devastating attack on Spicer and Buckingham's operations, providing a different take on the "wholly new military phenomenon" of Sandline. The documentary described the "new kind of mercenary" as "an advanced army for commercial interests wanting to exploit the world's mineral resources." The program reported that "several of their engagements have been notable for the indiscriminate nature of their attacks, in which many civilians have been wounded and killed," concluding that after the mercenaries went home, the countries they had helped remained unstable and often bitterly divided – and "an awful lot poorer."

Three days after the documentary aired, Sandline launched its Internet site. The site included a corporate profile and the "white paper" on PMCs. Four months later, a second Sandline "white paper" was published, entitled "Should the Activities of Private Military Companies be Transparent?" The image-changing campaign continued. The "white papers" were mainly drafted by Grunberg, Sandline's financial controller.

With Grunberg and Sandline still footing the bill, Pearson and Spa Way hired a ghost writer and published a Spicer book to help remake his image for the new millennium. The 1999 book, An Unorthodox Soldier, presented Spicer as the "modern, legitimate version of the new mercenaries." The objective of the campaign of which it was part was to obliterate the unsavory history of Executive Outcomes and Sandline International, and to help fight off the multiple British government and parliamentary inquiries that were then underway, investigating whether he had been given government approval to break the law and breach the U.N. embargo on arms shipments to Sierra Leone. "It was an opportunity to marshal the facts," according to Pearson, "and to put his [Spicer's] side of the story." The book sets out a now familiar line – that PMCs were "corporate bodies specialising in the provision of military skills to legitimate governments."

In May 1997, Kabbah, the democratically elected president of Sierra Leone, and his government were overthrown in a violent coup. Sandline International shipped 35 tons of Bulgarian-made AK47 rifles, a helicopter and provided logistical advice to help restore Kabbah's government. The scandal erupted in the spring of 1998, when British newspapers published photographs showing engineers from a Royal Navy frigate docked in the capital Freetown, helping to service Sandline's Russian-made helicopter.

Spicer claimed that Foreign Office officials and defense intelligence staff were aware of his dealings, and that he was given a go-ahead by the British government for the arms shipment. Cook, the foreign secretary, denied that he or his colleagues gave official approval. In 1998, the House of Commons foreign affairs select committee launched an investigation, as did the British Customs and Excise service. Eventually, the parliamentary inquiry concluded that Peter Penfold, Britain's High Commissioner to Sierra Leone, had given the illegal arms shipment "a degree of approval." The affair ultimately cost Penfold his job, and he was shifted sideways to the Department of International Development. For his part, Penfold acknowledged that he was aware of the shipment but did not know it was banned under the U.N. sanctions.

During the controversy, Spicer circulated an open letter to newspapers and members of Parliament, offering to open a dialogue between Sandline and governments and NGOs. The open letter presented Spicer's latest and most facile semantic contrast – between old-style "mercenary bands" and modern PMCs. "Just as with ape and man, both species now co-habit the [international military] environment," he wrote in February 1999. Two years later and after a string of sympathetic articles in the U.K. press, the PMC concept was so well established that it did not occur to the British Foreign Office to use any other term in proposing to regulate such companies.

The phrase took longer to take root in the United States. Although Spicer had visited Virginia as early as June 1997 for a private symposium organized by the U.S. Defense Intelligence Agency on the "Privatization of National Security Functions in Sub Saharan Africa," in conjunction with Military Professional Resources Inc., an American PMC, and other U.S. corporations, the term was only to be adopted in the United States nearly a year after it had achieved general currency in Britain. When the U.S. Army War College published a thoughtful study of "The New Mercenaries and the Privatization of Conflict" in summer 1999, the author, former U.S. Lt. Col. Thomas K. Adams, paid no attention to Spicer's version of political correctness. Mercenaries, he wrote, should be called by their name – "individuals or organizations that sell their military skills outside their country of origin and as an entrepreneur rather than as a member of a recognized military force."

The inquiries provoked by the Papua New Guinea and Sierra Leone episodes – and the documents they uncovered – showed decisively that Spicer's "wholly new military phenomenon" had the resolutely traditional purpose of securing access to Third World resources for first world principals. What was new was the spin and the self-confidence with which it was presented. Internal Sandline documents that were made public were inconsistent with statements Spicer made to judges, journalists, the public and the British Parliament about Sandline International, Executive Outcomes and their operations. For example, although he claimed otherwise during his public relations campaign to burnish his industry's image, private correspondence to and from Spicer showed that he was personally active in trying to secure mining concessions for his principals as the price of providing military support. As he put it in a May 1996 letter enticing Papua-New Guinea Defense Minister Mathias Ijape with an offer to raise private finance for the mission to put down local opposition in Bougainville, "funds could come from private sources and it may be possible to raise them against oil and mineral concessions and production rights. "Why not," he asked in the letter, "pay [for mercenaries] by assigning [a] mine and making a top-up cash payment?" Spicer refused to discuss individual letters he had written but said, "I don't think there is anything wrong in [governments] coming to a deal with someone who is interested in minerals and that money being used for [PMC] services."

Wherever Sandline troops headed, it was the natural resources of the third world – whether diamonds, gold, oil or copper – on which they set their sights. Spicer's intervention in Sierra Leone was preceded by a March 1997 offer to Canadian diamond businessman Rakesh Saxena to plan a "mission" into Sierra Leone to secure Saxena's diamond mines from local disruption "in an effective timely manner with minimum collateral damage." Saxena is currently detained in Canada, contesting extradition proceedings to face trial for unrelated fraud charges in Thailand.

Repackaging Spicer

After the 1997 Papua-New Guinea scandal and the 1998 Sierra Leone debacle, the reputation of Sandline went into a nosedive. Spicer's response was to seek to re-brand himself and his profession once again.

Spicer resigned from Sandline International at the end of 1999, but was back in the business within six months. A week before the British-based Executive Outcomes dissolved on May 16, 2000, Spicer created Crisis and Risk Management Ltd. In April 2001, he changed its name to Strategic Consulting International (SCI) Ltd. He also launched a Sandline follow-on company, Sandline Consultancy Ltd, believing that Sandline was a "good name" with "brand recognition." But the company never did business. The same year, he launched a third new venture, Trident Maritime. Trident describes itself as "an international maritime safety and security company," and as a subsidiary of SCI.

Announcing the launch of Trident to Britain's *Financial Times* in March 2001, Spicer claimed that Crisis and Risk Management Ltd. had already advised the government of a developing country battling against a rebel movement. Press reports later suggested that Spicer's new job was in Nepal, training government troops engaged against Maoist guerrillas operating in the Himalayas. If true, it would be highly ironic since the British army has employed Nepalese Ghurkhas – renowned for the high quality of their combat skills – as part of its formal military structure for 50 years. However, the military attaché at the Nepalese embassy in London, whom the embassy identified only as Col. Rana, said, "We do not know anything about that."

Strategic Consulting International is registered in Britain at the suburban offices of the financial advisers for Pearson's public relations agency, Spa Way. According to the records, Spicer was not even a director of SCI; instead, the company's only director was Pearson; its secretary was David Hawkins, one of her financial advisers. Soon after SCI was set up (under its original name) on June 15, 2000, the new Sandline – Sandline Consultancy Ltd. – was formed with the same directors at the same address. Spicer and Pearson each owned shares in SCI. The company's personnel and operations, however, are as obscure as Sandline's. Spicer's other new company, Trident, is less obscure, listing him as a director and its operating address next door to his home in Cheval Place, Kensington and Chelsea. Spicer is listed as a director of Trident, together with Gilmer Blankenship, a University of Maryland electrical engineering professor. None of the three new companies have as yet filed legally due accounts with Britain's Companies House, a violation for which directors could face criminal charges. The new Sandline Consultancy Ltd has already been dissolved because of the violation.

Pearson told ICIJ that she agreed that the failure to file company records in time had breached British law. She also said that the shareholdings and directorships in SCI were incorrectly registered. "It was a shock to discover we hadn't properly organized [our company records]," she said. Asked if papers would be filed, she said that accounts for the two remaining companies are "very imminent." But she refused to say what financial revenue figures would be released. Shortly after ICIJ interviewed Pearson, Spicer's

PMC group underwent significant changes. Pearson resigned as a director of both companies and transferred her shareholdings to Spicer, leaving him as the sole director.

Spicer claimed in an Oct. 8, 2002, interview that his annual accounts for SCI, which had been due in February 2002, were filed. “If they are due, they’ve been filed,” he said. He claimed that SCI had 12 full-time employees engaged in government or defense work around the world, and had reported revenues of “one to two million [pounds; about U.S. $1.6 million to $3.3 million].” In fact, no accounts have been filed since the company started up two and half years ago. Contacted by ICIJ, Hawkins, the secretary for SCI, said he was unable to explain why the filings were late. “I am in no way involved in the day-to-day running of the company’s affairs,” he wrote. “I am not responsible for the filing of the company accounts which is the responsibility of the directors, and [I] have not received any communications regarding the outstanding accounts.” Ivan Sopher, the company’s accountant, did not respond to a request for comment.

The business school PMC

Trident Maritime, which specialized in maritime risk assessment, claimed on its Web site to have offices and a “command center” in Washington, with plans for a “global operational presence” through command centers in London and Singapore. The company specializes in maritime risk assessment. Trident’s Web site offers an impressive range of sophisticated and customized maritime safety and security packages labeled Nautilus, Poseidon, Juno, and Neptune, all designed to curb and counter piracy. Each combines risk assessment and insurance policies with electronic tracking and security systems provided by another Maryland-based corporation, Techno-Sciences Inc., run by Blankenship.

Scratch the surface of Trident’s publicity, however, and a less convincing picture emerges. Spicer, its managing director and chief executive officer, has no naval or maritime experience or qualifications. Trident’s vice president of marketing – according to a personnel list published by Trident – is Pearson, Spicer’s public relations adviser.

Pearson also has not served in the Royal Navy or any other maritime organization. Trident’s vice president of business development, Jared Feit, graduated from the University of Maryland with a business undergraduate degree in 2001. Feit and the Trident team, including Spicer, competed in the university’s March 2002 “Best Business Plan” award. Spicer “came to the meeting and stood on the stage, but he didn’t do anything,” according to Blankenship. “We lost – that was really depressing.”

To judge from the University of Maryland presentation of its business, Trident might appear to be little more than an academic exercise devised by Blankenship and his students. Asked if the Maryland plan was the actual business plan for Trident, Pearson said, “No, no. We never saw it. It was something that [Blankenship] was doing with some students.” Blankenship confirmed the comment about the business plan. “I didn’t pay attention to it,” he explained. The names of the Trident “vice presidents” presented with Spicer and Pearson were “all [students] that Jared put on the form.”

But beneath the graduate students and the public relations professional, Trident has yet another, very different cast of characters – the traditional personnel and patterns of the underworld of British intelligence, special forces, and covert operations, linked by an umbilical cord to the clubby, wealthy world of the entrepreneurs, bankers and brokers of the City of London, the traditional milieu of mercenary and mercantile comrades in arms.

In 2001, after the Tamil Tiger terrorist attacks nearly destroyed the Bandaranaike International Airport in Colombo, underwriters for Lloyd’s of London recommended that Sri Lankan government hire Trident to conduct a full security review of its airport and seaports, and implement its recommendations. It was one of only two contracts that Trident won, according to Blankenship. Spicer’s proposal for the security survey, submitted to Colombo in August 2001, showed what his end of Trident consisted of.

Excluding Spicer and a professional photographer, the majority of the 15 names on his personnel list were retired British Special Forces and intelligence officers. The most prominent among them was Harry Ditmus, described as the British government’s “former co-ordinator of transport security.” A fuller profile would have identified “Hal” Doyne-Ditmus, CB (Commander of the Bath) as a senior career intelligence officer with Britain’s ultra-secretive internal Security Service, conventionally known as MI5. After serving as assistant director of MI5, Doyne-Ditmus was posted to Belfast, Northern Ireland in the mid 1980s to serve as the U.K. government’s director and coordinator of intelligence at the height of its 20-year battle with the Irish Republican Army.

Two were specifically identified as covert intelligence operators: John Wilson, QGM (Queen's Gallantry Medal), as a "methods of entry expert" and Tom Lockhart, QGM, QCVS (Queens Commendation for Valuable Service) as a "U.K. Special Forces surveillance and technical surveillance expert." Four of the team were described as having had more than 30 years service with Special Forces. Also on Spicer's list was Mike Coldrick, a highly decorated army and police bomb disposal expert, and a one-time official of the Special Forces Club, the exclusive private club for British and Allied intelligence and special forces operatives and veterans. The names, said Spicer, were drawn from his database run by SCI. They were "a network of …. people who are recommended by word of mouth." "You tend to know who's who," he said, "there is an informal network of people who know each other and have worked with you [or] have served together in the armed forces." The Trident list did not include students or staff from the University of Maryland.

After an initial survey of Sri Lankan ports in 2001, Spicer and members of his Trident team returned to Colombo on Jan. 21, 2002, to check on security enhancements – part of a long-term program aimed at "gradually phasing out the war risk premium." Although the Sri Lankan government seemed unaware of his checkered past, British diplomats had not forgotten that his Sierra Leone sanctions-busting episode had cost Penfold, the British representative to Sierra Leone, his career. Coincidentally, as Spicer arrived that January Monday morning, a British diplomatic party was also present at the airport to meet a visiting official. Spicer appeared embarrassed. According to one of the British officials, who spoke on condition of anonymity, Spicer "hid behind a pillar" in the forlorn hope of not being seen.

Six weeks later, Spicer seemed less reticent when he spoke to reporters for Lloyd's List, the daily newspaper of the insurance industry. The paper was told that the London War Risks Committee were "set to lift a war-risk surcharge on vessels trading to Sri Lanka, following a security audit of the country's ports by a leading British private military company … the new measures to ensure port and airport safety have been drawn up by security firm Trident, led by Lt. Col. Tim Spicer, the man at the center of the so-called 'arms to Africa' affair. … "Lt. Col. Spicer said the review, which involved the efforts of about 20 people, took several months to complete and act upon, although the work was delayed by a general election and subsequent change of government," the paper reported. "I would say (Sri Lanka) is now as safe as anywhere in the region, and safer than some," Spicer boasted to the paper.

The Spicer-inspired report neglected to mention that in late in February 2002, a Norwegian-led peace initiative had resulted in the first ceasefire in eight years between the Tamil Tigers and the Colombo government. On March 1, 2002, Sri Lanka's prime minister told a press conference that the ceasefire had led Lloyd's to agree to drop the surcharges.

Out in the open

The press release and onboard PR adviser have become tools of the PMCs, as have public relations generally. SCI, Trident and Sandline, like many of their U.S. and British counterparts, no longer operate in total darkness. Each company has established elaborate, even flashy Internet sites. The sites are long on capabilities and moral principles, short on details of their failed operations. Sandline International's Web site stipulates "the company only accepts projects which … would improve the state of security, stability and general conditions in client countries." To this end, Sandline added, "the company will only undertake projects which are for internationally recognised governments" – governments that are "preferably democratically elected."

Prospective clients are told in brochures and presentations that "Sandline policy is to only work with internationally recognised governments or legitimate international bodies such as the U.N." This was a key "operating principle" for the new age mercenaries. In an article for Britain's Daily Telegraph in May 1998 Spicer wrote, "At Sandline, we maintain a strict, self-imposed code of conduct. We will only work for legitimate governments, those recognised by the U.N. We then apply our own moral template." The template was firm. "The real problem comes when you get to a country where the insurgents are in the right. We can't work for them because if we did we would be helping to overthrow recognized governments," he wrote.

Spicer's position appears now to have changed. On publicizing his new companies in 2001, Spicer told the Financial Times that SCI "would look carefully on a case-by-case basis at working for liberation movements in overseas countries," the paper reported. Asked at a conference in 2002 on "Europe and America – a New Strategic Partnership – Future Defense and Industrial Relations," sponsored by the prestigious Royal Institute of International Affairs, how he would resolve his contradictory pronouncements, Spicer replied:

"I don't think anyone would object if a private military company, American, British or whatever – was to become involved at the behest of the international community with the Iraqi resistance. I don't think people would have objected if a PMC was working with the Northern Alliance. Other countries, it's more complicated. Sudan is a complicated issue. I suppose the question of Zimbabwe has been raised, but it's not at that stage yet. So I would duck that particular question at the moment." Asked how he reconciled this with his 1998 position that he could not work for a resistance movement even in "a country where the insurgents are in the right," Spicer did not answer.

Plainly, there was business to be had in supporting the right sort of rebels, as seen from Washington or London. Other British companies employing former SAS members were hired in Afghanistan to assist the mujaheedin in the 1980s, and in the 1990s were contracted to train members of the Kosovo Liberation Army, which opposed Serbian forces in the troubled Yugoslav province of Kosovo. Spicer's post-Sierra Leone public relations campaign has also loudly beat the drum for "total transparency" of mercenary companies, in the hope of seeing the United Kingdom and Europe introduce licensing regimes that might allow them official recognition. Spicer told the Financial Times in 2001 that SCI was to be a different sort of business. "One that is totally transparent, registered in the U.K. with nothing to hide overseas."

But Spicer's commitment to "total transparency" is unconvincing. During the Papua New Guinea judicial inquiry into the Bougainville affair, for example, Judge Warwick Andrew commented that Spicer's claim that Sandline Holdings, set up for the Papua New Guinea operation, was entirely separate from Executive Outcomes "cannot be true, but the exact nature of their relationship seems clouded behind a web of interlocking companies whose ownership is difficult to trace." Further, Andrew made no distinction between the South African and British incarnations of Executive Outcomes. From the beginning, Spicer offered inaccurate statements about what Sandline was, who had created and backed it, and whether it was linked to Executive Outcomes. He told journalists, judges and parliamentarians that "we [Sandline and Executive Outcomes] are completely separate organizations who operate our own businesses … We don't have a corporate relationship." He and Buckingham made similar statements when asked about the links between the mercenary companies and the associated Heritage Oil, Branch Energy and DiamondWorks companies, in all of which Buckingham has a substantial interest. He told the British parliamentary inquiry that he didn't know who owned the company (Sandline International) for which he was prepared to risk his life.

Andrew dismissed some statements by Spicer as evasions. "The controllers of Sandline International are obviously Mr. Buckingham, Mr. Grunberg" – a director, as is Buckingham, of Canadian company DiamondWorks – "and at least to some extent Mr. Spicer. There is a strong inference that Sandline Holdings Limited may be something of a joint venture between the interests of Mr. Buckingham and the interests of Mr. Barlow and Executive Outcomes."

Internal documents from the King's Road offices and documents inspected during inquiries into Sandline confirmed the judge's observations. A July 1996 memo circulated inside King's Road about a BBC news broadcast on Sierra Leone referred to "SL/EO" as a single entity. The note was sent to Buckingham, Mann, Spicer and others, on the notepaper of Buckingham's umbrella company, Plaza 107. An August 1996 letter sent by Spicer to Rilwanu Lukamn, the general secretary of Organization of the Petroleum Exporting Countries, records a meeting with Spicer accompanied by "my colleagues from Heritage Oil." A brochure accompanying the letter identified Sandline as "part of a group of companies which includes Heritage Oil and Gas and Branch Minerals."

A November 1996 memorandum from Buckingham announced the appointment of retired U.S. Special Forces Col. Bernie McCabe as director for the Americas. His task was "to develop Sandline business, and exploit opportunities for other group companies where appropriate in North, Central, and South America. He is also to develop our image/contacts with U.S. government agencies." The memorandum was copied to Spicer, Mann and Grunberg of Sandline, and also to Barlow, Luitingh and van den Bergh, the South African contingent of Executive Outcomes.

Documents found by the Papua New Guinea commission of inquiry unearthed a similar pattern. The commission located a Hong Kong bank account in the name of Sandline Holdings. The signatories were Mann, Buckingham, Luitingh and Barlow. Sandline International still exists, its Web site was updated as recently as August 2002 with new information and reports on the campaign to license PMCs. Buckingham has moved his network to new offices a short distance away at Harbour Yard, Chelsea Harbour. His modern, glass fronted and terraced suite offices overlook a yacht basin and marina.

The true owners and directors of Sandline International remain hidden. But the key players remain the same. At a British conference held in June to discuss possible new laws affecting PMCs, Sandline International's delegates were two of the original South African Executive Outcomes leaders, van den Bergh and Luitingh. The third was Buckingham's financial director, Grunberg. Spicer, who has not been part of the Executive Outcomes/Sandline International operation since 1999, attended separately. Their presence confirmed that the core of the old Executive Outcomes was still in being. Under new names, the group is still believed to be involved in protecting Buckingham's diamond, mineral and oil assets in Sierra Leone and Angola.

Sandline International continues to employ South African and other mercenaries in a range of African countries. Although the company dislikes discussing current clients, Grunberg, the Sandline financial adviser, told ICIJ that the company had considered new business in the Ivory Coast, Sudan and Liberia. Meanwhile, the larger business of private intervention in wars appears to have died down. Although Spicer has continued to lobby for his companies' stake in the new age of PMCs, inquiries suggest that most of the work now available in Britain is being taken by his less controversial but larger rivals, ArmorGroup Services (formerly Defence Systems Ltd) and Saladin Security network. According to some sources, in an ironic post-Cold War spin on events, the British ex-SAS companies have been contracted to provide perimeter security defenses for vulnerable Russian nuclear weapons sites.

A successful outcome?

The public relations campaign may have finally paid off. In February 2002, the British Foreign Office published a long-delayed response to parliamentary criticism of Spicer and the mercenary trade. The conclusion of the British government's "green" paper – essentially, a proposal for legislation – on "Private Military Companies: Options for Regulation" was almost all that Spicer had wanted. The government opined that PMCs should be legalized and licensed. Spicer told his business colleague Professor Blankenship (inaccurately) that "the British government has changed the law on private military companies," calling it "a significant event," according to Blankenship.

Spicer's record of sanctions-busting and political embarrassment seemed to have been forgotten. He had welcomed television appearances since leaving Sandline. "But only serious comment [shows]," his PR adviser, Pearson said. Spicer appeared again on a BBC current affairs show in February 2002 to discuss the green paper on private soldiers, looking pleased and dubbing himself the "proper end of the spectrum." A week later, speaking on Feb. 19 at the Royal Institute of International Affairs conference at Chatham House, Spicer told the international audience that he welcomed the government's proposal to license private military companies.

Britain's Foreign Secretary Jack Straw, whose immediate predecessor, Robin Cook, had been humiliated by Spicer's conduct, was now toeing the PMC line. Straw announced "states and international organizations are turning to the private sector as a cost effective way of procuring services which would once have been the exclusive preserve of the military." Straw prophesied that "the demand for private military services is likely to increase. … The cost of employing private military companies for certain functions in U.N. operations could be much lower than that of national armed forces." But he added, "clearly there are many pitfalls."

There were pitfalls in such proposals – and the British Foreign Office's green paper had ignored nearly all of them. The conclusions the foreign secretary so readily endorsed drew nothing from British diplomatic expertise or private knowledge of (or involvement with) mercenary companies. Instead, it relied on such unofficial sources as a recently published book, Mercenaries: an African Security Dilemma, edited by Abdel-Fatau Musah and J'Kayode Fayemi. The British government paper also failed to mention that the Foreign Office, itself, had hired bodyguards for more than 20 years from companies that also promoted and provided mercenary activities around the world. Nor did it say that some of these companies had been and were being employed by U.S. and British intelligence agencies for secret operations in Nicaragua, Afghanistan and Kosovo – or that the explicit political purpose of doing so was official deniability.

But to Spicer, it must have seemed that his transformation to respectability was complete. Within two years of his book, his image had been transformed from law-breaking buccaneer to respectable commentator, a minor celebrity to include in chat shows and TV quizzes. Less than five years after the debacles in Africa and the South Pacific, while speaking to a conference on military cooperation, Spicer seemed confident that the British establishment had been won over. He enthusiastically endorsed the future role of mercenary companies and stated that the world was waiting for "the speed and flexibility with which they [PMCs] can deploy – rather than wait for the U.N. to form a force."

But just as his PR initiatives for PMCs seemed to have succeeded, Spicer's new PMCs set up since he left Sandline faltered or fell. Sandline Consultancy Ltd. was dissolved by official order on March 26, 2002, having failed to file documents. Spicer's second new company Strategic Consulting has withdrawn almost all of its Web site, replacing it with a single message "for further details contact SCI," giving phone and fax numbers, but no address. His co-director and fellow shareholder Pearson has sold out and left the company.

His third new company, Trident Maritime, which continues to boast on its Web site of its network of global command centers, has also "failed," according to co-director Blankenship. "It has closed," the University of Maryland professor said, "we've had to stop the operation just in the last couple of weeks … [Trident] is essentially out of business." Spicer said that his U.S. partners in Trident have, like Pearson, disinvested in the company, and have turned their shares over to him. He claimed that he was "restructuring the company" and planned to carry on in the maritime security business.

"It wasn't managed particularly well – that's pretty much why the company failed," Blankenship said of Trident's troubles. "All we ever really did was install some recording equipment on two ships – in effect prototypes. We did training for some ship companies, but nothing interesting, [and] security audits of ports in two countries. That's the sum total."

Questioned in the summer of 2002 by members of the parliamentary Foreign Affairs Committee about the private military companies used by the British government, the government refused to provide information, even about security guards, on the basis that records were "managed locally and details are not held centrally." The committee found this excuse "unacceptable" and asked the government to "take immediate steps to collect such information and to update it regularly."

The moral dilemma of addressing what to do about mercenaries in a democracy when they have been integral to secret and unaccountable foreign policy activities was one the British government was unwilling even to acknowledge. These difficulties were set aside in favor of debating the superficial merits of the PMC campaign for legal recognition that Spicer and Sandline International had promulgated, and which had focused almost entirely on reviewing the Papua-New Guinea, Sierra Leone and Angola engagements.

United Nations workers and the NGO community do not feel so enthusiastic about the work of Executive Outcomes or PMCs as the British government or Spicer. In October 1999, the British government's Department for International Development backed a high-level conference to discuss the issues. Sandline and its supporters were excluded. Speaking particularly about Sierra Leone, Lord Judd, head of the aid organization International Alert told attendees, "From our perspective, the presence of external actors, who were able to sell their military wares to the warring factions, was one of the main stumbling blocks in forwarding the peace process. …[T]hose that fight for financial gain are an anathema to much of what we strive for."

4. Greasing the Skids of Corruption

On July 15, 2000, the Marathon Oil Company sent $13,717,989.31 to an account in Jersey, an island in the English Channel with stringent bank secrecy laws. The owner of the Jersey account was Sonangol, Angola's state oil company. The sum represented one-third of a bonus that the Houston, Texas-based company agreed to pay the Angolan government a year earlier for rights to pump the country's offshore oil reserves. That same day, Sonangol transferred an identical sum of money out of Jersey to another Sonangol account in an unknown location. Over the course of that summer, large sums of money traveled from the Jersey account to, among others, a private security company owned by a former Angolan minister, a charitable foundation run by the Angolan president, and a private Angolan bank that counts an alleged arms dealer among its shareholders.

Angola's byzantine political and financial dealings are no secret; the country falls among the lowest rankings in Transparency International's Corruption Perceptions Index. Still, oil companies from the

United States and other countries continue to do business with the Luanda government and Angola's state-owned oil company. A variety of groups, from human rights organizations to diplomats, have raised concerns that oil revenue goes to government ministers' pockets or to buy arms to fight the country's recently ended civil war. But not even an International Monetary Fund monitoring program has been able to produce hard evidence of such activity. The cost in human lives of this misdirection of the nation's wealth is incalculable, and far beyond the estimated 500,000 killed in the 25-year-long civil war. For years, Angola has scraped the bottom of the United Nations' social indicator indexes: 30 percent of its children die before the age of five, and average life expectancy is just 45 years.

According to the Angolan Petroleum Ministry, Angola exported $6.9 billion worth of oil in 2000, $2.9 billion of that exported by Sonangol. Economists estimate that up to $1 billion in oil revenue flowed out of the country and into private bank accounts in 2000 alone, despite a national law that gives ownership of Angola's oil – and, presumably, the wealth it produces – to its citizens.

Now, an investigation by the International Consortium of Investigative Journalists provides a glimpse into this system where money from multinational oil companies moves through labyrinths of international bank accounts, avoiding national budgets and banks. It shows how national and international laws governing corporate behavior—including the Foreign Corrupt Practices Act, enacted by the United States in 1977 after revelations of bribery by U.S. companies—have failed to prevent this movement of money from corporate accounts to private ones. And it reveals that oilcompanies around the world devote millions of dollars to influencing international policies toward the countries where they pump oil, often attempting to block the efforts of first world governments to sanction Third World countries where corruption flourishes and bloody conflicts rage.

Angola is certainly not unique as a country where conflict and corruption are fueled by petroleum dollars. In Sudan, where oil revenue from Chinese, Canadian and Malaysian petroleum companies reportedly doubled the government's defense budget between 1998 and 2000, government forces have been accused of displacing tens of thousands of villagers to make way for oil concessions, often by bombing villages, burning homes and killing resisters. In 1993, Shell Oil became the focus of an international boycott when activist Ken Saro-Wiwa led thousands of Nigerians to protest the oil industry's impact on Nigeria's environment and culture. The late dictator Sani Abacha had Saro-Wiwa and seven other activists hanged for their temerity. Abacha is accused of stealing some $3 billion in state revenue during the five years he ruled Nigeria, money which that country's current government is now trying to extricate from Swiss banks. And attempts by the newest petroleum hot spot in West Africa, Equatorial Guinea, to enter into an IMF loan program were put on hold by the institution out of concern for the government's "lack of fiscal discipline and transparency."

Some oil companies contribute to the problem directly by hiring corrupt government militaries to provide security for their operations. In Indonesia, Mobil Oil admitted to supplying food, fuel and equipment to soldiers hired to protect oil installations. The soldiers were later implicated in massacres in the breakaway province of Aceh and reportedly used Mobil's equipment to dig mass graves, though Mobil denied knowledge of any abuses. In June 2001, the U.S.-based International Labor Rights Fund filed suit against ExxonMobil (the corporation formed of the merger between Exxon and Mobil) on behalf of Aceh villagers who suffered abuses at the hands of these soldiers. A similar situation occurred in Burma, where the ruling military junta is so brutal that nearly all foreign investment has pulled out of the country. In 1995, a Unocal official admitted not only to hiring Burmese troops to protect two natural gas pipelines but to supplying them with intelligence such as aerial photographs; a California court recently gave the go-ahead to a 1997 lawsuit filed against Unocal by Burmese citizens seeking compensation for the abuses they suffered by soldiers working for the company. Unocal has denied culpability. Unocal's French partner, Total Oil, hired its own Burmese troops and supplied them with food and trucks, according to human rights groups and media reports.

Oil companies insist their job is to pump oil and not get involved in the politics of the countries where they do business. "The problem is that the good Lord didn't see fit to always put oil and gas resources where there are democratic governments," Vice President Dick Cheney remarked in 1996 when he was the CEO of the global oil services giant, Halliburton Company. But in countries with unstable governments, rebel insurgencies, and widespread corruption, such official distance can be hard to maintain.

'Turning a Blind Eye'

The motor of Angola's economy floats 100 miles off Africa's Atlantic coast on a ship the size of a football field. Rigs rise hundreds of feet in the air from a steel platform moored to the ocean floor 440 feet [1,360 meters] below by steel chains and flexible pipes that suck oil from the sea bed into the ship's gigantic hull. Costing $2.6 billion, the ship that pumps oil from the Girassol field (Girassol is the Portuguese word for sunflower) is the biggest and most expensive of its kind, capable of storing 2 million barrels of oil, housing 140 people and generating enough electricity to light a city of 100,000.

Since the 1973 and 1979 oil shocks, Western corporations and governments alike have sought supplies of crude oil beyond the Persian Gulf. Already, one in every seven barrels of oil that the United States imports comes from Africa, and that figure will likely increase as the United States continues to diversify its oil sources, especially following the Sept. 11, 2001, terrorist attacks. By 2015, a report by the National Intelligence Council predicted, a quarter of all the oil America imports will come from West Africa. Angola will be one of the prime beneficiaries of that diversification. The country lies on the southern curve of the Gulf of Guinea, anchoring an oil-rich geologic shelf running across the Atlantic from Brazil that has turned Nigeria, Cameroon and Gabon into major crude exporters.

Angola's oil resources were first developed in 1956 when the country was a colony of Portugal, which ruled Angola until 1975. Immediately after the Portuguese pulled out of Angola, an armed struggle for control of the country flared among the Marxist-based Movement for the Popular Liberation of Angola (MPLA), the Front for the National Liberation of Angola (FNLA), and the National Union for Total Independence of Angola (UNITA). The MPLA managed to establish a functional government in Luanda and in 1976 created a national oil company, Sociedade Nacional de Combustiveis, known as Sonangol, to manage the burgeoning oil industry. From the start, Sonangol's revenue was appropriated as a war chest to fund the long fight against UNITA, which was funded by sales from diamonds and timber as well as South Africa's apartheid regime and the U.S. government. The FNLA, the MPLA's other rival, had disintegrated as a movement by the late 1970s.

The war barely touched Angola's oil production, largely because the bulk of the reserves are offshore. Angola produced an average of 742,000 barrels of oil per day (bpd) in 2001. The massive Girassol field, which began producing oil in December 2001, boosted that figure to 860,000 in January 2002, and is projected to increase Angola's output to nearly 1 million bpd by the end of 2002. As more fields begin producing, oil industry analysts expect Angola to reach 2 million bpd by 2007, generating up to $14 billion annually for the Angolan government.

Oil provides the bulk of the Angolan government's revenue; in 2002, oil money will account for more than 90 percent of Angola's $5 billion budget. The government has traditionally devoted a large portion of its budget to military spending, ranging from 27 percent to 41 percent between 1995 and 1999. The combined spending on health and education accounted for less than 11 percent during the same period. Yet the same 1978 law that established Sonangol names Angola's people as the sole owners of its petroleum.

The cause of this gap between resource wealth and terrestrial poverty, familiar in many oil-producing states, is the topic of much study and debate. Angola has fallen prey to a common ailment of oil-rich countries in which they become over-reliant on mineral wealth and fail to develop other sectors of their economy. However, its government has also earned a reputation as one of the world's most corrupt, with its lopsided military spending, budgetary mismanagement and resistance to external supervision. The IMF discontinued a program designed to prepare the country for debt-relief structuring in August 2001 after Angola failed to meet benchmarks like lowering inflation and increasing fiscal transparency. In July 2001, Médecins Sans Frontières released a damning report accusing the government and UNITA of "turning a blind eye to the obvious, serious and often acute humanitarian needs of the

By the late 1980s, the Angolan government's fight against UNITA had become so costly that it began racking up debt from foreign lenders it couldn't pay back. The resulting poor credit ratings, combined with exploding inflation, gutted the country's economy and central bank. To maintain foreign investment, the government opened up a series of bank accounts outside Angola as a safe arena in which to conduct business, said Sonangol CEO Manuel Vicente. A complex system of offshore accounts and trusts emerged that allowed oil money to move directly to foreign creditors without passing through the government's budget or banks, according to Global Witness, a London-based advocacy group that examines conflicts linked to natural resources.

Those with experience in Angola, from business executives to workers with non-governmental organizations to members of Angola's opposition parties, acknowledge the system's existence. However, the diplomatic and business worlds have been loathe to raise their voices in protest because of their stake in Angola's oil wealth. Even financial institutions such as the IMF and World Bank avoid direct implication of the Angolan government in their reports, pointing out in private that their agencies are tasked with restructuring economies, not investigating them. Yet all acknowledge the system's draining effect on the country's economy.

In 2000, the IMF asked Sonangol to conduct an analysis, or "diagnostic," of its accounting practices, one of a list of benchmarks the government had to meet in order to qualify for the debt-restructuring program. The accounting firm KPMG, which won the contract for the diagnostic, was tasked with comparing payment records and production figures for 1999 and 2000 to government budgetary figures. The diagnostic did not, however, examine how past revenue was spent; in fact, the government of Angolan President Jose Eduardo dos Santos insisted that the diagnostic extend no further back than fiscal year 1999. It is up to the Angolan government whether the diagnostic's July 2002 final report will be released to the public. Two interim reports have been kept confidential. "We're trying to work out where all this money is going," an accountant familiar with the diagnostic told ICIJ. "Most or all of the money goes to offshore bank accounts and disappears somewhere. (Sonangol) is bypassing the central bank, dollars are going outside the purview of the bank, and the bank is not aware of what's going on."

Follow the Money

Vicente, Sonangol's chief executive, appears to be a jovial man as he smiles over a drink in the bar of Washington, D.C.'s, swank Four Seasons Hotel. Vicente speaks proudly of Sonangol's many subsidiaries – including a shipping company, a telecommunications branch and an aviation company – its investments in the oil industries of neighbors such as Cape Verde and Congo, and the inauguration of a "Houston Express" plane shuttle from Houston to Luanda funded by a coalition of U.S. and Angolan businesses.
Vicente admits that Sonangol maintains "around 10" bank accounts in several locations outside Angola, including in Switzerland, Portugal and London. The accounts are affiliated with either Sonangol's London or New York satellites, established chiefly to facilitate the oil trading done through those offices, he said. "Basic risk management" is what Vicente calls the structure. "You don't want to have all your eggs in one basket."

One of those accounts, Vicente says, was established in 1983 with Lloyd's TSB on the isle of Jersey in the Channel Islands. Jersey is one of the world's busiest offshore banking havens, known for closely guarding the identities of its depositors and generating criticism from other European nations for not cooperating with investigations into money laundering. Jack Blum, a Washington, D.C., attorney specializing in international fraud and capital flight, points out that since England does not tax bank accounts held by foreign parties, there can be only one incentive for maintaining an account in Jersey rather than London.

"The incentive for keeping money in a place like Jersey can only be secrecy, but a parastatal company should be anything but secret," said Blum. "When companies ask me about red flags signifying when a payment is suspicious, I say, 'when they want a large amount of money sent to an offshore account.'"
Sonangol financial information obtained by ICIJ, charting activity from June 1 to Sept. 1, 2000, shows an interconnected web of 14 different Lloyd's accounts. Some are dormant and collect only small interest payments, some move several million dollars a day. Though they cover only a three-month period, the accounts' stream of money provides a glimpse of the structure of subterfuge behind which national revenue can hide.

Sonangol, itself, accounted for more than half the traffic: the Jersey accounts saw some $78 million pass through on the way to other Sonangol branches and accounts. The account also received a $330,000 deposit from the national oil company of the West African island-nation of Sao Tome and Principe, of which Sonangol owns a 40-percent stake, and a $60,000 deposit from the Congolese national oil company, in which Sonangol also invests.

Yet aside from these transactions, less than 1 percent of the total paid out went to companies directly involved with the oil industry, such as oil service providers or consultants. The rest went to address government economic priorities, such as servicing debt from oil-backed loans. The fact that government business was conducted through offshore Sonangol accounts – and that Sonangol receipts never made it back to Angola – violates a 1995 Angolan law requiring all foreign currency receipts and government revenue to pass through the central bank.

When Angola's financial instability led creditors to demand more concrete forms of collateral, it turned to its most valuable resource – oil. Oil-backed loans are repaid with proceeds from oil sales that go directly to creditors, bypassing budget ledgers. Transparency advocates criticize oil-backed loans because they allow money to vanish into what one economist called a "black hole." Financial institutions like the IMF also frown on them because the high-interest rates of the short-term loans cost Angola an estimated $50 million a year. Global Witness counted seven loans worth $3.55 billion between September 2000 and October 2001 alone, despite Angola's agreement with the IMF to limit borrowing in 2001 to $269 million. The Jersey accounts show what a quick and potent injection of cash such loans can bring: Union Bank of Switzerland (UBS) alone pumped $35.6 million into Sonangol in the three-month period, while Sonangol paid UBS only $171,000 in debt servicing. UBS has extended some $1 billion in oil-backed loans to Angola since 1989, including a March 1999 loan providing $575 million.

Aside from money that Sonangol transferred to its subsidiaries during the three-month period, the largest block of cash to leave the Jersey accounts – some $7.2 million – went to construction companies. Some of the global construction industry's largest names, such as Odebrecht of Brazil, Engil of Portugal and Dar Al-Handasah of Egypt, are deeply involved with the Angolan government's plan to rebuild the country's infrastructure. Odebrecht has contracted with the government for a number of major infrastructure jobs, such as constructing the country's public water and irrigation network. Dar Al-Handasah, which maintains an office in Luanda, built the government's new administration complex and the city's water supply system.

Executives from several of these construction companies, as well as oil companies, hold seats on the boards of Fundacao Eduardo dos Santos (FESA), the president's personal charity foundation, which also received $33,333 from the Jersey accounts. Charitable organizations are another "black hole" in Angola's financial galaxy into which millions of dollars have allegedly disappeared. The Angolan government requires most foreign investors to contribute money to social development projects, such as rebuilding schools or roads, according to oil industry sources. Sonangol created a "social bonus fund" to receive this money, though the number of bank accounts linked to the fund have reportedly mushroomed to more than 20, and the boundaries between them and Sonangol's myriad other accounts are unclear. For example, $100,000 left the Jersey accounts in August 2000 for the Vatican, which directed it toward a branch of the Capuchin Order, based in Luanda, to build a social activity center.

Neither the government nor Sonangol will divulge how much money these "social bonus fund" accounts contain, though the figure has been estimated at $60 million to $200 million. Some $150 million in payments to secure contracts, known as "signature bonuses," reportedly found its way into another fund named the Fundo de Desenvolvimento Economico e Social in 1999, though the government will not reveal how or where the money was spent.

The foundations tasked with carrying out the projects have also been tainted by allegations of corruption, particularly FESA. The foundation describes itself as a government partner in initiatives ranging from professional training to building universities and orphanages. Critics, however, call it a personal slush fund for Dos Santos that fortifies his myth by crediting him for projects such as building schools that should be funded by the state anyway. Executives from Odebrecht, Dar Al-Handasah, U.S. oil company Texaco, Norwegian oil company Norsk Hydro, Israeli security company Long Range Avionics Technologies and several Sonangol executives sit on FESA's general assembly and project boards. (ICIJ sought to interview Dos Santos about FESA and other matters, but a request to the Angolan Embassy in Washington, D.C., went unanswered.)

Close presidential relationships are in evidence in other account transactions as well: On June 5, two payments totaling $2.4 million went to Teleservices, a private security firm that guards diamond mines and oil-storage facilities in Soyo and Cabinda. Teleservices' principal shareholders are Gen. Antonio dos Santos Franca, a former military chief of staff and Angolan ambassador to Washington, and former Angolan Chief of Staff Joao Baptista de Matos. On Aug. 15, 2000, $2.2 million was paid out to Banco Africano de Investimentos (BAI), Angola's first private bank, in which Sonangol is also a 17.5 percent shareholder. Other shareholders include a company owned by Pierre Falcone, an alleged arms dealer arrested in 2000 in connection with the French oil-for-arms scandal known as Angolagate, whose trial is ongoing. (Attempts to reach Falcone for comment through his lawyers were unsuccessful).

Two of the largest payments – $1.6 million and $3.9 million, each on Aug. 2, 2000 – went to Concord Establishment. Concord Establishment is the Liechtenstein-based parent company of Catermar, which provides catering and other support services to the oil industry. Catermar, based in Lisbon, has worked with Sonangol for more than 20 years, and recently entered into an agreement with Sonangol to operate a chain of supermarkets in Luanda. Catermar CEO Luis Correa de Sa says the large payment went toward several outstanding bills Sonangol had accumulated.

The significance of the Sonangol transactions lies not in any single one, but in their indication that large amounts of oil wealth are moving through accounts and settling government business out of the purview of budgetary monitors. Under Angolan law, all government revenue, including Sonangol receipts, should be channeled through the central bank. CEO Vicente says Sonangol reports on income from each barrel of oil to Angola's Parliament at quarterly meetings and directs all of the profits remaining after the company pays its bills to the central bank as required by law (though the company does collect a fee for oil trading). However, when asked why an outside contractor such as Teleservices, which provides services in Angola, was paid from an outside bank rather than the central bank as required by law, Vicente qualified the payment as a "mistake." "We had a lot of weaknesses and problems here two years ago, but we have made an agreement with the government to restructure the company," Vicente claimed, maintaining that the discontinued IMF program was part of that effort.

The Signature Bonus

Amid the stream of executives rolling their overnight cases in and out of Washington's Four Seasons Hotel in December 2001 were lawyers for some of America's largest corporations – Conoco, General Electric, Enron and Boeing, among others. They were in Washington to attend "What Every In-House Counsel Should Know About the Foreign Corrupt Practices Act," an annual conference organized by the American Conference Institute to boost U.S. companies' awareness and enforcement of the act. Attendees listened as representatives from the U.S. Justice Department and Transparency International spoke on topics such as "Dealing With Corruption by Foreign Competitors in International Markets" and "Accounting and Record Keeping: What's Required and the Implications of Getting it Wrong."

The oil industry became almost synonymous with bribery in 1973 when Gulf Oil admitted funneling more than $10 million to U.S. and foreign politicians over several years. When the Securities and Exchange Commission responded with a questionnaire asking American corporations if they paid bribes, more than 400 corporations – including major oil companies like Exxon – acknowledged making questionable payments to foreign government officials, politicians and political parties. The result was the passage in 1977 of the Foreign Corrupt Practices Act – the world's first, and toughest, anti-bribery legislation.

U.S. businesses complained that the law put them at a competitive disadvantage against companies from countries such as France, which once considered bribes a tax-deductible business expense. Andre Tarallo, a former executive with the French state-owned oil giant, Elf Aquitaine, which merged with TotalFina to form TotalFinaElf in 2000, testified in July 2001 before French prosecutors that Elf Aquitaine had skimmed pennies off every barrel of African oil since the 1970s to maintain secret slush funds in Liechtenstein and Switzerland for payouts to African leaders. The beneficiaries included heads of state from Gabon, Congo-Brazzaville, Cameroon, Nigeria and Angola.

The FCPA does contain some significant loopholes, such as the exemption for "facilitating payments," defined as "payments to facilitate or expedite performance of routine governmental actions." These actions include processing of permits, licenses or visas, but "do not include any decision by a foreign official to award new business." Yet, according to Phillip Urofsky, an attorney at the U.S. Justice Department – the agency charged with criminal enforcement of the act – the exemption also covers one of the most nebulous transactions in the oil business, the signature bonus.

Signature bonuses are lump sums companies pay foreign governments upon signing a contract licensing them to explore and pump oil from a specified area, or "block." The amount of the bonus varies according to the block's size and prospective wealth. In recent years, the size of signature bonuses has skyrocketed in hot markets such as Angola. The $870 million bonus paid by BP-Amoco, TotalFinaElf and Exxon for the ultra-deepwater blocks 31, 32 and 33 in 1999 set an industry record, and the $300 million signature bonus paid by four partner companies for block 34 kept the bar high. Among the largest transfers into Sonangol's Jersey island accounts during the third quarter of 2000 was the $13.7 million from Marathon Oil – just one-third of the signature bonus the company had agreed to pay for the opportunity to share in Angola's oil wealth.

The amount of the bonuses are set in a two-tiered bidding process: all of the companies selected by the host government to share ownership of the block submit a "base bid," the amount of which is widely known within the industry. Companies then submit a second bid to determine the size of their share, an amount that is tightly guarded. "It's far from bribery – it's a very normal practice around the world," said Knud Schlosser, vice president of Norsk Hydro, which holds shares in four Angolan blocks. "It's a very clean business."

In his testimony before the French magistrates, however, Elf's Tarallo used another term for the practice. "All international oil companies have used kickbacks since the first oil shock of the 1970s to guarantee the companies' access to oil," Tarallo said, according to news reports at the time. "You have official 'bonuses' as part of a contract: the company seeking to exploit an oil field commits itself to building a school, a hospital or a road. Then you have 'parallel bonuses,' which can be paid to increase the likelihood of obtaining the contract."

Another difficulty in determining the "cleanliness" of the bonus system is that payments rarely appear in corporate annual reports or financial filings. While a few countries, such as Norway, require companies to detail their accounts in a state registry, most do not. In the United States, the most detailed financial information a publicly traded oil company must release to the public appears in its shareholder reports. Companies may break down expenditures in annual reports by region, but provide little detail beyond that. For example, the 1998 annual report for Chevron said only that the U.S. oil company spent $87 million on property acquisition, $329 million on exploration and $584 million on development in Africa in 1998. The industry publication *Offshore* said Chevron had spent $400 million in 1998 on developing a deep-water oil field off the coast of Angola, but whether that figure was included in the company's development total was unclear.

As long as oil companies keep the size of the signature bonuses they pay a secret, the potential for diversion from Angola's budget is huge. Only half of the $870 million signature bonus for blocks 31-33 appeared on government ledgers, and Angola's former Foreign Minister Venancio de Moura acknowledged in December 1998 that the funds were earmarked for the "war effort." Some economic reports have estimated the amount of oil revenue missing from Angola's 2000 budget at $1 billion – a sobering figure considering that the bulk of Angola's budget is funded by oil and that the country is expected to receive some $23 billion worth of investment in its oil and natural gas sectors by 2007.

Transparency advocates such as Global Witness say oil companies must assume responsibility for their contribution to corruption by releasing details of their payments to foreign governments to the public. Such challenges, combined with public relations debacles such as that of Shell in Nigeria, have resulted in projects like the United Nations' Global Compact, in which several oil and mining companies, including British Petroleum (BP) and Shell, agreed to a set of principles intended to safeguard human rights while protecting employees and property in remote parts of the world. Chevron, Shell, Texaco, U.S. company Occidental Petroleum and Norway's Statoil have all signed the Sullivan Principles, based on a 1977 code of conduct authored by American minister and activist Leon Sullivan for companies operating in South Africa, which declare signatories' intent to "not offer, pay or accept bribes."

Yet adopting a code of ethics doesn't guarantee it will be followed. "Let us be realistic," Ho Wang Kim, the Angola officer at Energy Africa, told ICIJ when asked whether his company followed a code of ethics. "No oil company seeking ventures in Africa practices a noble and transparent code of ethics and principles [in order] to have a competitive edge over its competitors."

'Just the Standard'

In October 2000, British Foreign Office Minister Peter Hain convened a private meeting attended by representatives of several of the largest oil companies active in Angola, including BP, Exxon and Chevron, together with advocacy groups including Global Witness and Transparency International. The purpose of the meeting was to persuade oil companies to publish financial data on their Angolan operations, which would allow Angolan citizens to know how much money was being sucked away by government corruption. Two months later, in February 2001, BP sent financial records, disclosing a $111.7 million signature bonus the company paid to Sonangol in 1999 for block 31 to Companies House, a British national archive, in the name of furthering transparency. Since BP's 26 percent share was public knowledge, and contract language stated that oil companies must carry Sonangol's stake, observers were quickly able to calculate the total signature bonus paid by all the partners in block 31 at $355 million. The company also announced it would annually publish data on oil production as well as any payments or taxes paid under its contracts with the Angolan government.

The announcement was met with applause from human rights organizations, but a disparaging silence from the oil industry, which refused to believe that BP could take such a step without violating the terms of its contract. The sole response was from BP's block 17 partner TotalFinaElf, which issued a press release promising it had turned over "precise technical and financial information" to the IMF and World Bank, but would not release it publicly. BP answered its critics by noting that after poring over the contract, its attorneys had concluded that the terms did not override a British law requiring companies to report significant payments. "The financial information we have already published did not breach the contract since it was an obligation of U.K. law," said BP spokesman Toby Odone.

Of the 13 oil companies with major stakes in Angola interviewed by ICIJ, all (with the exception of ExxonMobil, Agip and Ranger, which refused comment) claimed that contract confidentiality clauses prevented them from releasing any financial information, and were unwilling to share any details, including the confidentiality clause language, of their contracts. This hesitancy may be partially explained by a Feb. 21, 2001, letter to BP in which Vicente expressed Sonangol's position on the company's decision. Headlined "Unauthorized Disclosure of Confidential Information" and copied to several other oil companies, the letter stated, "With great surprise and disbelief, we have read in the press that your company has been disclosing information about your petroleum activity in Angola, including strictly confidential information. … If this can be confirmed, then it is good reason for applying the provisions of Article 40 of the PSA, i.e. termination. Finally … we strongly recommend our partners not to adopt similar attitudes in the future."

Aside from the government's strong-arm tactics and contract confidences, many company executives said they would never release financial information for "proprietary" reasons. "Oil companies generally don't publish what they pay for permits," said TotalFinaElf spokesman Thomas Saunders. "Whether it's the oil industry or any other industry, obviously you wouldn't want your competitors to know what you pay. It's not that we're against it, or that there's something to hide; it's just the standard."

Companies also equated opening their books with dictating to – and potentially alienating – other governments, something they are loathe to do. "I think it's unwise and unrealistic to assume that businesses can fulfill the role that the international community has had difficulty accomplishing," said Geir Westgaard, a vice president of Statoil. "Our industry has to be sensitive to accusations of being too political, of meddling with governments … there can be a whiff of neo-colonialism." Agreed Texaco spokesman Andrew Norman: "We recognize that we have a responsibility to the people of Angola, but when it comes to government policy we feel very strongly that it's not our role … to suggest or [try to] influence national economic policy."

Yet scores of lobby documents, financial records and testimony reviewed by ICIJ attest to the fact that influencing national economic policy – both in their own countries and in the lands where they operate – is as integral to an oil company's function as drilling holes. In fact, of the 50 oil companies ranked the world's largest on the basis of their oil and gas reserves, production and sales, 23 of them maintain representatives in Washington. More than half of those companies are based in other countries, attesting to the impact they believe U.S. policy can have in foreign lands. In addition to lobbying, the oil and gas industry contributed $33.7 million to federal candidates and political parties in the 2000 U.S. election cycle, according to the Center for Responsive Politics, which tracks political campaign contributions.

Documents filed under the U.S. Lobbying Disclosure Act between 1996 and 2001 demonstrate the importance oil companies give to foreign issues. Before its merger in 1999 with BP, the list of foreign issues that U.S. company Amoco regularly lobbied on surpassed energy or even environmental issues, normally the first priority of petroleum companies. For example, in 1998 Amoco lobbied on U.S. relations with Africa, Nigeria, Angola, Azerbaijan, China, Colombia, Romania, Venezuela, Algeria, Argentina, Bolivia, Brazil, Mexico, Trinidad and Tobago, Russia, Kazakhstan, Turkmenistan, Iran and Georgia. It also lobbied on legislation including the Silk Road Strategy Act, European Energy Charter and the Free Trade Act of the Americas, as well as annual foreign appropriations bills.

Sanctions have been a longtime focus of aggressive lobbying by the petroleum industry, an ardent foe of any legislation that blocks investment and operation in other countries. Chevron, Texaco, Conoco, Phillips and Mobil all lobbied in support of the Enhancement of Trade Through Sanctions Act of 1998 and the Sanctions Policy Reform Act of 1999, which would have limited and modified international sanctions. (ExxonMobil simply listed the issue as "unilateral sanctions"). Most companies lobbied against the Iran and Libya Sanctions Act, however; even the Italian company Eni and Australian company BHP lobbied the U.S. Congress over sanctions against Iraq, Iran and Libya.

Africa garners a large amount of attention from lobbyists. Texaco has lobbied on "foreign trade and investment in Angola and Nigeria;" ExxonMobil on the "Chad/Cameroon development project;" Shell on "issues related to Nigeria and southern Africa;" Conoco on "U.S. policy toward Nigeria;" Phillips on "Angola/Nigeria transparency issues;" BP on "improved U.S.-Angola relations," and several companies on the Nigeria Democracy Act of 1998. Perhaps the most significant African trade bill passed by the U.S. Congress in the last several years is the Africa Growth and Opportunity Act (AGOB). The petroleum industry put all its muscle behind the bill, which aimed to enhance trade between the U.S. and sub-Saharan Africa by negotiating free-trade areas and reducing tariffs. AGOA met with significant opposition upon its introduction in 1996 for, among other things, conditioning trade benefits on economic reforms like privatization, while neglecting issues like debt relief and the environment. However, a special-interest group called the “Africa Growth and Opportunity Act Coalition Inc.” was formed to lobby for the bill in Congress by some 45 corporations, including Chevron and Texaco, and lobby shops such as Cohen and Woods and C/R International (both of whom represent countries that would benefit from the bill). Articles in oil industry trade papers said the bill would create windfalls for oil companies already in Africa by shrinking the price of oil on the U.S. market and saving companies taxes. The bill was signed into law by then-President Bill Clinton in May 2000 and expanded by Congress in 2001. Oil executives argue that directly influencing a sovereign government and lobbying on U.S. foreign policy are two separate things: however, policies such as sanctions and trade agreements can shape nations and even regions just as effectively as formal diplomacy.

“Influencing or subverting a government is much more tiresome and risky than lobbying Congress to create incentives,” says William Reno, an Africa scholar at Northwestern University in Illinois. “You’re shaping the world that African countries live in based on an ideological assumption that increased trade brings capacity and order, though not particularly transparency. I would question that assumption in states where institutions are weak and governments pursue goals at the expense of these institutions: adding resources (to them) can further empower the wrong things.”

The oil industry is also a major recruiter of government officials who defect to the private sector. Perhaps the ultimate example is the Houston-based Halliburton Company’s decision to hire the current U.S. vice president as CEO in 1996. Halliburton, the world’s largest provider of oil services, has worked in some capacity on nearly every major oil concession in Angola for the past 17 years. Cheney has served three U.S. presidents – prior to becoming vice president to George W. Bush, he was defense secretary under Bush’s father, former President George Bush, and chief of staff under President Gerald Ford. During his tenure, Cheney helped boost the company’s annual profits to $15 billion, doubling its contracts with the Defense Department he once oversaw to $657 million in 1999. Halliburton’s campaign contributions also increased 43 percent under Cheney, an outspoken critic of sanctions. When he was CEO of Halliburton, the company lobbied against sanctions in Sudan, Syria, Iran, Libya, Burma, Nigeria, India and Pakistan. Cheney also quadrupled the amount of government financing Halliburton received from the U.S. Export-Import Bank, the agency tasked with finding new markets for U.S. companies.

Vital Interests

On Feb. 26, 2002, Angola’s President Dos Santos and an entourage of government ministers descended on the downtown Washington Monarch Hotel for a dinner in his honor organized by the Corporate Council on Africa business group and sponsored by BP, ChevronTexaco, ExxonMobil and Ocean Energy. The crowd included executives from more than 20 companies, along with Assistant Secretary of State for Africa Walter Kantsteiner, Assistant U.S. Trade Representative for Africa Rosa Whittaker and American diamond magnate Maurice Tempelsman.

The event, which kicked off a three-day visit with Bush administration officials and oil executives, occurred four days after UNITA leader and Dos Santos nemesis Jonas Savimbi was killed in a skirmish with Angolan government forces. Though diners whispered that Secretary of State Colin Powell had warned Dos Santos that his last excuse for funneling money away from the civil sector was now gone, the warmth of the reception demonstrated that the diplomatic and corporate worlds were willing to embrace him in exchange for stability.

West African oil has always had its boosters, generally confined in the past to a group of congressmen who supported increased African trade and investment across the board. But since Sept. 11, calls for increased attention to the region have found new resonance. On June 20, 2002, the House of Representatives’ Committee on International Relations held a hearing on “oil diplomacy,” at which speakers, including Energy Secretary Spencer Abraham and energy industry analyst Daniel Yergin, echoed each others’ calls to reduce U.S. dependency on politically volatile oil producers and strengthen relationships with non-OPEC countries. One week earlier, an ad-hoc group called the African Oil Policy Initiative Group, drawn from the worlds of government, academia, think tanks and business, released a report that advocated declaring the Gulf of Guinea an area of “vital interest” to the United States, installing U.S. military sub-commands in the region, and conditioning debt relief on energy sector development, among other recommendations.

New to the debate, however, was the mention of transparency as a concern. “Expectations around the world are changing, and old practices are becoming harder to sustain. Transparency is increasingly being called for,” said Rep. Ed Royce, chairman of the House Committee on International Relations’ Subcommittee on Africa. “The practice of turning a blind eye as oil revenues are misused is not good … for Africans, and ultimately it’s bad business for oil companies. If done right, the development of Africa’s energy resources will improve our nation’s security, benefit our economy, and help lift African economies.” It remains to be seen whether oil companies – and the U.S. government – adhere to the philosophy of transparency as the Dos Santos regime solicits more money to rebuild post-war Angola and counter spreading famine. The United Nations is trying to raise some $200 million in assistance, but donors have been reluctant to give since the war’s end theoretically freed up Angola’s oil revenues. A September aid pledge of $120 million from the World Bank was accompanied by a caveat that Angola further open its books. Though there are signs of progress – the Angolan Finance Ministry in summer 2002 posted sales on its Web site showing oil production and value figures in 2001 – economists say the move is only one small step toward true transparency.

Meanwhile, the rush toward African oil has only picked up speed: U.S. Secretary of State Colin Powell toured Angola and Gabon in September, breaking ground on a new U.S. embassy in Luanda, and Bush welcomed several African heads of state to the United States in September 2002.

5. The Curious Bonds of Oil Diplomacy

The tongues of yellow flames from flaring gas burn like candlesticks lined up in a cathedral, lighting the night sky of the port city of Malabo and sending black fumes billowing upwards. In the waters offshore, oil rigs and production platforms sit majestically, sucking hundred of thousands of barrels a day from the deep sea oil fields of Equatorial Guinea. Until a few years ago, this nation of 486,000 – consisting of five islands and a square snip of coastal West Africa between Cameroon and Gabon – was a small and insignificant sideshow in the political drama of the African continent. But the beginning of large scale oil production in 1996, along with new concerns about the security of Mideast oil supplies, has thrust West African nations like Equatorial Guinea to the forefront of the global politics of oil.

Already, 15 percent of the United States' imported oil supply comes from sub-Saharan Africa. Oil experts predict that the amount of oil the United States receives from the prolific fields of Nigeria, Equatorial Guinea and Angola will double in the next five years. “African oil is of strategic national interest to us and it will increase and become more important as we go forward,” Walter Kansteiner, assistant U.S. secretary of state for African Affairs, said during a July 2002 visit to Nigeria – the largest oil producer in West Africa with an estimated 24 billion barrels in reserve. U.S. Vice President Dick Cheney, a former oil company executive, predicted the same a year earlier, when, referring to the instability of Mideast oil, he said, “Along with Latin America, West Africa is expected to be one of the fastest-growing sources of oil and gas for the American market.”

Today, U.S. oil firms dominate the Equatorial Guinea landscape. ExxonMobil, Amerada Hess, Chevron Texaco and Marathon Oil have the largest share of the country’s oil production. Based on new discoveries, analysts expect their total collective investment of $3 billion to approach about $5 billion by the end of 2002. Other countries also have interests in the region. The French, traditional rivals to the United States in West Africa, have long-standing ties to neighboring Gabon. The French oil giant TotalFinaElf, along with ExxonMobil, drills the Ekanga fields that straddle territory of both Equatorial Guinea and Nigeria. The Malaysian state oil company, Petronas, is the largest shareholder in the South African-listed company, Energy Africa, which is active in Equatorial Guinea.

ExxonMobil, the first oil multinational to launch commercial exploration in Equatorial Guinea’s offshore waters in 1995, controls the Zafiro oil field. Stretching from 25 to 60 miles offshore, it is Equatorial Guinea’s most productive field, with a potential yield of close to 200,000 barrels of oil per day. The company’s oil vessel *Zafiro Producer* pulls out about 160,000 barrels per day, and the *Magnolia* stores the oil for refining until shipment across the Atlantic to markets in the United States.

The 23-year-old regime of President Teodoro Obiang Nguema Mbasogo has been criticized for allowing the oil companies to exploit Equatorial Guinea’s oil riches with little obvious benefit to the people. The U.S. Energy Department notes that the government’s share of oil revenues is relatively small by international standards. Obiang has announced plans to renegotiate contracts to increase the country’s participation in oil licenses. Meanwhile, the president and his family have been buying up multimillion-dollar homes in the United States. “The government gave the American oil companies carte blanche and threw its doors open,” said Christanio, a Jehovah’s Witness missionary from Canada who has spent nearly four years in the capital Malabo. “The Americans are slicing their way effortlessly through the oil blocks.”

Equatorial Guinea has an estimated 600 million barrels in crude oil reserves, and the quantity of oil being pumped daily from its waters is on the rise. A combined figure for all the oil companies is expected to surpass 300,000 barrels per day by the end of 2002. But, with the most modern oil drilling technology and oil exploration experts deployed to harness the country’s deep sea reserves, supplies may dry up in as little as a decade, said Max Birley, vice president of Marathon Oil Equatorial Guinea. “It depends on what production profile the government of the country wants, which is also determined by the security of the government,” Birley said in an interview with ICIJ. “Thus, an insecure government will want the oil reserves exhausted as quickly as possible.”

The latest sign of insecurity – a March 2002 coup attempt that resulted in the arrest of 120 dissidents – has rattled the nerves of the multinational oil companies. Jose Luis Mbomio, community development manager of Hess Triton, told ICIJ that the oil companies compiled a report after the coup, assessing the security situation and detailing possible options if the country were to disintegrate into violence. The report looked at the risks to investment and possible security measures to put in place. Of major concern is how to secure the country’s three modest ports in Malabo, Luba and Bata. The bigger challenge will be the protection of offshore oil rigs and vessels.

Some U.S. oil companies already include former U.S. military men in their security departments in Equatorial Guinea in what appears to be a strategic move to inject a greater level of protection into operations. Ritchie, who asked that his last name not be used, is an Earth satellite engineer who spent 10 years in the U.S. Navy and a couple of years in Nigeria working on government contracts and for oil multinationals before joining Marathon in Malabo. Another American engineer at Marathon, who gave his name only as Curtis, spent four years in the U.S. Army. Neither thinks much of the government or its military. “The troops are undisciplined, unprofessional and illiterate,” said Curtis. “They can also be very defiant.”

Oil from troubled waters

Equatorial Guinea was a Spanish colony, unique in sub-Saharan Africa, and has had a checkered political history since independence in 1968. During Christmas celebrations in 1975, dictator Francisco Macias Nguema ordered his militia to kill 150 political opponents in the Malabo stadium as loudspeakers blared, “Those were the days my friend.” By 1976, two-thirds of the elected assembly had disappeared and an estimated one-third of the population was either dead or in exile. In 1979, Nguema was tried and executed after his nephew, the current president Obiang, deposed him in a coup.

The country has been a nominal constitutional democracy since 1991, but the 1996 presidential and the 1999 legislative elections were marred by fraud and other irregularities. Though no specific law prohibits public dissent, to speak against the president is widely regarded as a crime, and those who openly criticize the government often end up in jail. In April and May 2002, following the aborted coup, several key opposition figures were arrested for “breach of national security.” Lawyer Fabian Nseu Nguema of the opposition People’s Union, the country’s second major opposition party, was arrested on April 29 for “insulting the head of state” and, according to his wife, Elodia Nchama, suffered “physical and psychological torture” while in custody. Most of those detained are kept at Black Beach prison, a notorious interrogation and detention center.

The U.S. State Department has routinely complained about the country’s human rights record, and Washington closed its embassy there in 1995. In 1999, the International Monetary Fund pulled the plug on any economic assistance to Equatorial Guinea because of government corruption. Oil money has exacerbated that corruption. The landscape in Malabo and Bata, the two major cities in Equatorial Guinea, is dotted with state-of-the-art buildings belonging to the president and senior members of his government that stand in stark contrast to the slums in which the majority of people live. In 2000, the president bought a house in the posh Washington, D.C., suburb of Potomac, Maryland, for $2.6 million and another one in nearby Rockville, Maryland, for $1.15 million. The president’s son, Teodoro N. Obiang, purchased a house in the ritzy celebrity haven of Bel Air, Los Angeles, in March 2001, for $5.8 million. Actress Farrah Fawcett lives across the street. The younger Obiang, who is also his country’s minister of Forests, Fishing and the Environment and is in the running to succeed his father as president, also owns a record label and publishing company in Los Angeles called TNO Entertainment, which specializes in rap records.

The average Equatorial Guinean, by contrast, has seen little of the country's oil wealth. A United Nations development report ranked the country's per capita gross domestic product of $4,676 as 79th out of 149 countries in the world in 2001, but even this is barely reflected on the ground. In 2000, the World Bank reported that the average income per capita was a little over $2 a day. "After the oil is taken, the money will be taken away and shared," said Rosa, a local restaurant operator, who has no expectations of benefiting from the country's oil wealth. "This place is bad," added David, a bulky Canadian oil field worker, sitting at the seaside Shangri-la bar in Malabo – pubs being about the only thriving local businesses in Equatorial Guinea. "I am here only because of the oil," he added, asking that his last name not be used.

Chantal Kengueleoua, the deputy U.N. Development Program representative in Malabo, warned of the consequences of the government's failure to use its oil wealth to develop an economic infrastructure and provide for the education and well-being of its people. "The government and U.S. oil companies here must invest in the local economy or else we are creating the pre-conditions for conflict," she said in an interview. Indeed, concern about political stability in West Africa, estimated to have about 30 billion barrels in oil reserves, has made Equatorial Guinea and its neighbors favored candidates for U.S. and European military assistance. Worries that another politically unstable government could be a terrorist breeding ground have added a note of urgency.

According to an African defense attaché in Malabo, about 10 weeks after the Sept. 11, 2001, terrorist attacks on the United States, a senior security officer working with one of the foreign embassies in Malabo alerted the U.S. ambassador in neighboring Cameroon that al Qaeda planned to attack U.S. oil installations in Equatorial Guinea and Nigeria. George Staples, the U.S. ambassador in Cameroon who has diplomatic responsibility for Equatorial Guinea, convened a high-level meeting with defense attachés from the region and the general manager of ExxonMobil in Equatorial Guinea, Ben Haynes. A security alert was issued and remained in force until May 2002, as oil companies scurried to find ways to forestall attacks on their offshore rigs.

The oil companies do not view Equatorial Guinea's military – a product of decades of brutal dictatorial rule – with much confidence. The army is believed to have only about 1,320 men under arms, the navy 120, and the air force 100. Seven of the army's nine generals are relatives of the president; the other two are from his tribe. There is no clear command structure, the level of discipline is low, and professionalism and training are almost non-existent, according to locals and foreign oil workers. Even the presidential guard – an indication of the lack of trust in the country's forces – is comprised of 350 Moroccan troops.

Oil companies are even less enamored of Sonavi, the private security company owned by Gen. Armengol Ondo Nguema, head of national security in Equatorial Guinea and the president's brother, with whom they must contract. Sonavi, headquartered in the wealthy neighborhood of Caracolas near the airport, was formed to service the oil industry with guards for the onshore properties and offshore rigs and platforms. But the Equatorial Guinea government and the American oil multinational companies are not prepared to leave security in the hands of Sonavi alone. "The EG government does not have enough capability to ensure the security of our operations," said Anacleto Olo Fernandez, who works for ExxonMobil and serves as an interpreter between the oil companies and the government. But despite the sense of vulnerability many oil workers say they feel and the political instability of the authoritarian government, Equatorial Guinea's oil wealth makes it a country too attractive to pass up. So attention has focused on shoring it up.

Calling in reinforcements

In 1998, the government of Equatorial Guinea approached Military Professional Resources Incorporated, a private military company based in Virginia, for help in upgrading its armed forces. MPRI was founded in 1988 by retired senior Pentagon officers. The company – whose biggest client is the U.S. government – has trained troops in the Balkans, Latin America and Africa and has boasted that it has "the greatest corporate assemblage of military expertise in the world."

The same year, the Clinton administration proposed creating the African Crisis Response Initiative to train the militaries of select African countries in an attempt to ensure that Rwandan-style genocide would never again occur and to deal with the numerous small wars blighting the continent. Since its inception, the program, which included the provision of military hardware, has trained over 8,600 soldiers from Senegal, Malawi, Benin, Mali and Kenya, according to the Pentagon.

The U.S. European Command coordinated the U.S. military training activities for the program, with specific ACRI training carried out by members of the Army Special Forces Command. Sub-contracting was also conducted through MPRI and Logicon, the information technology sector of Northrop Grumman.
While MPRI was busy with ACRI, it also secured a Pentagon contract to “professionalize” the military in Nigeria. The U.S. Defense Department, according to the details of the August 2000 contract, was to pay half of the estimated $8 million price tag, with the Nigerian government paying the other half.
According to MPRI spokesman Ed Soyster, a retired Army lieutenant general who was once director of the Pentagon’s Defense Intelligence Agency, Nigerian President Olusegun Obasanjo wanted to create a professional army in which the officer corps would not be tempted to interfere in politics. There have been seven coups in Nigeria since its independence from Britain in 1960. U.S. government interests lay in the fact that Nigeria, an OPEC member and the sixth largest producer in the world, is the fifth largest supplier to the United States, where U.S. refineries absorb close to half of Nigeria’s 2 million barrels of oil produced each day.

But MPRI’s presence in Nigeria prompted protests from senior members of the Nigerian military, the most outspoken of whom was Lt. Gen. Victor Leo Malu, the army chief of staff, who was later fired by Obasanjo. Malu told ICIJ that his sudden departure from office was largely because of his opposition to MPRI in Nigeria. Malu questioned MPRI’s plan to slash the size of the Nigerian military from 100,000 to 50,000 and its need to have access to sensitive military information. “How much intelligence about your country do you give to a foreign country?” Malu said he asked. He never got an answer and remains convinced that the goal of the company was to gather intelligence for the U.S. government – a contention Soyster dismissed. “From a military point of view, they weren’t very effective,” Soyster said of the Nigerians. The controversy surrounding its work in Nigeria notwithstanding, it was Equatorial Guinea that proved to be the greater challenge for MPRI.

MPRI first applied for a license from the State Department, as required by U.S. law, to work in Equatorial Guinea in 1998. But the department’s Bureau of African Affairs rejected the request because of Equatorial Guinea’s history of human rights violations. MPRI appealed that decision to the assistant secretary of state for African affairs, then Susan Rice. “I pointed out to her that no one knows what’s going on in the country, and the U.S. ambassador has supported our application,” Soyster said. This time, the private military company cleared the Africa bureau’s concerns, only to hit another roadblock at the department’s Bureau of Democracy, Human Rights and Labor. Again, MPRI lobbied, this time in the U.S. Congress, and a contract to assess Equatorial Guinea’s defense needs was approved. Between 2001 and 2002, MPRI made several trips to Malabo to meet with government officials and oil company executives. Bill Watson, vice president of Hess Triton in Equatorial Guinea, was one of those who met with MPRI, characterizing it as a “courtesy” visit. Also participating in some of the meetings was Staples, the U.S. ambassador to Cameroon, according to a military attaché who was present at the meetings.

MPRI then submitted a proposal to revamp the armed and police forces of Equatorial Guinea, but was granted a license by the State Department in May 2002 to train only the Coast Guard. U.S. Sen. Russell Feingold, a leading proponent of human rights in Africa, has been at the forefront of opposition to MPRI getting a contract for comprehensive military training in Equatorial Guinea for fear that U.S.-trained forces will be used against government opponents. “Imagine the U.S. developing a Coast Guard without considering a Navy?” said Soyster. “You got to look at the whole thing. So we’re licensed to do the Coast Guard, but it’s entirely up to the president of Equatorial Guinea if he wants to continue with just the Coast Guard.”

Soyster said he discussed Equatorial Guinea’s human rights record with Obiang on at least five occasions and was told by the president that his country needed U.S. assistance to deal with its problems and become more democratic. According to Soyster, Obiang said he wanted “a disciplined force that I can send to various places to take care of whatever the problem is.” Soyster said he warned the U.S. government of competition from other countries, adding that “the big flags over there are China and North Korea.” The French, Russians and Chinese are also active in companies that service the oil sector.

An area of vital interest

In April 2001, an MPRI representative met with the Pentagon’s regional director for Central Africa to discuss the company’s hopes of winning the contract to train Equatorial Guinea’s forces. “They may need our help or moral support,” Lt. Col. Karen Kwiatkowski wrote in a memo on the meeting, obtained by ICIJ under the U.S. Freedom of Information Act. She quoted the MPRI representative as saying that Equatorial Guinea was “the Kuwait of the Gulf of Guinea” and, in a briefing paper three months later, advanced that characterization to “a possible ‘Kuwait of Africa’ with huge oil reserves” that was “US-friendly for both investment and security reasons.” Kwiatkowski also noted in her April memo that the highest-ranking U.S. official to meet with Obiang when he visited Washington early in 2001 was an assistant secretary of agriculture – that after French President Jacques Chirac had spared time to meet with him.

Despite concerns about Equatorial Guinea’s human rights record, Obiang’s currency rose dramatically after the Sept. 11 terrorist attacks. When he visited the United States as it marked the first anniversary of the attacks, Obiang was among 10 African leaders to meet with President George Bush for talks on the prospect of war with Iraq and peace and development on the African continent.

His visit was preceded by a report from the African Oil Policy Initiative Group – an ad-hoc coalition of Africa consultants, energy executives and staff from a U.S. congressional subcommittee on Africa. Titled “African Oil: A Priority for U.S. National Security and African Development,” the report recommended that Congress and the White House declare the Gulf of Guinea an “area of vital interest” to the United States – a designation never before extended to any region of Africa – giving it strategic and military priority. The Africa Oil Policy Initiative Group is led by Robert Heiler and Paul Michael Wihbey of the Institute for Advanced Strategic and Political Studies, a conservative Jerusalem-based think tank which maintains that West African oil “can help stabilize the Middle East, end Muslim terror and secure a measure of energy security.”

“For too long official Washington has been gripped by the perception that the United States has no vital interests in the sub-Saharan Africa. Nothing could be further from the truth,” the June 2002 report said. “As the political and security conditions of the Persian Gulf deteriorate, the availability and appeal of reliable, alternative sources of oil for the American market grows. African oil is emerging as a clear direction U.S policy should take to provide a secure source of energy.”

In July 2002, military officials from the United States, France and Britain met with representatives of the 15-member Economic Community of West African States, known as ECOWAS, for talks on expanding military cooperation with West African countries. The ECOWAS Monitoring Group, a regional peacekeeping force of member country battalions, has already received a $5.3 million early-warning satellite communication system, with financial and technical assistance from the United States and European Union, and says it plans to establish two military bases, including one in a coastal member state.

A senior African security operative based in Malabo told ICIJ in April 2002 that plans were afoot to establish a U.S. military base in the area to guard oil facilities in the Gulf of Guinea. Fradique de Menezes, the president of nearby Sao Tome and Principe, announced in late August 2002 that he had reached agreement with the United States to build a U.S. naval base on the island-nation as “a harbor for aircraft carriers … patrol boats and for Marines stationed in the region,” according to The Associated Press. The president’s announcement followed a visit to Sao Tome in late July by U.S. Gen. Carlton Fulford, deputy commander of the U.S. European Command. So far, the Pentagon has denied any plans to build a U.S. naval base in Sao Tome, but its interest in the region is clear. Michael Westphal, deputy assistant defense secretary for African affairs, told reporters in Washington that the Pentagon planned to increase its military training to individual African nations through organizations such as ECOWAS. He acknowledged that the desire to create stability was linked to the war on terrorism. “Instability creates a vacuum, which can draw terrorists to it.”

The African Crisis Response Initiative has also since been modified to meet new concerns about terrorism. Critics in the early days of the Bush administration complained there was little to show for the $100 million spent on training over the five-year life of the program, but that attitude has changed. The administration in May 2002 decided to make the program a permanent fixture and, under the new acronym ACOTA (African Contingency Operations Training and Assistance), will increase the scope of military training, tailored to specific country needs. According to Pentagon officials, the new program will also coordinate with European security assistance efforts in Africa.

Equatorial Guinea’s oil-producing neighbors offer other security threats. It has had several skirmishes between 1998 and 2001 with neighboring Nigeria and Cameroon over oil fields that fall within the maritime boundaries of the three countries. A dispute over the Bakassi Peninsular, an oil-rich territory bordering Nigerian’s boundary with Cameroon, is still raging, and there are fears that could spill over into Equatorial Guinea and Gabon, both of which share a complex marine boundary. But it’s the rapid oil wealth in contrast to the abysmal living conditions for most Equatorial Guineans that poses the greatest threat to long-term stability, in-country observers say.

In Nigeria, oil companies increasingly face attacks by militant youths who sabotage their pipelines, take their staff hostage and disrupt operations. That has not yet happened in Equatorial Guinea, but "Equatorial Guinea will get to the resistance level of Nigerian oil communities with time," Kengueleoua, the U.N. Development Program representative in Malabo, told ICIJ. Guaranteed security can exist only when the government is accountable and democratic, she said, adding, "These conditions are non-existent in Equatorial Guinea – and the oil companies have not helped."

6. Conflict Diamonds are Forever

Until the Kimberley Diamond Exchange opened in 1999 – with tight security, surveillance cameras and two double sets of iron gates – the birthplace of the South African diamond industry had all but disappeared from the radar of most serious diamond buyers. What had been the epicenter of the country's diamond rush had since become best known for the world's largest manmade pit, the "Big Hole" as it is simply called, created by diamond diggings in the diamond rush of the late 19th century.

The history of the place is entwined with that of De Beers Consolidated Mines Ltd., better known simply as De Beers, which was founded by British imperialist Cecil Rhodes in 1888, when the fabulous wealth of the newly discovered Kimberley diamond fields gave rise to the company that would become the world's diamond monopoly. At the height of its powers, De Beers controlled about 80 percent of the world's diamond supplies, striking joint venture deals with most producing countries that enabled the company to control the release of diamonds onto the world market and thus maintain its prices. De Beers, now a privately held company with offices in Kimberley, Johannesburg and London, today controls about 60 percent of the world's diamonds.

De Beers gradually offloaded its Kimberley diggings during the 1990s because of a supposed dearth in diamonds, leaving the city as little more than a nostalgic base for the company's board meetings and Harry Oppenheimer House, its main diamond sorting center for southern Africa, named after the man behind the modern De Beers diamond cartel. But in the last two years, there's been a boom in diamond sales in the small town. Twice a month, the exchange offers its diamonds for sale, putting this little town back on the world diamond map. Foreign dealers, packed into small prop planes, make the 70-minute flight from Johannesburg International Airport to Kimberley's own small airport. From there, they drive to the single story building with opaque windows on the outskirts of the town's dilapidated business district that serves as the Kimberley Diamond Exchange. After submitting their tenders, or bids, the diamond traders usually fly out the same day.

The sudden renaissance of Kimberley has been attributed to new diamond discoveries in what De Beers regarded for years as worthless land – at least for mining. And that has fed rumors in the close-knit international diamond community that Kimberley has become a major laundering center for Africa's "conflict diamonds" – diamonds from areas of Africa wracked by civil war, where combatants use their control of the mines to fund arms purchases for their fight.

Officials from the South African government diamond valuator – an independent company appointed by the government to value and monitor diamond exports – say they suspect that diamonds from countries to the north are being laundered through the diamond "diggings," or small mining operations, around Kimberley. Local diggers who have habitually mined only a few carats a month have been turning up in Kimberley with the equivalent of a small mine's production. Their explanations range from "I hit a good pocket" to "I put these away for a rainy day," according to the officials, who spoke only on condition they not be named.

Derek Corns, who together with his brother has spent time on diamond diggings in Angola, runs the Kimberley Diamond Exchange, and is popular with international diamond traders. Corns does not believe his exchange deals in conflict diamonds, but he is pragmatic. As long as dealers supplying him with diamonds provide invoices, he said, "It's legal, in my book," even though the invoices provide no proof of the diamonds' origin. Corns says his buyers include some of the biggest names in the diamond business – including top clients of De Beers – and they would be able to pick out suspect stones with ease. "If it's that illegal, why be here?" he asked. The word in the industry, which Corns acknowledged is making the rounds, is that easily identifiable diamonds from other African countries, such as the Democratic Republic of the Congo, have been identified by people familiar with such stones. One dealer recently brought in a parcel of Russian diamonds, Corns said, and police were alerted.

While there have been several investigations into conflict diamonds in Kimberley, no charges have ever been filed and, in fact, South African authorities have never convicted anyone for dealing in conflict diamonds, in part because of the difficulty in proving the origin of the stones. Yet intelligence sources have named some players in the Kimberley Diamond Exchange as traders in conflict diamonds. One prominent diamond trader who is a De Beers “sightholder” – the term used to denote the elite cadre of about 120 dealers selected to buy and market the company’s rough stones – was alleged in a 1999 classified European intelligence report to have continued buying diamonds from Angola – a hub of conflict diamond trading – after the United Nations banned purchases from African nations known to deal in conflict diamonds. He is also known in the diamond industry for having ties to Hezbollah, the Islamic terrorist organization.

Corns explains the increase in the exchange’s business this way. Local diggers have made up to 30 percent more money selling through him – as opposed to selling their stones themselves – and so they have been able to invest in more equipment and find more diamonds. His main contributor and shareholder in the exchange, Chris Potgieter, has a large digging operation near Kimberley and is now reputed to be the biggest diamond miner in South Africa after Trans Hex, a South African diamond company, and De Beers. Potgieter bought the main area he mines from De Beers in 1997 for about $200,000. Between January 2000 and October 2001, sources told ICIJ, Potgieter recorded $40 million in diamonds sales – up to $2.6 million in some months alone – with the South African Diamond Board, which is supposed to monitor and regulate the country’s diamond mining industry and diamond exports.

Diamond experts are divided as to whether he could produce such amounts from his mine. One expert, speaking privately, said he thinks Potgieter's operation is legitimate and essentially a mining miracle and does not believe that Kimberley is being used for large amounts of “hot diamonds.” Potgieter simply employs old-fashioned diggers who have proved themselves extraordinarily adept at handling their sorting pans, the expert said. He also has one of the biggest fleets of mechanical digging machines in the country and runs a lean, efficient operation. In comments to ICIJ, Potgieter said his operation had expanded considerably, and that his original De Beers’ plot was now “one of 10 [mining] operations.”

De Beers’ original prospecting notes regarding some of these same diamond sites suggest that no such bounty was in the offing. In August 1965, the company’s geologist recorded that “No diamonds were discovered during the month” at Koppiesfontein, a mining area near Kimberley. The same was reported for that September. In October, the notes said, “Three diamonds were recovered from Paddock 20 during the month with weights of 1.47, .32 and .17 carats.” One year later, De Beers’ geology department again reported to the mining commissioner that no diamonds had been found. The report concluded “Diamonds recovered nil. Labour used 16 Africans (26-day month). Loads excavated 648. Loads washed 52.”
Yet more than 35 years later, those same mines are supposed to be the source of Kimberley’s sudden flood of diamonds.

The gem squad

Not far down the road from the Kimberley Diamond Exchange are the offices of South Africa’s gold and diamond police squad. From their musty, forlorn two-story building on a residential street just outside the town center, the officers are tasked with policing illegal diamond buying – the acquisition of unregistered stones or by people without diamond licenses – as well as any trade in conflict diamonds. South Africa and Namibia, which it ruled until 1990, are the only countries in the world where it is illegal to possess an unlicensed uncut diamond. Laws prohibiting “IDB,” as illegal diamond buying is known, were an important mechanism engineered by De Beers to entrench its monopoly.

With only a few cars to patrol the province of the Northern Cape – which comprises about 30 percent of South Africa – the gold and diamond police are no match for wealthy smugglers on the Atlantic coast who have helicopters at their disposal. In addition, more than half the squad’s 27 offices across the country have closed, as the South African police turn already scarce resources to fighting the country's notorious violent crime.

Superintendent Danie Bruwer of the Kimberley gold and diamond squad and members of his team say they have never found any conflict diamonds in their area. These policemen, who are wary of discussing the problem without hard evidence, say they get occasional tips about local traders possessing conflict diamonds, but have never managed to obtain enough proof to make a prosecution possible. They are dismissive of stories about large amounts of conflict diamonds being laundered in Kimberley. “Why bring them all the way down here, instead of straight to Europe?” Bruwer asked in an interview with ICIJ.

But back in Pretoria and Johannesburg, senior South African authorities are convinced that Kimberley has become a center for conflict diamond laundering, though no one will say so on the record without hard evidence. Despite its stringent diamond-policing laws, South Africa is a relatively amenable place for smuggling because of lax law enforcement. Additionally, the “export” of illicit diamonds from South Africa is an effective way of laundering their origin because of South Africa’s first-world infrastructure, respectable reputation in the diamond industry, and indigenous source of stones.

For years, De Beers has created the impression that most of South Africa’s diamond fields have been fully excavated and that there is little left of interest. As one source close to the company told ICIJ, De Beers’ modus operandi for many years was to be tentative about what diamond fields it developed anywhere. It is, therefore, possible that areas believed to be bereft of diamonds are now worth developing. And improvements in digging equipment means prospectors like Potgieter can get to diamonds his predecessors could not. Nonetheless, the fact that the biggest diamond company in the world sold off areas around Kimberley that are now producing substantial amounts of diamonds has fueled suspicion that something is wrong.

The problem for the small, poorly resourced band of South African officials charged with monitoring the Kimberley diamond trade is that even if a digger turns up regularly with strikingly large parcels of diamonds that do not appear to be local, successful prosecution is difficult. That’s because diamonds cannot be reliably traced with sufficient, court-proof accuracy. A collection of diamonds from the same area can, in many instances, be pinpointed, but if the stones are mixed it’s nearly impossible.

Blood diamonds

Conflict diamonds got their start in 1992 in the bush war of Angola, where UNITA leader Jonas Savimbi, seeking new ways to finance his army, looked to the country’s vast diamond fields to extend the smuggling business that his rebel movement had pioneered in the 1970s and 1980s. By 1993, Savimbi had in place the world’s largest diamond smuggling network, netting hundreds of million dollars a year with which he bought arms. Among those companies dealing with Savimbi’s diamonds was the South African company, De Decker Diamonds, which admitted selling the diamonds directly to De Beers. De Beers has acknowledged doing business with De Decker, but has said it never knowingly bought diamonds from UNITA.

This pattern – in which diamonds were used as war currency – was replicated in other African conflicts, particularly in Sierra Leone, Liberia and the Democratic Republic of the Congo. But it was not until 1998, when the United Nations first began investigating conflict diamonds, that the issue grabbed the attention of the industry and diamond buyers and the public worldwide. Canada’s ambassador to the world body, Robert Fowler, oversaw in-depth conflict diamond reports, which named some of the individual culprits and highlighted the lack of oversight at key diamond centers worldwide, such as Antwerp and Tel Aviv. Subsequent reports in 2000 by Global Witness, a London-based, non-governmental organization, further highlighted the trade in what came to be known as “blood diamonds.”

The United Nations ultimately created a “monitoring mechanism” to investigate conflict diamond peddling in Angola, and the Security Council imposed sanctions on diamond dealing with UNITA in 1998 – a ban later expanded to Liberia and the rebel-held areas of Sierra Leone. But only a handful of countries enacted laws to implement the sanctions, and the only known prosecution for trading in blood diamonds is expected to begin in the coming months in Belgium. The conflict diamond issue took on greater significance, however, after the Sept. 11, 2001, terrorist attacks on the United States, when media reports cited evidence that diamonds were used by terrorist organizations, including al Qaeda, as a means of transferring their wealth globally.

But, as the ICIJ investigation found, the ties to terrorist organizations go back even further. The diamond dealer identified in the European intelligence report is known in the industry for his association with Hezbollah, according to two diamond dealers who have worked closely with him but who would not speak on the record. The intelligence report also says that the dealer’s company has done business with the terrorist organization, and that the dealer is connected to a web of influential Lebanese families working in the Congo and West Africa that includes Imad Bakri. Bakri was identified in a 2000 U.N. report (under the name Imad Kebir) as a major supplier of weapons for UNITA.

Responding to the heightened attention on conflict diamonds and seeking to protect their industry, southern African officials launched the Kimberley Process – a name recalling not only the birthplace of the country's diamond industry but, ironically, the home of its latest controversy. Set to begin in January 2003, the process provides for an international framework in which to identify and record the origin of the world's diamonds under the auspices of the diamond industry's World Diamond Council, which includes senior De Beers' executives. But even that process has been criticized. The General Accounting Office, the investigative arm of the U.S. Congress, said in a February 2002 report that the Kimberley Process was inherently flawed. "[T]he period after rough diamonds enter the first foreign port until the final point of sale is covered by a system of voluntary industry participation and self-regulated monitoring and enforcement. These and other shortcomings provide significant challenges in creating an effective scheme to deter trade in conflict diamonds."

De Beers – creator of the "a diamond is forever" marketing campaign – knows better than anyone that its industry depends heavily on perception. After initially being defensive about the issue of conflict diamonds, De Beers came to see the advantage of it. With its monopolistic hold on the world supply of rough diamonds slipping by about 20 percent in recent years, here was a way of regaining control and decreasing the supply of diamonds, or at least socially acceptable ones. De Beers stopped buying diamonds on the open market – in Africa and in Antwerp, the world's diamond trading capital – relying instead on its own mines and other countries where it has marketing joint ventures with local producers. It also created the concept of "branded diamonds" – stones engraved with the De Beers' brand on special machinery developed in the United Kingdom guaranteeing, among other things, that the stones are conflict free.

"Conflict diamonds were one of the greatest marketing tools ever invented," one South African trader said on condition he not be named. De Beers has dismissed any suggestion that it is actively promoting the campaign against conflict diamonds. But, asked in December 2000 whether the conflict diamonds issue had turned out to be a blessing in disguise, De Beers chief executive Gary Ralfe replied, "Absolutely," adding that the company hoped to eliminate conflict diamonds.

De Beers has taken several steps to reduce, if not eliminate, its exposure to conflict diamonds. Apart from halting its open market buying operations in Africa and in Antwerp, De Beers has stopped buying stones from official government mines in African countries, such as the Congo. Unless such operations can guarantee that no diamonds from rebel areas leak into the system – a guarantee that is impossible to give in most cases – De Beers says it cannot take the risk.

But given its dominance in the diamond field, some question whether De Beers has been as untouched by conflict diamonds as it has claimed or whether there aren't blood diamonds in its vast vault of stones. De Beers' tentacles stretch into most corners of the diamond industry, and it bought diamonds from rebels in Angola until the 1998 U.N. sanctions took effect. In addition, De Beers' opaque operating procedures make it impossible to trace the origin of its diamonds. For example, the company mixes its collection of stones, making it nearly impossible to determine their origin. All the stones De Beers purchases are combined at the company's offices in central London before being sorted into 16,000 categories for its sightholders to examine. "De Beers' system is based on the mixing of all supplies into one production for sale. The origin of the diamonds is deliberately obscured for commercial and logistical reasons," Emma Muller, a journalist specializing in the diamond industry, wrote in South Africa's *Business Day* in March 2002.

De Beers has long given the perception that it exercises considerable control in the African countries in which it operates. The government of Botswana is often jokingly referred to as a division of De Beers, and in both South Africa and Namibia, De Beers has had close relationships with the government. Since the conflict diamonds debacle began, this reputation for control has ironically obliged De Beers to seek to underplay the company's strength or ability to peddle influence.

"We certainly don't have the powers people vested in us. We are influential, 'not omnipotent,'" Andrew Bone, the company's public affairs chief in London, said in an April 2002 interview. When asked about the situation in Angola, Bone said that since the company moved out of the open market there, it has had little intelligence on what is happening in the country. Shortly after Bone's assertion, however, De Beers hosted a conference at its game reserve in the Richtersveld, in South Africa's Northern Cape province. Attending the "Governance Development and the Logic of African Stability" conference were diplomats, academics, journalists – and Angolans. The Angolan contingent included Abel Chivukuvuku, listed on the program as a civil society leader and parliamentarian. He is, in fact, being tipped as a future star of UNITA.

De Beers' position on conflict diamonds is further complicated by the company's intimate relationship with its sightholders, who receive their allotments of diamonds from De Beers in London. The system allows De Beers to reward favored sightholders with what are called "special stones" – windfalls that can dramatically affect a sightholder's fortunes. The De Beers monopoly hinges on influence, knowledge and trust, and the sightholder network is a crucial part of this axis. Favoritism also plays a role. Benny Steinmetz, an Israeli diamond dealer, is now widely seen as De Beers' king among sightholders, according to industry insiders. He has historically been an important presence for the company in Angola and is believed to be involved in the company's plans to return there now that war has ended. He is also influential in South African politics, with close ties to African National Congress luminary-turned-businessman Tokyo Sexwale, whose Mvelaphanda Resources is now partnered with De Beers in South Africa. Sightholders of Steinmetz's caliber get to be part of the club, in part, because they use their political influence to look after the interests of the company.

All of which means that De Beers is exposed to any indiscretions on the part of its sightholders, such as the European dealer with alleged ties to Hezbollah and conflict diamonds, named in the intelligence report. One of De Beers' problems is that its methods of control have bound it to so many players in the diamond industry that it has to keep an eye on what all these players are up to where suspect diamonds are concerned. If, for example, there was any action taken against the sightholder trading at Kimberley, De Beers would be exposed and have to take action itself. The company has tied its sightholders to an ethical pledge, which precludes trading in conflict diamonds. Bone, the De Beers spokesman, says that as far as sightholders are concerned, "we speak to them time and time again on the issue. They are acutely aware of the issue and what it means even if they inadvertently [receive a suspect stone]. But our powers are limited."

Helpless ineptitude

International efforts such as the Kimberley Process and the United Nations monitoring mechanism on conflict diamonds have spotlighted the helplessness and ineptitude of the South African authorities – whose monitoring efforts are, by comparison, among the best on the continent.

There are, for example, no officials from the South African Diamond Board in Kimberley to monitor what kinds of stones go through the exchange. The only regularly monitored stones in Kimberley are those in De Beers' Harry Oppenheimer House, the company's sorting center for southern Africa, which are examined by the government diamond valuator. In Johannesburg, the situation is not much better. The diamond bourse, on the fifth floor of downtown Johannesburg's Jewel City, has dealt with between U.S. $360 million and $490 million worth of diamonds a year for the past three years. Diamond buyers are required to be licensed by the government – a license which foreigners cannot obtain – but licensees are allowed to be accompanied by foreign associates, who generally provide the financial backing for most serious South African diamond dealers. Although South African law requires diamond producers to offer their stones to local cutters first before exporting them, no more than 10 percent of the diamonds passing through the bourse stay in South Africa.

Diamonds coming into the bourse are also supposed to be checked by Diamond Board representatives to be valued and identified. But they rarely are, and when checked, not by anyone with sufficient experience to identify the origin of the stones, officials at the government diamond valuator concede. In November 1999, the South African government diamond valuator filed a report on the bourse stating that inspectors weighed incoming diamonds, but did not "examine or check them as prescribed under the [1986 Diamond] Act." The report continued: "The Bourse personnel say this has been the practice for sometime, and were not aware of this requirement. No one seems to know the rationale behind this legislation, but this process could help particularly small diamantaires against being duped into buying fake diamonds. In the present situation Angolan diamonds supply would be minimized." The clear implication being that Angolan diamonds were being laundered through the bourse.

The report encapsulates the irony of the diamond business in South Africa. There is an extensive armory of legislation to monitor the progress of diamonds from the moment they are mined to when they are sold. These rules were established in the late 19th century following the discovery of diamonds and the creation of the De Beers monopoly in South Africa and later also implemented in neighboring Namibia to protect De Beers. They were so tightly written that they obliged diamond dealers to register with the police even the transfer of diamonds between different magisterial districts. Such rules could now make South Africa a relatively easy country in which to monitor the flow of illicit diamonds. But the rules are seldom observed. In fact, diamond dealers in Johannesburg's Jewel City quip that the porous bourse means smugglers no longer have to bother with the “anal express” – a reference to the smugglers’ practice of taking uncut diamonds out the country in condoms secreted in their rectums.

The Kimberley Process, which includes representatives of the industry and non-governmental organizations, is headed by the chair of the South African Diamond Board, Abbey Chikane. Appearing out of touch with the diamond situation in his country, Chikane incorrectly told *The Mail & Guardian* newspaper in December 2001 that there was a satellite office of the South African Diamond Board monitoring the trade in conflict diamonds in Kimberley. Meanwhile, the South African Diamond Board, which should be at the forefront of monitoring illicit diamond activities, is wracked by internal squabbles and denuded of resources and staff, according to industry insiders. It did not send inspectors to investigate the allegations of conflict diamond laundering in Kimberley and does not have enough staff to check the detailed documentation diamond traders are supposed to submit on all diamond transactions.

Amid this chaos, De Beers still exercises considerable influence over the government organizations handling the diamond industry, including the South African Diamond Board, by dominating its main board and various committees with directors and sightholders close to the company. The board, in theory, has massive powers. The preamble to the country's 1986 Diamond Act says the board should exercise “control over the possession, purchase and sale, the processing and the export of diamonds; and for matters connected therewith.”

In reality, the board does little of this, and its senior office holders appear to have little grasp of their duties. Five weeks after being asked in early 2002 for statistics on the operations of the Johannesburg Diamond Bourse, Chikane said he could not obtain the information. Days later, he said the bourse president, Ernie Blom, a De Beers sightholder, could and would provide them, but was under no obligation to divulge them to either the board or the public. The Diamond Act mandates that Chikane's board should not only have an up-to-date record of all the bourse’s figures, but it should also monitor closely the source of all incoming diamonds. Further regulations require that “the management of the said diamond exchange shall examine and check the physical particulars of the diamond before putting the diamond out to tender.”

The politics of the board have grown increasingly turbulent since the appointment in 1999 of a new, independent government diamond valuator. The chosen company, a Belgium-based operation called DVIC headed by Claude Nobels, soon crossed swords with De Beers. The new valuator, which compiled the critical bourse analysis, has questioned the 1993 transfer to London of De Beers’ South African stockpile of diamonds, ahead of South Africa's first democratic elections in 1994. Nobels also alleged that De Beers has consistently undervalued its diamonds through transfer pricing – a process by which international companies transfer the value of goods and services within the corporation and its subsidiaries from various country bases, finally declaring it where the tax is lowest. Nobels has also focused attention on the opaque relationship between De Beers’ South African operations and its London office and exposed the cozy relationship between De Beers and the South African Diamond Board.

In December 2001, the Diamond Board’s assets were attached by a South African court and its phone cut off after Nobels sued for nonpayment of fees. Since paid, Nobels and his team cost the South Africans about $1 million a year, the bulk of the Diamond Board’s budget. De Beers, having initially favored Nobels, now considers the Belgian intensely irritating, according to sources in the diamond industry. Nobels’ revelations have raised questions about De Beers’ commitment to combating conflict diamonds. On many fronts, the company has helped to raise awareness and to combat the flow of conflict diamonds, through public statements and through helping international bodies such as the United Nations with information and advice. But De Beers – which virtually since its inception has been intimately involved in the South African government’s management of the diamond industry – has done little to help prevent the collapse of the institutions that could check the flow of Africa’s blood diamonds, which have fueled so many of the continent’s conflicts.

If anything, dealers and sightholders close to De Beers have sought to undermine Nobels and the former chief executive of the diamond board, Victor Sibiya, who often stopped consignments of diamonds scheduled for export. Sibiya was suspended in May 2002 and replaced by Louis Selekane, the former head of the Kimberley branch of South Africa’s Department of Minerals and Energy, which was raided in May 2002 for improperly distributing licenses. It subsequently emerged that Selekane had commercial interests in at least one mining company that benefited from mining licenses given out by his department. Sibiya later told ICIJ that the diamond board needed “considerable strengthening if it is to help enforce the Kimberley Process.” Selekane told the *Mail & Guardian* that he was unaware of the charges against him, and said he did not believe he had a conflict of interest, adding that he had declared all his personal interests to the government before his appointment. Tom Tweedy, De Beers' spokesman, said suggestions that the company controlled South African diamond monitoring institutions were "ludicrous."

In addition to doing little to help improve the Diamond Board, De Beers' employees privately express the opinion that South Africa's existing diamond institutions serve little purpose. In the days when the company needed illegal diamond buying legislation to neutralize competition to its South African mining operations, the system it influenced heavily worked smoothly. But with De Beers' delisting from the Johannesburg Stock Exchange in 2000, the South African mining giant, Anglo American, the Oppenheimer family and the Botswana government are the only shareholders in the now-private company. The move, ostensibly taken to avoid the complicated cross-holdings between Anglo and De Beers, has taken De Beers outside the public spotlight.

Many believe the conflict diamonds saga will continue, if for no other reason, because the diamond industry's operations are complex and opaque. "The international diamond system is monopolistic, in many instances corrupt, and bogged down by issues such as transfer pricing, smuggling, drugs and tax evasion," Charles Wyndham, an independent diamond consultant and the Canadian government's diamond valuator, told ICIJ. "I would argue that the opaqueness of the industry actually attracts scrutiny from the likes of those pushing the conflict diamond debate."

Despite the attention, no one has ever been convicted in South Africa for selling conflict diamonds. But change may be on the horizon. De Beers' new "supplier of choice" strategy, where only those sightholders with the best retail prospects will be honored with De Beers stones, is set to launch as soon as the company addresses satisfactorily the European Commission's concerns about the scheme's monopolistic implications. The strategy will have the effect of making the relationship between De Beers and its sightholders less personal and more commercial. It will also allow De Beers to edit its sightholder list, erasing those who are not presentable enough for the new, more open system. And, for the first time, there will be contractual obligations for sightholders regarding their conduct. Those in the company charged with monitoring the conflict diamonds situation indicate that this new system will make it far easier to deal with errant sightholders.

The demands of certification processes like the Kimberley Process also will force out some suppliers. Only those with reasonable resources will be able to comply with the restrictions, and De Beers' "supplier of choice" initiative is likely to concentrate on the upper end of the market, leaving the lower end exposed to market forces without the protection of cartel. As one person close to the company said, "There will be De Beers diamonds, then there will be diamonds that are deemed OK with the 'forever' mark [a De Beers brand], and then there will be the rest." But others, outside the De Beers' family, are also catching on to the idea of branding diamonds, especially Canadian companies, which have opted for a polar bear mark signaling, not so subtly, that diamonds from Canada cannot possibly be tarnished by the blood of African conflicts. An industry insider said that Tiffany & Co., the New York jewelers, would like to source its diamonds only from Canada.

In Kimberley, the side road running past Harry Oppenheimer House, situated so that its angled windows give sorters the best possible light in which to work, is called Tiffany Street. If De Beers does not master the conflict diamond issue, one day that street could be the closest it gets to enjoying the cachet of that particularly famed name.

7. The Adventure Capitalist

Niko Shefer leaned forward and explained the competitive advantage small entrepreneurs enjoy over corporate multinationals when doing business in war-ravaged countries like Liberia and the Democratic Republic of the Congo. "I move with cash. I can buy the president a Mercedes 600. How can a normal company justify that? How do they explain that to the shareholders? I do not need board meetings. I am the board." Shefer was in an expansive mood. It was December 1999, and he had just earned millions of dollars in profit from a series of business ventures in Liberia, claiming to have got the better of Liberian President Charles Taylor and a fundamentalist Christian organization, known as Greater Ministries of Tampa, Florida.

Four years earlier, Shefer had emerged from a South African jail, where he served time for perpetrating one of the country's biggest bank frauds. Shefer had defrauded a South African bank of more than $10 million before fleeing to Switzerland. He was tracked down, extradited to South Africa, tried, convicted and sentenced to 14 years in prison. He served only six. After his release, Shefer did not wait long before launching new business operations in Africa. According to an information booklet on one of his companies, Tandan, he started out in a field with which he'd had some personal experience: operating prison shops across South Africa. At the end of 1995, the document said, he sold the business to the South African government for U.S. $1.3 million and then moved into trading and mining in Liberia and Sierra Leone.

By the end of 1999, Shefer was on the road to respectability. He had insinuated himself into the company of some of the most influential members of the ruling African National Congress. A list of personal references he handed out to prospective business partners included South African President Thabo Mbeki, several Cabinet ministers, and senior members of the South African police force. Shefer also had a brief, and ultimately unfruitful, contact with Mark Thatcher, son of the former British prime minister, over potential business deals in the Congo, and had dined with Dame Margaret herself, at Johannesburg's plush Westcliff Hotel. Thatcher could not be reached for comment. Shefer even had friends in the South African intelligence community.

When HSBC Equator Bank, part of one of the world's largest banking groups, was contemplating working with him in 1999, it raised concerns about his record and his dealings in Liberia. In response, Shefer brought with him to the bank an official from South Africa's National Intelligence Agency. Colleagues from the bank later wrote an internal memorandum on the meeting: "Niko was accompanied by C T Beea who is the Director General of South African National Intelligence for the province of Gauteng. Mr Beea explained the historical relationship with Niko and the fact that a number of people [including the former apartheid regime] had tried to discredit Niko. For this reason the National Intelligence Unit had investigated every accusation very thoroughly and was happy to report a clean slate. Beea explained that Niko had been imprisoned in South Africa by the previous regime because of his close association with many of the ANC leaders. Beea confirmed that Niko enjoys an excellent relationship with many of the current Cabinet ministers and in particular with Thabo Mbeki."

The May 1999 memo added that Shefer was "currently assisting the government in unravelling some of the complicated structures used by the former regime" and that "the National Intelligence Unit is thoroughly satisfied in Niko's integrity and by way of reference invited us to speak to a number of Cabinet ministers." The bank and its executives, like other associates, would later regret going into business with Shefer.

An empire of glossy brochures

From a hilltop complex of mansions and elegant gardens in the wealthiest section of Johannesburg's northern suburbs, Shefer runs an array of companies, including several divisions of the Tandan group, the Cobalt Metals Company, Scimitar Holdings and Adamastor Resources. The range of documents and promotional literature for companies with letterheads emanating from that address suggest a major corporation. In fact, they are all the work of a lone man in a top-floor office of a mansion.

Shefer, an Israeli national who was born in Ecuador, is fluent in several languages, including French and Spanish. He claims to have worked in the Middle East for the Israeli intelligence service Mossad before immigrating to South Africa. A short, stocky man who favors white safari suits and gold chains, Shefer has an agile mind and natural charm. He likes to call people "my brother" and dole out quantities of dollar bills, and once said offering money to African potentates was a "sign of respect." More than anything, Shefer is one of a new breed of adventurers and opportunists who have the acumen and the ruthlessness to profit from Africa's war zones. "The key to these countries," Shefer said in an interview with ICIJ several years ago, "is to know when to get out. No business can survive long in the context of the obscene corruption of these guys – you can survive for a limited period of time, so you have to be able to be involved for a limited period of time. The time to do it is in that period. And then do it again when the next guy comes along."

In 1997, the war-torn country of Liberia held a presidential election that was supposed to end the country's civil war. One of the candidates for the country's highest office, Charles Taylor, had previously escaped from a Massachusetts jail while awaiting extradition to Liberia on an embezzlement charge. In 1989, he launched an insurrection from the Ivory Coast and fought a six-year bush war, pillaging timber and diamonds to buy arms, and in the process amassing a personal fortune.

William Twaddell, a State Department official, testified before Congress in 1996 that while heading a rebel force operating from the Liberian countryside, Taylor controlled the lion's share of the country's more than

$421 million a year in diamonds, gold, iron ore and timber trade. Of that, Twaddell estimated, Taylor extracted about $75 million in taxes – to fuel the war and to line his own pockets. Though he stood accused of having destroyed his country and of murdering many of its citizens, Taylor was elected president in 1997 – a reflection of the desire by many Liberians to put an end to the bloodshed, which they believed could be achieved only by giving Taylor the power he wanted. As president, Taylor presided over the continued economic stagnation of Liberia, while ignoring the agony of the people. In June 1999, Taylor reacted angrily to mounting criticism of the absence of any basic services, such as electricity. "If you in Monrovia want light then buy your own generators," he told a local radio station.

Taylor also provided covert support for the Revolutionary United Front (RUF), a rebel group in neighboring Sierra Leone that was waging a particularly nasty war to gain access to that country's diamonds. Weapons came to the RUF via the Liberian capital of Monrovia and so-called blood diamonds exited to the markets of Europe. Liberia's diamond sales rocketed in the 1990s as Sierra Leone's diamonds were laundered through Monrovia. In Liberia itself, the economy was shattered by the war. The country had such a bad reputation that respectable companies would not touch it. There was no infrastructure, and its impoverished government – cabinet ministers were paid $15 a month – was notoriously corrupt. The war had cost tens of thousands of lives and shut down most economic activity, including the giant Firestone rubber plantation that was once one of the largest employers in Liberia. Only a few foreign investors dared venture into Taylor's Liberia. Shefer was one of them.

Liberia was a country ripe for the picking. Shefer says he became involved after a business associate introduced him to Jenkins Dunbar, the mines and energy minister in Liberia's interim government in the run-up to the 1997 election. Shefer flew Dunbar and several of his colleagues to South Africa and drafted a scheme to transfer Liberia's untapped mineral wealth into a private company in which the government-to-be would be a partner with private businessmen. Dunbar could not be reached for comment.

Amalia, a then-newly listed South African mining company, opened its doors in Liberia in 1997, soon after Taylor won election, with Shefer promising that it would develop the country's gold and diamond wealth. In response to questions from ICIJ, Shefer denied reports that Amalia had bankrolled Taylor's campaign in return for exclusive access to the minerals. "I did not personally provide Taylor with any assistance during his 1996 election campaign, or before, or thereafter," he wrote. "What assistance Amalia may have provided, if any, would be a matter for Amalia to respond to." Taylor did appoint Shefer Liberia's honorary consul in Johannesburg.

Amalia did not last long. After raising millions of dollars from shareholders on the Johannesburg Stock Exchange, revelations that the company had done nothing with its Liberia concessions caused a major stock exchange scandal. Instead of going to develop mines, shareholder funds ended up in a bewildering network of offshore companies, controlled by Amalia's directors, that was difficult to penetrate. The Johannesburg Stock Exchange investigated Amalia's principals on suspicion of fraud, but did not charge them with any wrongdoing. Some of the company's executives, however, blamed Shefer for having engineered the collapse of the company in order to take it over, a charge that Shefer rejected as absurd. "I had nothing to do with Amalia other than having introduced them, as I did other companies also, to the Mining authority in Liberia at that time," he said in response to questions from ICIJ. Shefer was never implicated in the investigation and emerged from the scandal unblemished. The company was liquidated and removed from the stock exchange. Shareholders lost millions of dollars.

The church of ponzi

Shefer remained in business and found his next partner for Liberian ventures in Tampa, Florida – Greater Ministries. Even by Liberia's standards, it was an unusual partnership – Shefer, an Israeli citizen and secular Jew, and Greater Ministries, a fundamentalist Christian church. Through Shefer's influence with Taylor, Greater Ministries managed to secure the rights to essentially the same mining concessions in the West African country that had been held but lost by Amalia. In the sixth chapter of the Gospel of Luke, Christ instructs his followers, "Give, and it shall be given unto you," Greater Ministries told its followers, adding that if they gave to the church, they would double their money in 17 months or less. With this pitch, Greater Ministries collected hundreds of millions of dollars from its followers. Eventually, the Ponzi scheme was exposed, and the church's leader, Gerald Payne, received a 27-year prison sentence after a lengthy fraud investigation and trial in Florida. Like Shefer and Taylor, Payne and most of his associates had previous criminal records.

It is unclear precisely what Greater Ministries intended to achieve in Liberia. In the heady atmosphere of Monrovia in the late 1990s everything seemed possible. In December 1998, Greater Ministries and Shefer proposed to the Liberian government a scheme to manufacture $5 billion dollars worth of Liberian bank notes, according to a Dec. 4, 1998, letter sent on Greater Ministries stationary and signed by Shefer. That venture never came to pass. The church won mining rights but, like Amalia, Greater Ministries did little with the concessions it secured. The one ostensible mining operation was about an hour's drive from Monrovia, on the Lofa River. It was there that guests were taken and shown mounds of gravel being sorted by church employees under temporary awnings and buildings. Diamond experts who visited the mine said there was nothing of interest there and that any stones put on display most likely came from other diamond buyers. One veteran diamond dealer said he believed the operation was a front, set up expressly for senior representatives of Greater Ministries when they visited Liberia. Shefer defended the operation in written comments to ICIJ. He claimed that Greater had serious mining and exploration activities. "The Greater mining group in Liberia invested about U.S. $7 – 10 million over the period, which is not huge in mining terms but sufficient for the objectives," he wrote.

As it sucked dollars from its followers, Greater Ministries told them that it had access to unimaginable mineral wealth in places like Liberia, and that they would shortly be blessed with huge returns. Greater Ministries Pastor Don Hall sought to pacify nervous church members with boasts of mineral wealth. "Hang on, stay in the boat," Hall was quoted in The *Tampa Tribune* as telling his flock as he detailed a Liberian mine with $40 billion in gold only 15 feet below the surface. In fact, apart from a marginal diamond operation, the church and Shefer did very little that was remunerative with their Liberian concessions.

The Church, together with Shefer, also started building a bank in Liberia. Shefer said that apart from wanting to mine, Greater Ministries also wanted to create an independent enclave in Liberia and set up a bank to process the millions of dollars it collected from devout followers. (Contacted later by ICIJ, Shefer would claim that he had no knowledge of Greater Ministries activities beyond their mining and agricultural operations.) Greater Ministries dispatched some employees to Liberia, where they embarked on small-scale humanitarian work. But, as with the church's mining, it never amounted to much.

Shefer ran Greater Ministries' Liberian operation for what he bragged was a $50,000 monthly salary and benefited from the church's "gifting" program – a plan under which the church got donors in the United States to help feed Africa's starving poor. Shefer's right-hand man in Monrovia, Felix Kramer, concentrated on the day-to-day business. Shefer took care of the politics. Greater Ministries' representative company in Liberia was Greater Diamond, which was based in the Mamba Point quarter of Monrovia, a coastal promontory that is also home to the U.S. Embassy. Scores of Liberian officials, anxious to benefit from Shefer and his company, would navigate Monrovia's potholed streets in luxurious SUVs to meet with Shefer in his ground-floor office. One regular was Reginald Goodridge, the presidential press secretary, who had the easily identifiable license plate "Media 1." Goodridge could not be reached for comment.

Monrovia had no electricity at the time, most of the cabling and pylons having been looted during the civil war, and the city's infrastructure was in shambles. The Roberts International Airport, for example, was a ramshackle husk of a building adjacent to a battered concrete apron that, in addition to the odd private plane, was normally home to Taylor's air force: two aging Alpha jets on loan from the Nigerian military. Whenever Shefer arrived at Roberts International, the short wave radios used by Monrovia's elite would crackle with the news that "Great 1" had landed, "Great 1" referring to the license plate of the luxury Isuzu 4x4 that Shefer always used. Upon arrival, Shefer and whichever associates or consultants with whom he was traveling would be escorted to the only air-conditioned room in the airport, while Kramer doled out wads of dollars to immigration and customs officials.

During his trips to Monrovia, Shefer would spend many hours at Taylor's residence, where he said Taylor sometimes received him in pajamas. In September 1998, Taylor organized a banquet in Shefer's honor at one of the few restaurants in Monrovia, the Restaurant Beirut, an event for which Shefer donned traditional African regalia. Shefer or his Greater colleagues were frequently accompanied on their car trips around Monrovia by "the Major," a local policeman permanently on hire to Greater. When asked in 1998 about the government in Liberia, Shefer quipped, "We are the government."

But given the low level of services that the government – or the private sector it supposedly oversaw – could offer, Shefer often turned to others to facilitate his dealings in Liberia. For example, the Gulfstream turbo props that Shefer and Greater used to shuttle between Johannesburg and Liberia belonged to a company owned by Fred Rindel, a former colonel in the South African Defense Force, who was once the South African defense attaché in Washington. Rindel had worked with South African geologists in Liberia and had then struck up a relationship with Taylor. The Liberian president subsequently employed Rindel to train his Anti Terrorist Unit, Taylor's special elite corps that has been linked to the rebel fighters and the war in neighboring Sierra Leone. In 2000, Richard Holbrooke, then U.S. ambassador to the United Nations, told the Security Council that Rindel supported the RUF. After Rindel denied links to the RUF, the United Nations printed his denials in a subsequent report and never produced evidence confirming the original allegations. In the wake of the controversy, Rindel canceled the contract to train Taylor's Anti Terrorist Unit and left Liberia.

Shefer enjoyed the Gulfstreams, which he leased from Rindel on the understanding that he would buy one of them. In September 1998 he even told people that one of the Gulfstreams, registration N8E, was his. It was equipped with a small kitchenette, television and video recorder, with a sleeping section that Shefer would retire to on night flights. On one trip from Monrovia to Johannesburg, the video played a journalist's tape of the June 1989 public execution of the former president, Samuel Doe, by the warlord Prince Johnson, a former Taylor lieutenant. Taylor's sister, on her way to Johannesburg for a shopping spree, was on the plane with Shefer and his team and watched the video.

In the end, Shefer did not follow through on his agreement with Rindel to buy the plane. On April 9, 1999, Rindel wrote to Gerald Payne, the head of Greater Ministries in Tampa, expressing his frustration. "We have reached a point where it is no longer possible to continue with the vague, misleading and sometimes outright lies we have received." The letter recapped how Shefer and Jabil Nabbar, the finance chief of Greater Ministries, had undertaken to buy the plane, and had then sent Rindel and a colleague on a wild goose chase with various bank money orders for the first payment, which bounced. Only one check of the four – for $500,000 – was honored by the bank. "This has led to the strangest of circumstances … as the Greater Group has gone ahead and flown in excess of 150 hours while we were fed one far-fetched story after the other," Rindel wrote. The letter, which canceled the sale, said that Shefer subsequently gave the pilots notice and refused to answer their calls. Rindel said he ended up going to Monrovia himself to fly the planes back.

It was around this time that the partnership between Greater Ministries and Shefer frayed as the church became the target of a U.S. criminal investigation. In Tampa, Payne and his cohorts were arrested, and Greater Ministries' assets were seized. Shefer said the church's relationship with him collapsed when its representatives in Liberia sought to seize some of the excavating equipment as they prepared to flee the country. The Greater Ministries employees were jailed, released after a week and fled the country. "In Liberia," Shefer once said, "it is a question of who is a better con – me or them. Taylor is good. I am better." By December 1999, Shefer had grown contemptuous of Taylor, recounting how the president and his cronies wiled away the muggy afternoons in Monrovia playing tennis at the presidential mansion.

But apart from some scathing articles in Internet-based Liberian discussion groups, Shefer received little attention for his Liberian foray. A U.N. report from October 2000 noted: "Niko Shefer is a businessman located in South Africa, and was Chairman/CEO of the Greater Diamond Company (Liberia) Ltd, a subsidiary of Greater Holdings. Shefer denies diamond dealings in Liberia and Sierra Leone, except for two exploration agreements with the Liberian government for concessions in Mano and Lower Lofa." The report added, "In the end, Shefer's explorations were unprofitable and were abandoned. The American partners in Greater Diamonds were at that time under investigation by American authorities for tax evasion and money laundering, using assets in Liberia."

After Shefer had quit Liberia and his Greater colleagues were facing jail terms, he offered his own appraisal of the church's stint in Liberia. "They were real right-wing nutters – completely off the field," Shefer recalled. Shefer later claimed that he learned of Greater's dubious activities and subsequent collapse through the press. "I asked myself, what was a nice Jewish boy like me doing with these guys?" he continued. "When I used to come into their house in Monrovia, they would stand in a circle and touch me and pray. I only managed to keep a straight face by keeping my mind on the money they always brought with them from America."

On to the Congo

Ever since King Leopold of Belgium colonized the Congo in the 19th century, the vast swath of land at the heart of the African continent has attracted adventurers seeking its fabled wealth. In 1997, as Laurent-Desire Kabila marched toward the capital, Kinshasa, to overthrow the dictator Mobutu Sese Seko, he unlocked a fresh scramble for the riches of the Congo.

The scramble actually began even before Mobutu fell. Investors feted the portly Kabila before his campaign had succeeded. Nicholas Davenport, a senior official of the De Beers diamond company that had long supported and backed Mobutu, visited Kabila at his headquarters in Goma, the Mail & Guardian newspaper in South Africa reported at the time. De Beers' spokesman Tom Tweedy initially told ICIJ that the meeting represented "sound commercial sense" because it was clear that Kabila would play a leading role and "we needed to speak to the people who would be running the country in future. No assistance was offered or given." Tweedy later said the meeting had never taken place.

According to *Forbes Magazine*, Kabila was transported around the Congo in the Lear Jet of American Mineral Fields, a mining company then based in Hope, Arkansas. The company brought a delegation of U.S. investors and analysts to meet Kabila a week before Mobutu was deposed. *Dollars and Sense* reported that Bechtel, the engineering and construction group, devised a master development plan for the country's resources, and commissioned and paid for NASA satellite studies of the Congo pinpointing its mineral potential. But Kabila proved to be unstable and fickle. In December 1997, for example, he canceled his contract with AMF. Of greater consequence to the people of the Congo, he brushed aside the Rwandan and Ugandan armies that had put him in power and unleashed a fresh wave of ethnic bloodletting in the east of the country. The Rwandan Tutsi leaders, whose people had just been the victims of genocide, were outraged because they had helped Kabila overthrow Mobutu to prevent such a recurrence.

One year after Kabila came to power, war erupted again. This time Rwanda and Uganda turned against Kabila. They found themselves and their rebel allies in the east up against the armies of Angola, Namibia and Zimbabwe, which were brought in to rescue Kabila. Much of the payback for the military services of these African armies came in the form of mineral concessions, which went to politicians and top military officers. The United Nations, which examined the exploitation of mineral wealth in the Congo in 2001 and 2002, reached the bleak conclusion that the effective collapse of all state institutions and structures in the country offered "significant rewards to unscrupulous elements operating under the garb of various governments, businesses, mafias, individuals etc."

In the rebel-held east, the Rwandans and Ugandans had been engaged in mining and timber clearance since 1998. A metal ore known as coltan, an excellent conductor and a component of cell phones and other high-tech equipment, sparked a latter day gold rush in eastern Congo. The ore, which resembles black mud, is mined under the auspices of the Rwandan army and shipped through Kigali. According to the United Nations, it was being sold to American companies, such as Kemet Corporation and Cabot Corporation, until late 2001, and to a Belgian corporation, Sogem, which stopped dealing in the ore in late 2000. However, following a blaze of publicity, legislation was introduced in the U.S. Congress to ban the import of coltan from eastern Congo, and most of the international companies withdrew. The Ugandan army is involved in gold mining. In the west, Zimbabwean military officers and politicians have aggressively accumulated concessions in diamonds and timber.

Kabila alienated many of the established mining and engineering companies. Robert Stewart, the American businessman who developed the Bechtel plan for rebuilding the country and was a former chairman of American Mineral Fields, linked up with opposition politicians calling for the removal of Kabila. Stewart complained that Kabila had canceled the American Mineral Fields deal because they wouldn't pay bribes. "The country's dead as long as he's running it," he told a press conference at the Non-Aligned Movement summit in Durban in 1998. "Every mining project in the country is stalled."

The departure of bigger companies opened the way for businessmen such as Shefer, who entered the fray in 1998. Shefer, who had been a big fish in Liberia, was a much smaller player in the Congo, compared to some of the other businessmen he encountered, such as John Bredenkamp, who, according to a member of Britain's Parliament and media reports, is an arms dealer, tobacco magnate and confidant of Zimbabwe President Robert Mugabe. Bredenkamp, a former rugby star who regularly was listed among Britain's wealthiest individuals, had respectability Shefer could only envy. His company had managed the financial affairs of the golfer Ernie Els and owned exclusive game parks in the southern African bush. Bredenkamp had built his fortune in the tobacco industry and then in arms and was a leading sanctions buster for Ian Smith's white minority regime in then-Rhodesia during the liberation war in the 1970s.

Bredenkamp saw the potential of cashing in on Zimbabwe's military support in the Congo. According to the United Nations, the Zimbabweans put pressure on Kabila to form a joint venture with Bredenkamp's company, Tremalt Limited, to mine copper and cobalt. Despite his connections, Bredenkamp's support for the Mugabe regime in Zimbabwe and weapons supplies to Kabila was controversial. In Britain, Paul Farrelly, a Labor Member of Parliament, told the House of Commons in November 2001: "Although he denies it, Bredenkamp is one of the major suppliers of arms to Mugabe. His companies are reliably believed to have supplied arms and equipment used by the Zimbabwean army, the Interahamwe [as the militia force responsible for the genocide in Rwanda is known], and the Mai-Mai tribesmen in eastern

Congo. “Many of those arms subsequently have found their way back to war veterans, and have been used in attacks on white-owned farms. In return, Mr. Bredenkamp has been a major beneficiary of Mugabe’s largesse in Zimbabwe and the Congo. He is a major mover and shaker in southern Congo, and he has been awarded valuable diamond, cobalt and other mineral concessions.” In a statement to ICIJ, Bredenkamp accused Farrelly of making “manifestly false and maliciously defamatory allegations under the cloak of parliamentary privilege.” He said he had complained to the British government and challenged Farrelly to repeat the allegations outside of Parliament.

After controversial Zimbabwean elections in March 2002, the U.S. State Department placed Bredenkamp on a list of close associates of Mugabe, barred him from entry to the United States and had his U.S. bank accounts frozen. A United Nations investigative panel, in an October 2002 report on the looting of the Congo, recommended that a travel ban and financial restrictions be placed on Bredenkamp. “The U.S. Department of State has tried me and judged me in a manner which affects my fundamental rights as an individual,” Bredenkamp said. “The basis on which this judgment has been made has not been shared with me and I have been given no opportunity to be heard in this matter.”

Forward-looking statements

Shefer was neither an arms dealer nor connected to a private army, but he brought other advantages to the table. As in Liberia, he claimed at first to have struck up a relationship with the man in charge, Kabila. According to the U.N. panel investigating the exploitation of mineral resources in the Congo, Kabila wielded a highly personalized control over state resources, avoiding any semblance of accountability. “Management control over public enterprises was virtually non-existent and deals granting concessions were made indiscriminately in order to generate quickly needed revenues and to satisfy the most pressing political or financial exigencies,” the U.N. report found. Kabila was the man granting those concessions. Shefer, an enthusiastic name-dropper, spoke publicly and fondly about his meetings with Kabila, describing him as a down-to-earth, likeable man. But when pressed to elaborate on his contacts with the president, he responded that he had met Kabila for only 10 minutes.

Whatever the extent of their relationship, Shefer managed to get something out of Kabila’s government, while persuading one of the world’s largest and most prestigious banks to lend its good name to his plans to entice investors to the Congo. In February 2001, a top banker at HSBC Equator’s Johannesburg headquarters was forced to resign after a lengthy investigation showed that he had secretly secured for himself a private stake in a Congolese mining venture that he was supposed to be handling for the bank. Bruce Jewels was one of the bank’s rising stars in Africa. After joining HSBC Equator, Jewels had developed an impressive network of contacts in political and business circles on the continent, becoming one of the bank’s deal-making maestros. It was Jewels’ relationship with Shefer, who arranged his private stake in the mining venture, which led to his downfall at the bank. The former head of HSBC Equator, Frank Kennedy, would say only that the bank had accepted Jewel’s resignation after “he chose to subsequently take up a closer association with Mr Shefer.” In response to further questions from ICIJ, the bank declined comment, citing the confidentiality of “any business relationships.”

Jewels told ICIJ that his departure from the bank was related to his dealings with Shefer, but also claimed that personal reasons played a part. “There were people at HSBC who had it in for me,” he said. He denied that he ever worked for Shefer, and said he left HSBC Equator to set up his own consulting company. He admitted, however, that he had run the company from Shefer’s offices for the first two months after he left the bank. Shefer teamed up with Jewels after embarking upon what he described as a commodity-trading venture in various African countries. The gist of the scheme was to sell commodities to African countries with which Shefer was familiar and where, according to his promotional literature, there were “guaranteed” high margins of return. To achieve this, Shefer raised millions of dollars from various investors.

Money would be invested in sales of commodities, like rice, to various African countries. HSBC Equator appears to have been crucial to Shefer’s plans as its presence enabled him to tell the investors that a prominent bank was behind the project. Shefer told investors that because of this close relationship with HSBC Equator, there was virtually no risk involved in the commodity transactions. But the scheme never generated the expected returns. Shefer told his investors it was because of unfavorable market, currency and political conditions. The facts that he outlined in documentation for prospective shareholders explaining the commodity-trading venture suggest it had been anything but risk free from the beginning. The scheme hinged on unconfirmed letters of credit from the central banks of Liberia, Angola and the Congo, none of which were noted for their reliability or stability.

“The buyers range from the strategic reserve in the office of the president of the DRC, the ministry of social welfare in Angola, to private sector companies in the various target markets which have traditionally been dealing with [HSBC] Equator networks in Africa,” Shefer wrote in the shareholder documentation. He also said his target markets could “easily sustain $50-million + per month. As an example we cite that the city of Kinshasa alone, with a population of not less than 9 million inhabitants, consumes statistically 76 000 tons/month of rice, amounting to approximately $38-million.” Shefer signed on several groups of investors, who gave him complete freedom to invest the money as he saw fit, and promised them returns of up to 15 percent per quarter. Middlemen companies close to Shefer dealt with the investors, who, according to some documents, numbered about 800. It is not known how much money Shefer collected in total.

One of the key intermediate companies was called Comtrade, which agreed to pay Shefer more than a million dollars. Comtrade tapped a South African police charity to invest. In June 2000, charity officials wrote to Shefer and Comtrade principals, saying that $35,000 had been improperly appropriated and that they wanted the money back. By the second quarter of 2000, Shefer started sending out signals that investors would not be getting the promised returns and suggested that the investment focus switch to mining. In one letter, Shefer’s Pretoria-based lawyer Mark Efstratatiou told investors that the losses would be absorbed by “certain strategic equity acquisitions with substantial mining houses of an international stature.”

A letter from Tandan stated that the losses stemmed from “foreign currency shortages and devaluations in the target markets as well as unforeseen political turmoil” and claimed that HSBC Equator was assisting in securing “substantial equity interests in various base metal mining projects of proven stature.” But by the middle of 2000, Shefer’s investors were getting itchy – particularly intermediaries like Comtrade, which had to explain to nervous small investors what had become of their money. Shefer leaned on the relationship with HSBC Equator to reassure them, claiming that “our advisory bank (HSBC) concluded that none of these potential losses were due in any way as a result of negligence on our part.” As Shefer informed investors that the commodity venture was failing, he began, with the help of Jewels at HSBC, lining up Congolese mining ventures as alternative investments. At the time, HSBC was consulting for Gecamines, the capital-starved Congolese state mining company, which was looking for partnerships with the private sector.

The concessions in question were the Ruashi and Etoile cobalt tailings reserves — huge piles of leftover scrap from early mining activities, which could be easily reprocessed. The war in the eastern Congo had made it difficult for Gecamines to secure foreign investment, and about 70 percent of the government’s revenue came from state mines. Several of the country’s other concessions had been ceded to companies connected to the Zimbabwean army as payback for their assistance with the war. The Congolese government viewed any attempt to increase the revenue from the remaining mines to be crucial.

Gecamines was negotiating with Mzi Khumalo, founder and head of Mawenzi Resources, a South African mining house, about taking over some of its ventures, including the Ruashi operation. Khumalo was to provide the mining expertise. Jewels, the banker in charge, lined up Shefer as the financier, in the deal that would prove Jewel’s undoing at the bank. But in the middle of the negotiations with Gecamines, Mawenzi Resources ran into financial difficulties, stopped trading and was liquidated. With Jewels’ assistance, Shefer took over and secured not only the concessions from Gecamines but also several of Mawenzi’s top managers, who joined Shefer at his Houghton offices. In return, Jewels accepted a share in the Ruashi venture. The stake was held with Jewels’ brother in England, who ran a law firm. Jewels denied to ICIJ that he had received a share at that time, though he conceded that subsequently he had acquired a small stake in the company. “Someone who is not a friend, who wanted to make life difficult for me, sent my brother fraudulent documents.” He did not elaborate.

Having secured the Congolese deposits, Shefer was now able to dangle something juicy before his investors back in South Africa. He featured the deposits in at least two prospectuses that came out of his Houghton office – for Scimitar Holdings and Adamastor Resources. The latter also promised a stake in a Peruvian mine. But as in Liberia, it soon began to look as if the enterprise had more to do with dazzling investors than mining. Almost three years after Shefer became involved, the project remained undeveloped. Repeated assurances of wonderful returns placated most of the investors. The angrier among them began to suspect that Shefer was ripping them off, falsely promising fantastic returns from enticing projects through a range of corporate entities he conjured up. Others, who held out hope of returns on their investment, maintained Shefer was a well-meaning financial genius easily maligned because of his stint in jail. For his part, Shefer maintained that all his dealings were in good faith.

A new savior

As Shefer bombarded investors with explanations toward the end of 2000, he told them of yet another deal that would rescue their investments. This time it was with Tony Texeira, a South African businessman of Portuguese descent and a veteran of the African mining scene. Texeira had achieved a measure of notoriety when he was named by the British Foreign Office Minister Peter Hain in the British Parliament as a trader in illegal Angolan diamonds on behalf of the rebel movement UNITA. He denied the charge and challenged Hain to make it outside the privilege of Parliament, where he would not be protected from any defamation action.

Texeira moved in the same world of African business as Shefer. He acquired a large stake in DiamondWorks, a Canadian-based company that moved into Sierra Leone and Angola after buying up the assets of Branch Energy, the diamond-mining company that had been linked, through cross-ownership, with the mercenary group Executive Outcomes. DiamondWorks was one of the pioneers in the business of providing private security in return for mining concessions.

In July 2000, Texeira visited Shefer's Houghton offices and demanded payment from Shefer for a delinquent debt of $2.4 million. Shefer owed it to a trading company that Texeira purchased from Anglovaal Mining Limited, the South African mining house, according to an affidavit signed by Texeira. During discussions about that debt, Shefer offered the Ruashi deposit to Texeira. Negotiations on that offer were underway when Texeira started receiving calls from Shefer's investors, who had been told that Texeira would refund their investments, according to a transcript of the meeting obtained by ICIJ.

On Feb. 20, 2001, Shefer's investors met with Shefer and Texeira's lawyer, Jimmy Kanakakis, to discuss the situation. According to a transcript of the meeting, Kanakakis said that neither Anglovaal Mining nor Texeira's company were interested in the problems of Shefer's partners or investors. The gathering established that Shefer's interest in the Cobalt Metals Company – the company which Shefer used to house his stakes in the Congolese mining ventures – was being sold for about $32 million. Payment would come in the form of preferred shares.

This did not go down well with irate representatives of the 800 investors, who wanted cash. According to the meeting notes, Shefer said Texeira had undertaken to give Shefer some cash to help pay off the investors – an assertion not borne out by any of the accompanying documentation, which mentioned the preferred shares. "It is reiterated by the parties that their interests have not been served," meeting minutes noted. "It is put forward as an absolute necessity to receive cash as payment and not ordinary shares, this is the only method of pacifying outraged investors, as they currently think that the money is stolen, and quite a large number of people are ready to enter litigation and go to the media."

In the middle of the January 2001 imbroglio Kabila was assassinated, and Texeira pulled back. Having committed to starting work on Ruashi at the end of February 2001, he withdrew, saying that the due diligence had not been satisfactory. In May 2001, Texeira's company wrote to Shefer saying the deal was off. An acrimonious feud then erupted, with both men seeking to smear and drive each other out of business. Shefer had been depending on Texeira to help him placate his angry investors. But Texeira, after being named by Hain, did not want any further negative press coverage as DiamondWorks was about to relist on the Toronto Stock Exchange.

By February 2002, Shefer faced a lawsuit in the Pretoria High Court from his investors whose patience had finally worn out. But that case, which was being pursued by one of the investors, was withdrawn after a brief hearing for reasons that were never made public. "I had no litigation with anyone pertaining to any activities in the [Congo]," Shefer wrote ICIJ in response to questions. "I had a commercial dispute with a business associate of mine (for an amount less than U.S. $30 thousand), which we settled amicably." Once again, Shefer emerged relatively unscathed.

Shadow man

Shefer bought an entire block of modest houses in the trendy Johannesburg suburb of Melville, flattened it, and then built a garish, ultra-modern, residence, complete with an "entertainment" center, including a cinema, for his family. But his opulent mansion – which is heavily fortified and under 24-hour guard – looks out of place, straddling the quaint refurbished Yuppie cottages that once belonged to lower-middle class families. Shefer recently sold his Houghton headquarters, and has been talking about retiring, though he still brags about his relationship with Africa's great and good and says he advises the South African government about policy in the Great Lakes region.

Articulate and wily, Shefer is a master of keeping himself in the shadows. That may change with the release of an October 2002 U.N. report on the looting of the Congo, which recommends that Shefer face financial restrictions and a travel ban for his activities there. Shefer has also made the most of the numerous corporate structures he sets up for each chapter of his life, juggling company names and directors to disguise his own involvement. He is also far less expansive about his connections when asked to confirm them on paper. For example, when asked to comment on his relationship with South African President Thabo Mbeki, Shefer wrote in a letter to ICIJ that he had met him only once at a formal banquet, although the list of references that he handed out to prospective business partners had Mbeki's name at the top.

Some of Shefer's erstwhile business partners have fared less well. Charles Taylor, branded an international pariah, is in the middle of a renewed civil war. With the backing of neighboring Guinea, rebels have moved toward the capital, and Taylor has declared a state of emergency. New entrepreneurs have trickled into Liberia. One is the American evangelist, the Rev. Pat Robertson, whose Freedom Gold Limited, which is registered in the Cayman Islands, cut a deal with Taylor that reportedly gave Taylor and his cronies 10 percent in the mine, as well as royalties and other payments when (and if) the mine ever gets up and running. After articles exposing Robertson's dealings appeared in *The Washington Post*, the evangelist wrote an indignant letter to the newspaper, defending Freedom Gold and the government of Liberia. "Freedom Gold has found freedom of religion, freedom of movement, freedom of expression and what appears to be a judiciary dedicated to the rule of law (in Liberia)," he wrote. "Doesn't Mr. [Colbert] King believe that a government collapse would lead to another blood bath in Christian Liberia, which was founded by President James Monroe as a haven for freed American slaves and whose first president was a Baptist pastor from Virginia?" The admiration Robettson had for Liberia was returned by the country's ruler. Earlier this year, Taylor publicly praised Robertson during a religious day festival.

In the Congo, Kabila handed a monopoly of the country's lucrative diamond trade to an Israeli company, International Diamond Industries, for $20 million. According to the United Nations, IDI's 27-year-old owner, Dan Gertler, agreed to arrange, through his connections with high-ranking Israeli military officers, the delivery of arms as well as the training of Kabila's armed forces. This was a source of great aggravation for Congo's traditional diamond traders, especially members of the local Lebanese population who had dominated the industry during the rule of Mobutu. Shortly after Kabila's son, Joseph Kabila, assumed power, he ended Gertler's monopoly and then partially reinstated it in April 2002, along with the contract of another Israeli diamond dealer, Lev Leviev.

By the end of 2001, the United Nations had decided that the war in Congo had a momentum of its own, driven by the scramble for riches. A phony war, with only occasional breaches of the ceasefire, it leaves "the exploitation of the resources as the main activity of the foreign troops as well as the different armed groups." The U.N. report described the rebels as a "controlled military opposition" whose existence was used by the foreign armies to justify their continued military presence in the Congo. A fresh round of peace talks in Sun City, South Africa, in 2002, appeared to have established some grounds for a lasting peace, and the foreign troops began to withdraw, but battles were still raging in August 2002. Explaining why endless rounds of peace talks had so often proved futile, the U.N. report concluded that the primary motive of the war was "extracting the maximum commercial and material benefits. This holds true for both government allies and rebel supporters."

But living on the cusp between war and peace supports only the most primitive of mining operations – digging for coltan or diamonds or stripping forests. Projects that require a modicum of capital and thus an investment in the future, such as Ruashi, languish in mothballs. As Shefer, Texeira and the investors thrash it out in Johannesburg; much of the Congo's riches remained untouched.

8. The Influence Peddlers

In his final days as mayor of New York City, Rudolph Giuliani traveled to Jerusalem to express his solidarity after a series of terrorist bombings struck the holy city. Coming just three months after terrorists flew two planes into New York's World Trade Center towers, killing thousands, Giuliani's visit resonated throughout Jerusalem. Israel's elite turned out for the Dec. 10, 2001, banquet in his honor, including Prime Minister Ariel Sharon, Jerusalem's Mayor Ehud Olmert and, one of the most extraordinary operators in world business, Arcadi Gaydamak. That Gaydamak was invited at all was a singular achievement. Just a year earlier, in December 2000, Gaydamak had fled France, where he was wanted for illegal gun running, tax evasion, money laundering and corruption. He stood accused of helping turn one of the world's longest-standing wars into a honey pot of enrichment for himself and influential friends in Angola, Israel, Russia and France.

Giuliani likely did not know that the short, stocky man he was introduced to was a fugitive from justice and a central figure in an arms scandal that had rocked the French political establishment. Gaydamak, who by then had Hebraized his name to Ari Barlev, was invited, he said, because he had contributed a million dollars to the fund for victims of the Sept. 11 attacks on the United States. The invitation was illustrative of Gaydamak's trademark ability to buy access and influence people. He attended the dinner with his friend and business partner, Gen. Amnon Lipkin-Shahak, the former Israeli tourism minister and ex-chief of staff of the Israeli Defense Forces. He numbered among his other business associates Danny Yatom, who headed Mossad, Israel's intelligence agency, before being appointed security advisor to former Israeli Prime Minister Ehud Barak. Gaydamak also employed Avi Dagan, Mossad's former head of intelligence gathering. "Here I am a respected citizen," Gaydamak boasted to the French daily *Le Monde* in January 2002. "You see, I don't hide at all."

Gaydamak has three homes in Israel, one in the posh neighborhood of Cesaria, 30 miles north of Tel Aviv, where Israel's rich and famous reside. Another house, in the fashionable Herzliya Pituach, 10 miles north of Tel Aviv, is near the residence of the legendary former foreign minister Abba Ebban. His third home is an apartment in the Mamila section of Jerusalem, overlooking the old walled city – a view that gives him pleasure, he said, and a sense of history during his morning walks through the small, winding streets to the Wailing Wall. Gaydamak claims to be among the five richest men in Israel, which would put him in the billionaire category. He owes this vast fortune, he said, to shrewd speculation on the Russian stock market, particularly oil stocks, and not to the profits of war. Gaydamak insists he was never an arms dealer, rather a "financier of deals." A nearly two-year global investigation by the International Consortium of Investigative Journalists has revealed, however, that Gaydamak epitomized the business of war in the post-Cold War era – an entrepreneur with global ties to arms smuggling, resource exploitation and private military companies.

A 'bit of luck'

Born in Moscow in 1952, Gaydamak was 20 when he became one of the first Jews to immigrate to Israel from Leonid Brezhnev's Soviet Union, a journey that earned him two audiences with then Prime Minister Golda Meir. But life in Israel was difficult and not to his liking, he said, and he left for France six months later, with three francs in his pocket. Gaydamak said his subsequent rise to riches was due to "quite a bit of luck." Having no formal education, Gaydamak worked initially as a gardener and a bricklayer. In 1976, he opened a translation bureau near Paris, servicing Russian commercial delegations visiting France, and made contacts at a number of French companies. By 1982, Gaydamak Translations was a highly successful business, and he opened a branch in Canada.

As East Europe's old regimes crumbled in 1989, Gaydamak's financial genius found its true expression. He diversified and expanded into more lucrative import-export trades with the former Soviet Republics in coal, meat, wheat and, finally, weapons. According to ICIJ's investigation, Gaydamak created a maze of enterprises in Russia, the Netherlands, France, Luxembourg, England, Switzerland, and Israel. In France, he formed the International Company of Technology and Investment. In London, among others, it was Minotaure (UK) Ltd and Edsaco Holdings (UK) Ltd; in Jersey, Edsaco Participation Ltd; in Luxembourg, Extrainvest, Palmeto, Luxstreet, and Pivoine; in the Netherlands, Reminvest BV; and he registered at least one company, Rangoon, in the Isle of Man. Gaydamak seldom signed or put his name to anything. The wide network of shell companies, and the labyrinthine paper structures of his companies, some of them administered by offshore trust accounts, gave him further cover.

Gaydamak cultivated relations with Russian leaders and the country's emerging tycoons. His contacts in the post Soviet power structure came to include Russian Foreign Minister Igor Ivanov; the president of Kazakhstan, Nursultan Nazarbayev; the former military chief and later governor of Russia's Karatchevo Cherkesia province, Vladimir Semenov; and the Russian oil magnate Mikhail Khodorkovsky, president of Yukos Oil. In December 2000, Gaydamak was appointed chairman of the Russian Credit Bank, a post that was filled when he stepped down in 2001 by the economics minister and adviser to former President Boris Yeltsin, Aleksandr Livsits.

Gaydamak was “remarkably capable of profiting from the political and commercial opportunities offered by the end of the Soviet Union,” according to a document prepared by the Direction de Surveillance de Territoire, or DST, France’s domestic security service. A Dutch intelligence report obtained by ICIJ said that Gaydamak, through his connections in Russia, was able to purchase old Soviet and East European weapons systems that still had markets in war zones in Africa, Asia or Latin America. For example, according to the Dutch report, the Russian state-owned arms company Rosvoorouzhenie was the majority (67.5 percent) shareholder in the Slovakian arms manufacturing company, ZTS Osos, whose weapons Gaydamak sold to the Angolan government during the early 1990s. An Interpol document obtained by ICIJ notes that in 1995 Gaydamak was the representative of ZTS Osos in Russia.

Gaydamak also attracted the attention of Russian and French law enforcement agencies. According to a 1995 communiqué from Russia’s Interpol office, a copy of which was obtained by ICIJ under the U.S. Freedom of Information Act, American Interpol officials in Washington, D.C., were alerted that Gaydamak was “suspected by our law enforcement authorities of firearms and drug trafficking.” In the April 19 letter, the Russians said Gaydamak was “reported to be one of the members of criminal association having international connections” and that “Moscow Organized Crime Control Department advised us the subject was exercising threats through his connections in Moscow to the Bank of Russian Credit.” Russian Interpol officials also contacted their counterparts in France for assistance in investigating Gaydamak. In April 1996, Russian Interpol said Gaydamak was “under suspicion of ... being a member of a criminal organization operating at international scale.”

French law enforcement agencies found Gaydamak’s new-found prosperity suspicious. The Direction Centrale des Renseignements Généraux (DCRG) – France’s equivalent of the FBI – started asking questions about his lifestyle. “He led a modest life during the first 15 years (from 1972 until 1987) of his stay in France,” said a DCRG file from May 29, 1998. “But suddenly, without any apparent reason and financing, his lifestyle became extravagant. His professional activities in France cannot pay for the opulence he likes showing.” Even the DST – the French secret service agency that, it was later revealed, had worked with Gaydamak – described his business acquaintances as “troubling,” according to a French government memo. France’s foreign intelligence agency, the Direction Générale de la Secrete Exterieure (DGSE), reported that Gaydamak was a business partner of Alimjar Tokhtakhounov, “a leading member of the Russian Mafia ... involved in kidnappings of Russian exiles in Germany and racketeering,” according to a July 28, 1998, DGSE file, shown to ICIJ. Judicial and police sources in France suspected Gaydamak of being involved with Tokhtakhounov in a scheme to launder money, using complicated transactions with real estate and Russian art.

Tokhtakhounov emerged from obscurity on July 31, 2002, when he was arrested in Italy on a U.S. complaint that he had conspired to fix the figure skating and ice dancing pair’s competitions at the winter Olympics in Salt Lake City. Tokhtakhounov is fighting extradition, and his lawyer has proclaimed his client’s innocence. Gaydamak acknowledged in an interview with ICIJ that he knew Tokhtakhounov socially and had found him to be a “sympathetic” person, but claimed he severed ties with him in 1994 when media stories surfaced about Tokhtakhounov’s links to criminal organizations, because such an association “was not good for my image.”

Gaydamak also had ties to several foreign intelligence agencies, including the Russian and the French. His contacts among Russian intelligence were the result of political upheaval of the 1990s, when business people “had very strong relationships with the political and the security people,” Gaydamak said. In 1995, his Russian contacts enabled him, he said, to secure the release of French hostages held in a part of Bosnia controlled by Serbs loyal to Belgrade, which was close to Moscow at the time. French President Jacques Chirac later awarded Gaydamak the *Legion d’Honneur*, although whether he was honored for his business acumen, negotiating skills or aid to French intelligence remains a subject of dispute in France.

Gaydamak was close to Raymond Nart, the former assistant chief of France’s domestic security agency, the DST, who was instrumental in his receiving the *Legion d’Honneur*. According to reports in the French media, Nart had used Gaydamak’s contacts in Eastern Europe to improve his agency’s penetration of the region, and in return offered Gaydamak protection. The French weekly *Le Point* reported that in December 1996 DST agents seized documents on Gaydamak held by France’s fiscal police, which they had obtained in a raid on a French business that Gaydamak had ties to. The documents were never returned, the weekly said.

Documents from Russian Interpol from the mid-1990s seem to support suspicions that Gaydamak was protected by political associates in the French Interior Ministry, which controls the police and the French secret service. Russian Interpol complained that their Paris counterparts were ignoring their requests for help in the investigation of Gaydamak's links to criminal organizations: "Our previous messages (of January and March 1994) have never been answered (by French Interpol)," the Russian agents wrote in an April 1996 telex. The scrutiny into his lifestyle resulted in his prosecution. On March 3, 1999, Gaydamak was given a 13-month suspended prison sentence and fined $35,000 for tax evasion. The French Finance Ministry had found that, at the beginning of the 1990s, Gaydamak officially reported annual earnings of less than U.S. $100,000 a year when he actually earned more than 10 times that amount. Gaydamak disputed the charges, claiming he had lived in London at the time, and was not liable for the French taxes.

A clique of gunrunners

Much of what is publicly known about Gaydamak's international dealings is the result of an extraordinary influence peddling, money laundering and illegal arms sales scandal involving Angola that erupted in France in December 2000 and came to be known as "Angolagate." The investigation began when two French prosecutors were appointed to examine suspicions of bribery and corruption in the state's weapons export business. The resultant findings rocked the French political establishment and led to the highly publicized arrest of Jean-Christophe Mitterrand, the son of former President Francois Mitterrand who is free on bail pending his trial for influence-peddling. Other leading French politicians, such as former Interior Minister Charles Pasqua, were implicated in the scandal, but never charged.

Aside from the big political names, the scandal's central figures were Gaydamak and his French partner in the arms deals, Pierre Joseph Falcone. Gaydamak met the Algerian-born Frenchman in the early 1990s. Falcone's father, Pierre Falcone Sr., was a Corsican fruit merchant who had settled in Algeria and become an arms dealer in Venezuela and Argentina. Although Falcone was well connected in France, he had lived many years abroad, including in Brazil and the United States. He married a Bolivian beauty queen named Sonia and settled in Arizona, where his wife became one of the queens of Arizona high society. The Falcones bought a ranch in Paradise Valley, northeast of Phoenix, for $10.5 million – at the time the most expensive home sale in Arizona history. They were known for large donations to local charities, such as the Phoenix Children's Hospital. They also gave to political campaigns. Joyce Haver, a Phoenix member of the Republican Party's national finance committee, told *The Arizona Republic* that Sonia Falcone was "a major campaign contributor who responded to all of the George W. Bush fundraisers" in the Phoenix area during the presidential campaign. She added that the Falcones wanted to hold a fund-raiser for then-candidate Bush, but it never happened because Republican Party officials didn't know the Falcones well enough.

Through her Utah-based company Essante Corp., Sonia Falcone donated $100,000 in two installments to the Republican Party in 2000. When the party discovered, in January 2001, that Sonia Falcone was the wife of an accused arms dealer, it returned the money. But when Gaydamak met him, Falcone was still flying high. He effectively was running the Sofremi, an arms export agency controlled by the French Interior Ministry. Sofremi was created in 1985 to coordinate the export of French police and military equipment and, critics contend, to circumvent the diplomatic scruples of the Foreign Affairs Ministry. France originally owned 35 percent of Sofremi, while several arms manufacturing companies, such as Thomson SA, Alcatel SA and Aerospatiale SA, controlled the rest. However, a clique of gunrunners soon assumed control of the organization and held it until well into the 1990s.

Henri Hurand, CEO of the Sofremi since 1997, told the French newspaper *Le Figaro* that "the most significant period of the Sofremi's domination by gunrunners was that of Pasqua's term as Minister of the Interior" – when Pierre Falcone was dominant within the organization. Pasqua was interior minister – effectively the country's top law enforcer – from 1986 to 1988 and again between 1993 and 1995. A veteran of the French resistance against the Nazis, he was also one of the founders of the Service d'Action Civique (SAC), disbanded in the 1980s under order of the French parliament, which branded it "a criminal organization" and "a private militia."

Sofremi was a gold mine for Falcone. Under normal circumstances, it would pay weapons dealers up to 10 percent of each transaction, but Falcone's commissions were well above that, Hurand told the newspaper in January 2001. "Normally, there was a different middleman for each market. But by 1992 Falcone was the Sofremi's sole representative abroad. This was totally abnormal. He received exorbitant remunerations on each operation."

The French-Angola connection

In early 1993, Angolan President Jose Eduardo dos Santos feared his government was on the brink of collapse. His nemesis, rebel leader Jonas Savimbi, was poised for the first time in Africa's longest-running war to seize key government strongholds. Savimbi – once embraced by the United States and the CIA for his opposition to Angola's Soviet- and Cuban-backed government – had become adept at turning the riches of Angola's diamond fields into money for arms purchases. Angola is the world's third-largest producer of diamonds.By 1993, Savimbi's UNITA, or the National Union for the Total Independence of Angola, had in place the world's largest diamond smuggling network, netting hundreds of millions of dollars a year, funding almost entirely its war effort. UNITA's switch from Cold War surrogate to import-export business had been assisted by former military and intelligence men from South Africa's apartheid era. Experienced in running covert operations disguised as businesses for apartheid front companies, many sought new lines of work in the private sector.

Dos Santos was prevented by a U.N. arms embargo from buying weapons on the legitimate market. So he contacted his friend, Bernard Curiel, a former southern Africa expert from the French Socialist Party then in the private sector. Dos Santos received Curiel in the Angolan capital in March 1993 and, over a map of the country, explained the difficult military situation he faced. As Curiel later recalled for prosecutors, Dos Santos warned that "Savimbi is coming to Luanda to cut my throat." Curiel approached Mitterrand, son of France's then-president, who had once served as chief counselor to his father on African affairs. Mitterrand, in turn, sought out Falcone and Sofremi. French prosecutors investigating "Angolagate" alleged that Falcone paid Mitterrand at least $1.8 million for making that contact.

Mitterrand later admitted to receiving the money as "an endowment for strategic and geopolitical counseling" and spent three weeks in prison before posting bail. He is still awaiting trial, charged along with Falcone for peddling influence. In a French newspaper interview, Mitterrand conceded his role as a middleman and counselor to Falcone, but added, "I never knew that Pierre Falcone was involved in the selling of weapons to Angola before I read about it in the newspapers. Therefore, I couldn't imagine such dealings had an illegal character."

Falcone and Gaydamak had become business partners by the time of Mitterrand's approach. One of the first transactions they conducted together was to purchase seven Russian helicopters for Venezuela's national petroleum company, Gaydamak said. The Venezuelans failed to pay, and they put the helicopters in storage. It was then, Gaydamak told ICIJ, that Falcone introduced him to an Angolan delegation visiting Paris. "Falcone told me that he had met with the delegation and that they were interested in the helicopters but that they didn't have the money to pay for them. I leaped at the opportunity and told them to take the helicopters for free and pay me when they could. I asked them to pay me in oil. The president (Dos Santos) liked the idea; he invited me for a talk and we became friends."
Gaydamak discovered that he and Dos Santos had a lot more than helicopters to talk about. With his knowledge of banking systems, he said, he managed to secure $500 million credit lines from the French bank, Paribas, for the Angolan government in return for collateral in the form of Angolan oil. "I knew that Russia had an interest in ridding itself of extra weapons and was greatly in need of cash," Gaydamak told the Israeli publication *Yediot Aharanot* in January 2000. "So I initiated a deal in which Angola would sell oil franchises and, with the money earned, buy weapons from the Russian Defense Ministry. It seemed to me a legitimate move that many business bodies take routinely. Naturally, I received a handsome commission, but I was not party to the deal."

Between 1993 and 1994, Gaydamak and Falcone moved $633 million dollars in weapons to the government of Luanda through the Sofremi, allegedly without authorization. These included tanks, rockets, helicopters, combat vehicles and troop transporters of Russian manufacture. Falcone's Paris-based company Brenco International provided a legal cover for the deals. The weapons were obtained through ZTS Osos and transported directly from Eastern European countries to Angola, bypassing France. Re-armed, the Luanda government counterattacked. Angolan cities became ferocious battlegrounds as the war turned in favor of the government, and UNITA was dislodged, city by city, in a series of grinding battles. UNITA forces held out for 18 months in the eastern provincial city of Kuito, where the city's main street served as the front line. The inhabitants of Kuito camped in the husks of former apartment buildings and in the football stadium. Makeshift cemeteries – little mounds with wooden crosses and flowers – were constructed in backyards. Aid organizations were blocked from entering the area for almost a year. People resorted to eating corpses, and soon there were no dogs left in the city. When UNITA was finally driven out in July 1994, the city of 140,000 was left with one of the highest amputee populations in the world. UNITA had laid most of the mines, but the government's cluster bombs, resembling shiny toys, cost many children their limbs.

A gateway to riches

Angola in the 1990s was not a country for the squeamish. The capital city Luanda, built for 600,000 people, held up to 3 million – almost a third of the population – as people fled fighting in the interior. Corruption was rampant. When Falcone and Gaydamak came to Angola to do business in 1994, the monthly minimum wage was 240,000 kwanzas – about 50 U.S. cents. It cost twice that much to send a child to private lessons (very little of the state school system was intact), a quarter of a month's wages for a loaf of bread, one-eighth for a bucket of clean water, and one-sixteenth to use a toilet in private. Women sold goods and themselves in the marketplace in a desperate scramble to keep up with inflation, estimated by the World Bank at 1,800 percent. Anything with the slightest value was bartered or sold. One family, in the toothpaste business, had their children rummage through trash dumps for spent toothpaste tubes that the adults would then scrape out until they had a full tube to sell.

In this sadly reduced nation, Falcone and Gaydamak saw the gateway to a fortune. Angolan oil fields, already pumping more than half a million barrels a day in 1994, had known reserves comparable to Kuwait. But Angola also had diamonds and other minerals and, as a developing country with an infrastructure destroyed by war, had to import everything and rebuild from scratch. In recognition of his key position as war financier, Gaydamak said that Dos Santos appointed him as economic adviser, issued him a diplomatic passport and made him an authorized signatory on the bank account of the Angolan government.

The French investigation revealed that Gaydamak was also at the center of a web of corruption in Angola, uncovering more than 40 bank accounts in Monaco of Angolan citizens, including members of the Dos Santos family. Sofremi gave Dos Santos the "gift" of an armored luxury Renault Safrane worth $150,000 – a practice which Falcone defended, saying that the payment of illegal commissions to government officers "belongs to the way things work out in Angola." Gaydamak was close to Angola's chief arms buyer, Gen. Manuel Helder Vieira Dias, also known as Kopelipa, and to the director of Angola's military intelligence, Gen. Fernando Miala. Together, they were able to access vast profits from the country's war machine. According to the French indictment, Gaydamak, Kopelipa and Miala jointly owned the Angolan company Simportex, which enjoyed a monopoly on food and uniform delivery to the Angolan Armed Forces. In addition, Falcone and Gaydamak controlled CADA, a company in Angola that had an exclusive contract to deliver food and pharmaceutical products to the country, worth an estimated $200 million a year.

Gaydamak also helped the Angolans with debt relief, conjuring up a scheme that was designed to satisfy both the Angolans and their Russian creditors. Angola had accumulated a $5.5 billion debt to the Soviet state during the Cold War. The Russians never expected to recover the debt, but it remained on the books, undermining Luanda's creditworthiness. In 1996, Gaydamak said he came up with a plan. He proposed to the Russians that they accept 30 percent of the face value of the debt, not unusual for a country seeking returns on a debt considered virtually unrecoverable. Thus, the debt on the books was reduced to $1.5 billion. The Angolan government issued promissory notes of about $50 million each for the repayment of the debt and would pay $100 million a year for 15 years, starting in 2001 and ending in 2016.

The debt had been converted into financial instruments, like treasury notes. Then Gaydamak made another offer to the Russians, this time to purchase the notes from them. "I gave them an unbelievable price – 50 percent of the value of the promissory note – that is $750 million," he told ICIJ. The advantage for the Russians was that they would not have to wait five years to start recovering the money. To finance the purchase of the notes, Gaydamak turned to yet another firm he and Falcone had established, Abalone Investment Limited.

According to the deal structured by the Angolans, the promissory notes could be used to purchase Angolan oil at the face value of the notes — $1.5 billion worth. Gaydamak approached the oil trader Glencore, the former company of Marc Rich, the fugitive financier that President Bill Clinton pardoned in January 2001, and offered to sell the promissory notes for cash equal to 90 percent of their value – or $1.35 billion. The profit, according to Gaydamak's own telling, was $600 million. Gaydamak paid 10 percent to the Angolans, still leaving a sizeable profit for himself, and the deal was completely legitimate, he told ICIJ. However, Swiss authorities – who launched their own investigation of Gaydamak and Falcone in April 2002 – said the Russian state never received what it was owed from Gaydamak. The deal resulted in a massive misappropriation of funds: Russia should have received $750 million but, according to Swiss prosecutor Daniel Devaud, it took in only $161 million.

Falcone received about $120 million and Gaydamak about $60 million, according to Devaud. Other people who profited from the debt reduction were Russian banker Vitali Malkine, a close associate of former Russian President Boris Yeltsin and Gaydamak's predecessor as chairman of the Russian Credit bank ($48.8 million); Angolan ambassador to France, Elisio Figuereido ($18.8 million), and Dos Santos himself (over $20 million). The money, according to Swiss investigators, traveled through bank accounts in Luxembourg, kept by firms based in Panama, Israel, and Cyprus. Dos Santos has protested strongly to the Swiss government, denying the claims, and Falcone has said he did not pay any money to the Angolan president. Falcone also said that any payments to Figuereido were made to him as an official of the Angolan state and not for personal use. Malkine could not be reached for comment. Devaud said Gaydamak and Falcone had built a "secret organization" with multiple fictitious enterprises to hide the flow of money resulting from the debt renegotiation, to the detriment of Angola and the Russian Federation.

In April 2002, Falcone and Gaydamak were again accused of trafficking weapons to Angola, this time for the period 1994 to 2000. Prosecutors in Paris have documents that allegedly prove that Falcone and Gaydamak masked their trade through yet another company. Instead of using ZTS Osos, the French prosecutors alleged, in 1996 they created Vast Impex to continue to furnish weapons to Angola until the summer of 2000. French investigators discovered that – after the Angolan sales of the early 1990s – Falcone and Gaydamak's domination at the Sofremi continued and extended into other countries. The prosecutors inquiring into "Angolagate" have demanded that the French Defense Ministry reveal the contents of classified documents related to the authorization of exports of weapons to Angola, Congo-Brazzaville, Cameroon and the Democratic Republic of the Congo by Sofremi, Brenco International and ZTS Osos between 1999 and 2000. Six demands were presented, and three of them were rejected on national security grounds. Former Cameroonian Defense Minister Edouard Akameme Mfoumoufou confirmed that he had negotiated a deal with Falcone for light arms from ZTS Osos.

Falcone was omnipresent at the Sofremi. Between 1994 and 1997, he received commissions related to exports to Latin America, including the selling of antiquated police equipment to Bogotá and Buenos Aires. Falcone was also supposed to earn a commission from the Sofremi for exports of equipment to the federal police in Brazil for $40 million. But in 1997, the Sofremi's new board of directors blocked the payments.

The players

In late 1994, at the same time the Angolans were receiving weapons via Gaydamak and Falcone, they hired an army of South African mercenaries – warriors of the defunct apartheid state – known as Executive Outcomes. EO, as the company was called, had been a front company for a dirty tricks and hit squad run by South Africa's military intelligence. It was first hired by the Angolan oil company, Sonangol, to protect the company's assets. Drawn from some of South Africa's most notorious military units, the men who worked for EO proved effective because they understood the nature of the bush war and they knew the enemy – in fact, they had been one-time UNITA allies. They provided high-tech skills in communication and weapons systems and piloted the Angolan government's fleet of MiG fighter jets. They also offered training, intelligence, logistics and battlefield planning. The combination of fresh arms and South African mercenaries helped the Angola government force Savimbi to the peace table.

Though that was not to last, Gaydamak was inspired. He saw private military services as a further commercial opportunity and teamed up with two former senior officials of Mossad, Danny Yatom and Avi Dagan, to create a private military company, which they called Strategic Consulting Group. The Israelis, like the South Africans, had a track record of providing security in Angola. In September 1992, Israel had armed the Angolan police, preventing Luanda from falling to UNITA, though the Angolan police were accused of committing atrocities against UNITA supporters. Yatom met Gaydamak through Moshe Levy, the owner of Lordan-Levdan, another private military company that was training the president of Congo-Brazzaville's private militias under a $50 million contract. The Israelis were under retired Brig. Gen. Zeev Zachrin, who had trained the pro-Israeli militia in Southern Lebanon. But the Congo-Brazzaville deal, which also involved a trade for oil concessions, was controversial in Israel, and Zachrin moved over to Angola, where he took charge of Gaydamak's projects there. Yatom went to Angola, met with Dos Santos and offered him a personal security package to train the presidential guard for $50 million. But even to Dos Santos, this seemed overpriced, and the contract was not awarded. Yatom left the partnership when he was appointed security advisor to then Israeli President Ehud Barak in 1999. Dagan continues to work for Gaydamak.

Toward the end of the 1990s, a new player appeared on Angola's horizon – again with ties to Gaydamak. Lev Leviev, like Gaydamak, was a self-made entrepreneur from the former Soviet Union who immigrated to Israel. And like Gaydamak, the Tashkent-born Leviev had a taste for playing politics. On the mahogany

table of his Tel Aviv office sits strategically placed photographs of Leviev shaking hands with Russian President Vladimir Putin, Ukrainian President Leonid Kuchma and Nazarbayev of Kazakhstan.
Leviev became involved in Angola after buying into the Catoca diamond mine – a joint venture between the Russian state diamond company, Almazy Roskii Sakha (Alrosa), and the Angolan state diamond company, Empresa de Diamantes de Angola (Endiama). Leviev, who was close to the then-head of Alrosa, Valery Rudakov, said he helped bail out the financially ailing venture with a $58 million investment, thus becoming a partner in what at the time was the largest diamond mine in Angola.

In 1997, Leviev met with Dos Santos, who "wished to know this crazy businessman who was ready to invest $58 million in his country without knowing anyone from the authorities," Leviev told ICIJ in an interview. At their first meeting, Leviev discovered that he and Dos Santos shared a common language, Russian (Dos Santos had studied in Moscow during the war against Portuguese colonialism), and a mutual loathing for the De Beers diamond monopoly. Leviev had once been a favored customer of De Beers, but was cut off for selling Russian stones through his offices in Tel Aviv – a challenge to the De Beers monopoly. De Beers refused to discuss its relationship with Leviev, citing client confidentiality.
Dos Santos complained bitterly to Leviev about how little De Beers was doing for Angola. "He said De Beers had no interest in developing

Angola's diamond industry. All the buying firms were controlled by and worked with De Beers, but Angola did not gain and benefit from them. These companies claimed zero profits and paid nothing to the government," Leviev said. When Dos Santos asked him what he should do, Leviev replied, "I said, 'You must reform the industry,' and suggested to him to form a joint venture between the government and us as private investors." Dos Santos followed up that meeting in 2000 by creating Ascorp – a partnership between Leviev, Belgian diamond dealers Sylvain Goldberg and Guy Laniado, and the Angolan state. There were also hidden shareholders, notably Dos Santos' daughter, Isabella, through the Swiss Company Tais, according to diplomats in Luanda and diamond industry sources, all of whom spoke on condition they not be named. The creation of Ascorp made Leviev Angola's diamond czar and, in 2001, De Beers announced its complete withdrawal from the lucrative Angolan market. Ascorp more than trebled the revenue that the Angolan government received from diamonds just three years before. The Israeli security team that Leviev brought in largely cleaned up the smuggling of stones, and he claimed that the UNITA movement was no longer able to launder its "blood diamonds" through the official system.

What Leviev neglects to mention when he tells his Angolan success story is his partnership with Gaydamak. On his annual visits to Angola, Leviev would travel about in Gaydamak's plane. One commercial intelligence report, obtained by ICIJ, said: "Confidential sources inside the Angolan presidency confirm that Leviev used the influence and extensive contacts of Gaydamak to negotiate and secure the exclusive diamond buying arrangement with the Angolan government." Leviev denied that Gaydamak had introduced him to the Angolan market, saying that his involvement there began through the Russian company Alrosa. "I came to Angola in 1997, while my encounters with Arcadi began in 1999." Gen. Miala, Gaydamak's business associate in a number of deals in Angola, was involved in appointing and chairing the commission that runs Endiama, Angola's state-owned diamond company. And Gaydamak said it was his idea to establish Ascorp and that he helped draft the decree that created the company.

In January 2000, Gaydamak paid $75 million for a 15 percent stake in Leviev's company, the Africa Israel Group, an Israel-based holding company involved in real estate and construction. Africa Israel next acquired 26 percent in Alon Israel Oil Company. In August 2000, Alon Israel Oil Company purchased the assets of TotalFinaElf SA in the United States for $250 million. The deal included an oil refinery in Texas with a 60,000 barrel-per-day capacity, various depots for oil storage, pipelines, and a franchise for 1,700 gas stations on the U.S. East Coast and part ownership of the attached "7-11" convenience stores.
The partnership had already expanded geographically. In April 1999, Gaydamak and Leviev were granted permission by the president of Kazakhstan to acquire the Tsellinnoye Chemical Metallurgical plant, a producer of polymetals and chemical products. Tsellinnoye had produced enriched uranium for the Soviet nuclear program during the Cold War, and was located near the world's largest biological warfare development and production facility. It is still the largest uranium manufacturer in Kazakhstan, according to some reports, though Gaydamak says it has nothing to do with uranium anymore and is now a fertilizer factory.

Whatever charm Leviev and Gaydamak used to acquire the property, they acquired it over the protests of the Canadian company World Wide Minerals of Toronto, which had fallen out of favor with Nazarbayev. In 1998, World Wide, which had invested $29 million in the project, launched a billion dollar lawsuit against the government of Kazakhstan. It had taken over management of the complex in 1996 and had an option to boost its interest to 90 percent. However, the Kazakhstan government refused to issue uranium export licenses and revoked the option from World Wide.

“I am a good man”

In December 2000, when the “Angolagate” scandal broke, Gaydamak was in London. He eluded arrest by moving back to Israel, claiming he had forgotten to do his military service. He rejected all allegations that he was involved in criminal activity, including influence peddling, money laundering and illegal arms sales and, in April 2001, filed libel suits against the two French government agencies – the DCRG and the DGSE – responsible for some of the accusations. His French lawyer, Gilles-William Goldnadel, claimed the files of the French secret services were based on defamatory press reports that Gaydamak had always contested.

Falcone, who was charged on Dec. 1, 2000, with fiscal fraud, influence peddling, misuse of public property, deception and corruption of public officials, and gunrunning, was imprisoned for a year. Released in January 2002 on a multimillion-dollar bail, he was charged again with illegal weapons smuggling on March 27, 2002, and is awaiting trial. He is under orders to remain in France and refrain from contact with any of his alleged co-conspirators. Falcone has denied he committed any offense and contends he is the victim of political machinations. “The weapons for Angola never passed through France, and were not freighted on French transports,” he told a French newspaper. “There was neither illegal trade in weapons, nor traffic of influence, nor illegal commissions, no fiscal fraud.” As to the allegations of bribery, Falcone said, “Prosecutors in their logic cannot admit that someone like me can be generous. Because I am rich, [to them] I am guilty.”

Pasqua, the former French foreign minister, has complained publicly that his government’s pursuit of Gaydamak and Falcone could hurt France’s oil investments in Angola. The world’s largest offshore oil platform began pumping oil from the Girassol field in December 2001. Operated by the French concern TotalFinaElf, it is expected to add 200,000 barrels of crude oil per day to Angola’s output. “Angola has up to now given France important oil concessions,” Pasqua told Le Parisien in March 2001. But, because of the French inquiry, that dominance “is about to fall into the hands of the Americans.” Pasqua may have had a point. A year later, after the death of Savimbi and the collapse of UNITA, Dos Santos was feted in Washington, D.C. But since the “Angolagate” scandal began, he has refrained from visiting Paris, a city he once frequented regularly.

Dos Santos has also urged French President Jacques Chirac to stop the judicial inquiry and to release Falcone. “The legal action against our official envoy Mr. Pierre Falcone,” Dos Santos wrote Chirac on April 18, 2001, “causes grave moral prejudice to the Republic of Angola and might damage the good relations prevailing between our two countries.” Dos Santos even called the inquiry “an offense to [Angolan] sovereignty” and Falcone “a great friend of my country … an important contributor to our successes in our battle against armed subversion and terrorism.” Dos Santos had even tougher words for the Swiss. In a May 24, 2002, letter to the president of the Swiss Federation, Dos Santos called the inquiry by Swiss prosecutor Devaud a “violation of the principles of international law that rule the relations between Switzerland and Angola. …We consider Devaud’s investigations as hostile acts.”

Responding to Angola’s ire, the French foreign minister traveled to Luanda in July 2002 to “turn a page” on the relations between both countries. Stories are circulating in Paris that the French want to drop the charges of gunrunning and corruption against Falcone and Gaydamak, rumors which the French government has pointedly failed to deny. Despite an outstanding international warrant for his arrest, Gaydamak continues to shuttle between Israel, Angola and Kazakhstan. Operating with a small staff and three cellular phones, which sometimes ring all at once, he continues to scout for business opportunities in Africa. However, he no longer does business with Leviev, the Russian-Israeli diamond mogul whom he helped ensconce in Angola and who has now become a global challenger to the De Beers monopoly. The “Angolagate” scandal, which embarrassed Leviev, soured their friendship, and Gaydamak claims to have sold his shares in Africa Israel back to Leviev as it was “not a good investment.” Leviev is also no longer a shareholder in the Kazakh operation. “We agreed to go out of all common projects,” said Gaydamak.

There is an edge of bitterness to Gaydamak, a desire to convince people that he is not the gun-running scam artist that French prosecutors have alleged. He has invested millions in repairing his reputation, such as the donation he said he made to the World Trade Center victims. In Angola, he has established schools, a fleet of fishing boats, a hospital, and a water treatment plant. He supports Jewish old age homes in Moscow, as well as 12 orphans’ homes, and has funded 20 Angolan agricultural students who have been sent to hone their skills on an Israeli kibbutz. “There are thousands of people around the world who are now eating because of me,” he told ICIJ. “I don’t care what people think. I am a good man.”

9 .The Field Marshal

By the bloody standard set in Africa in the last decade, the 1997 conflict in Congo-Brazzaville between forces loyal to Pascal Lissouba, the elected president of the country, and Denis Sassou Nguesso, who succeeded him, was a small war. It barely merited mention in the wire dispatches of international news services, despite a death toll as high as 10,000 and another 800,000 people forced to flee their homes because of the conflict.

On Oct. 15, 1997, after six months of fighting, Nguesso’s Cobra rebels, backed by troops sent by Angola —which had its own interests in the country—prevailed, driving Lissouba into exile. He flew to London via Gabon, ending his four-year reign during which his various economic reforms had failed to alleviate the nation’s poverty. In addition to this legacy, Lissouba left behind a multi-million dollar debt for weapons his government had purchased to fight Nguesso’s Cobras. Over a three-month period in 1997, Lissouba’s government ordered more than $60 million in arms. A dozen shipments brought helicopters, rockets, missiles and bombs from a handful of countries to Congo-Brazzaville. Executives of the French state-owned company, Elf Aquitaine – which pumped oil from the country and was a longtime player in its various changes in government, often befriending both sides – had arranged a loan backed by the country’s future petroleum production to pay for the armaments. Yet Lissouba was forced to flee before the payments could be made, leaving the middleman who had arranged the shipments owed millions of dollars.

That middleman, Jacques Monsieur, was not the sort of man to write off his losses. Believed to be among the biggest arms traffickers in Europe, Monsieur had violated a United Nations embargo by shipping arms to Bosnia and Croatia during the long bloody conflict in those countries, with the approval, he later claimed, of both the U.S. Central Intelligence Agency and the Direction de Surveillance de Territoire (DST), the French domestic intelligence service. He later forfeited his good relations with Washington by acting as an importer-exporter of arms for the Islamic Republic of Iran, for whom he also tried to procure uranium. He worked closely with executives from the French oil giant, Elf Aquitaine, the state-owned petroleum company that, until its merger with TotalFina in 2000 to form TotalFinaElf, was the sixth largest oil producer in the world. Though he had aroused the ire of U.S. government officials and was under investigation by French and Belgian law enforcement authorities, Monsieur lived openly in France, all the while violating international sanctions by shipping arms to war-torn countries.

In order to get paid for the Congo-Brazzaville deal, Monsieur threatened to reveal everything about his deals, embarrassing the French intelligence services, former officials of Elf Aquitaine, and African heads of state. The Elf executives had the most to fear: at the time of his threats, the French government was investigating the company’s long history of corruption, including its involvement in the trade of weapons in exchange for oil, and its manipulation of African politics.

Jacques de Naurois, the director for institutional relations for TotalFinaElf, said, “Whatever the French foreign policy towards Africa was, Elf Aquitaine was only concerned with exploiting the oil. For the rest, we leave historians to explain and resolve the mysteries of ancient history.” When asked if Elf had been involved in arms deals, he answered “No,” without elaborating. The trials of Elf scandalized France and reached into the upper echelons of the country’s ruling elite, including the former foreign minister, Roland Dumas, who kept his mistress, Christine Deviers-Joncourt, on the Elf payroll. Dumas was sentenced in June 2001 to six months in prison for corruption and abuse of public property. To date, 42 people have been charged in connection with the arms and corruption scandals and several have been convicted, including Elf’s former chief executive officer Loik le Floch-Prigent and his right-hand man Alfred Sirven. Monsieur’s career, including his dispute over the unpaid weapons he shipped to the Lissouba government in 1997, illustrates that often arms traders who are ostensibly profit-seeking freelancers actually serve the interests of Western intelligence services and corporate elites. They violate U.N. arms embargoes with the implicit – sometimes explicit – approval of government officials, and attempt to tip the balance in armed conflicts for the benefits of business interests.

French Connections

A Belgian born on March 31, 1953, Monsieur, nicknamed “the field marshal,” had been active in arms trading since the 1980s. He was a participant in the Iran-Contra affair, but the first solid information about his dealings came from the Belgian federal police, who in 1986 found a suitcase in Brussels that belonged to him. The documents in his suitcase revealed that Monsieur was in contact with the Israeli intelligence service Mossad, as well as Iran, and that he had been attempting to export Armbrust grenade launchers – German-built light anti-tank weapons — without a license. Monsieur obtained false “end user” certificates from other countries, especially the former Zaire.

This first investigation of his activities, however, led nowhere. According to Belgian law, Armbrust launchers are regarded as “hunting weapons,” not weapons of war. Though he had not broken Belgian law, European law enforcement authorities began to keep track of Monsieur. But law enforcement authorities weren’t the only ones with an interest in the Belgian arms dealer. Monsieur had very good contacts in France, both with the DST and executives from Elf Aquitaine. France appeared to be the protector of Monsieur, who had relocated his operations there in 1993. For six years, while authorities from Europe continued investigating his activities, he lived there openly, despite growing evidence of his involvement in illegal arms trading. In 1999, French authorities indicted him for his weapons trafficking. The court proceedings that followed revealed more information about his career – and his connections to the DST and Elf executives.

In September 2000, Monsieur told a French judge of having been contacted in 1991 in Brussels by the CIA, and, with the blessing of the French DST, of having sent tens of millions of dollars of weapons to Croatia. From 1991 to 1995, he found his best markets in Croatia and Bosnia, even though the two countries were under a United Nations embargo. Another French magistrate, who is well versed in the Croatian trafficking case, said it was a political operation. “A decision from on high led, in 1995, to the cancellation of a fourth wave of weapons deliveries to former Yugoslavia,” implying that French authorities had tacitly approved the prior three “waves” of weapons shipments.

While his good relations with the DST were useful to Monsieur, he said he had a far closer relationship with Elf Aquitaine that began in the early 1990s. He claimed that Elf was prepared to finance some of the arms trafficker’s deals. A letter sent by Monsieur in 1991 to a Polish arms manufacturer on behalf of an Angolan colonel states this explicitly. In the letter, which was discovered by Belgian investigators, Monsieur organized the transportation of tanks, transport helicopters, attack helicopters, and assault rifles to Angola. To the Polish dealer, Monsieur wrote that those weapons are “to be financed by budget or L/C” (Loan/credit), and he mentioned that he had the financial green light from Elf Aquitaine: “This has been confirmed by Elf themselves.” TotalFinaElf’s de Naurois said Elf had no relationship with Monsieur. “Elf Aquitaine was a company that deals with oil, not with weapons,” he said. He also denied that Elf had ever financed any of Monsieur’s arms deals.

Monsieur was not the first to assert that Elf Aquitaine was linked to arms trading in an oil-rich country. As the French newspaper *Le Monde* revealed in a 12-part investigative series in 1998, Elf Aquitaine was infiltrated from its founding in 1965 by secret agents who were charged with working out ways of getting access to the oil fields of Africa. The company was formed just as access to petroleum became a crucial strategic matter for France. When the country’s colonies in sub-Saharan Africa and Algeria gained their independence, France lost its easy access to their oil reserves, and became oil thirsty. Elf was set up to slake that thirst by whatever means necessary. Jacques Foccart, the French politician and confidante of Charles de Gaulle, who masterminded France’s Africa policy between the 1950s and his death in 1997, put it candidly: “To defend the interests of our country, we cannot be afraid to extend our hand to the devil.”

As has now been well documented in the French court cases, wherever Elf Aquitaine found oil, it worked hard to create the political conditions that would guarantee easy access to it. In the oil-rich former colony of Gabon, Elf operatives and the French army were instrumental in the coup that toppled President Laurent Mba in 1964, less than four years after independence. An obscure thug named Omar Bongo, who had been on the payroll of the French secret service, became the country’s new master – a role that he has filled ever since. Soon after the coup, Gabon became Elf Aquitaine’s best oilfield and Bongo became an extraordinarily rich man.

Elf was not averse to playing both sides of a civil war. Le Floch-Prigent, Elf Aquitaine’s CEO between 1989 and 1993, acknowledged aiding Jonas Savimbi, leader of the rebel movement, UNITA, at the same time as the company was strengthening its ties with the Angolan government of José Eduardo Dos Santos in Luanda. In 1996, while he was serving a prison sentence, Le Floch-Prigent wrote "a short history" of his involvement in Elf and in Africa. He wrote that his role as Elf's CEO was "to keep the equilibrium between Savimbi and Dos Santos in Angola, in order to prevent either from winning."

Elf Aquitaine provided the government with revenue through its payments for the right to exploit Angolan oil fields, Le Floch-Prigent said, and paid UNITA to avoid attacks on its installations and personnel. "Elf's problem in Angola was that some of the company's installations in the country are located in regions that regularly change hands," Le Floch-Prigent said. "We therefore negotiated with [UNITA leader Jonas] Savimbi to protect our materials and personnel. In the end, we gave money to him." How much, he wouldn't say. One of the key figures in Elf's African oil dealings was an executive named Jack Sigolet. After serving in the French military in Algeria, he joined the finance department of the French state-owned Régie Autonome des Pétroles (Independent Directorate of Petroleum) in 1962, which soon afterwards became Elf Aquitaine. After the launch of Elf, he worked for four years in Tehran, before returning to Europe to handle the finances of the company. In 1978, he became chief of Elf's Africa finance department, and pioneered a concept that has been adopted by many oil companies since: the oil-backed loan.

In an interview with ICIJ, Sigolet explained that such loans are the way for debt-ridden African heads of state to pay their accounts, buy weapons or fulfill their need for splendor by mortgaging future oil income. Oil money is the preserve of the head of state, and the movement of money is unrelated to the normal budget of the country, and thus requires that the deals be discreet, he said. "I advised that these financial schemes should not develop in public space," said Sigolet. "A certain secretiveness was required. This was achieved by my proposal to the president [of Elf] to nominate me as 'chargé de mission,' attached to both the head of Elf's oil department of the group and to its finance department. Elf appointed me as a kind of counselor to presidents or finance ministers of African states, working with multilateral organizations (the International Monetary Fund, the World Bank, the European bank, etc.). In the furtherance of those activities, I was answerable to nobody inside the group."

Sigolet said that, through him, Elf not only provided oil-backed loans to African states and their leaders, but also became a partner in the financial decision-making of those leaders (TotalFinaElf's de Naurois denied Sigolet's characterization). Sigolet also helped arrange arms deals for them, he told ICIJ, including one failed deal with Monsieur that involved another of Monsieur's favorite clients, the Islamic Republic of Iran.

Arming Iran

The Shiite fundamentalists who took power in Tehran in 1978 inherited weapons originally purchased by the Shah's regime. But they had difficulty maintaining and upgrading their military hardware, not least because of a U.S. arms embargo on the country following the 1979 embassy hostage crisis. The Iranian government did business with Monsieur because he was able to provide it with new flight and defense material and spare parts from the United States. According to his own documents, in 1992 Monsieur transmitted to the Iranian Air Force plans devised by the French company, Matra, for adapting its "Magic-2 Air to Air" missile to the Phantom F-4 aircraft. In 1992, Monsieur attempted to deliver Electron radar material to Iran. Electron is the radar system that tracks Hawk surface-to-air missiles. It is unclear whether that radar material was delivered, but Monsieur did sell Tehran a key technology that is currently used by Iranian airports for civil aviation, according to an intelligence document.

Monsieur acted as an import-export agent for the Iranian military. In addition to radar systems and aircraft missiles, he proposed selling Bell-Agusta helicopters to Iran. And on Aug. 22, 1996, Monsieur suggested to the Iranians that they export weapons to the small central African state of Burundi, a neighbor of Rwanda, in violation of a U.N. weapons embargo, according to sources involved in investigating the affair. The military head of state, the ethnic Tutsi Pierre Buyoya, had seized power in a coup the previous month, threatening to plunge the country into a new round of ethnic bloodletting between Hutus and Tutsis. In a document obtained by Belgian police, Monsieur asked the Iranians their prices for mortars, assault rifles, ammunitions and light artillery to be sold to Burundi. He said that he would deliver the bulk by air with an Ilyushin 76, and reassured his Iranian counterparts that if they had the slightest concern about the destination of the weapons, he could find "other end users," suggesting that, as he had done with the Armbrust launchers, Monsieur would falsify the documentation. Neither the French nor the Belgian investigators were able to determine whether the deal ever went through.

By this time, U.S. Customs officials had seen enough. In 1996 they convinced Belgium to launch an investigation of Monsieur. Soon afterwards, French authorities began their own investigation into the sale of Stinger FIM-92A missiles to Iran. Monsieur was by then living in Bourges, France, and presented himself as a horse breeder. Despite the investigations, Monsieur was still able to deliver weapons – some of them from Iran – to Congo-Brazzaville in the summer of 1997. The long-standing dictator of Congo-Brazzaville, Nguesso, was another of Elf and France's best friends in Africa – they even reportedly helped put him in power in 1979 in one of the country's many coups. Jean-Pierre Cordier, the president of the ethics committee of TotalFinaElf, said that it was "beyond our imagination" to suggest that Elf would back a coup rather than deal with the government in power.

In the euphoria over multiparty democracy that followed the collapse of the Berlin Wall, Nguesso was persuaded to hold democratic elections in September 1993, which he promptly lost to his old nemesis, Pascal Lissouba. The election result didn't weaken Elf's standing in the country. Lissouba would later claim that Omar Bongo, the leader of Gabon, and Andre Tarallo, a senior executive from Elf, financed his election campaign by giving him about a million French francs (or roughly $170,000) in suitcases. Tarallo could not be reached for comment. De Naurois of TotalFinaElf cited the ongoing investigation and declined to comment on the election. Lissouba – whose financial advisor was Jack Sigolet — initiated a series of economic reforms, including a privatization program that led to thousands of bureaucrats losing their jobs but failed to lift the country out of its poverty or put bread on people's tables. Ethnically based militias further undermined the stability of the country.

As the situation grew ever more dangerous, Lissouba recruited Israeli mercenaries under retired Gen. Zeev Zachrin, working for the Israeli private military company Levdan, to train his militiamen. Lissouba's armed youths were up against Nguesso's Cobras and the Ninjas of Bernard Kolela, the leader of another opposition party in Brazzaville. In early 1997, Lissouba was still in charge in Brazzaville, but the Cobras were gaining in strength. On June 5, 1997, a civil war erupted and Lissouba desperately needed weapons. Testifying in the lengthy investigation into corruption at Elf, Lissouba told a French judge in December 2001 that he was offered arms by the oil company. He said that Sigolet and Elf's "Mr. Africa," Andre Tarallo—so-called because he had headed the oil company's Africa division and overseen its Africa policy—had offered to arm him. "He [Tarallo] said, 'You need a war chest' …Tarallo and Sigolet offered me arms." From June 23 to Sept. 28, 1997, Lissouba ordered from Monsieur 12 consignments of weapons worth $61.4 million. Among those goods were five Russian-built attack helicopters, rockets, missiles and bombs. Most of the light weapons were Iranian. Forty Russian technicians and officers traveled with the materiel.

The invoices landed on the table of Col. Yves-Marcel Ibala, at the Congolese Internal Affairs ministry, which is in charge of security. To pay for the arms, the Lissouba regime used a specific bank account, "MinFin-Congo," from the Paris offices of FIBA, a now-defunct French bank that was owned by Elf, Bongo, and other private investors in Gabon. The MinFin-Congo account was funded by a share of the oil taxes (set at 17.5% of the selling price of exported crude oil) that was paid by Elf-Congo to the Congolese state. The funds were deposited in the FIBA account for which the Congolese finance minister, Nguila Moungounga, had signing authority. In order to pay the weapons invoices, Moungounga would fax the invoices to the director of FIBA bank, Pierre Houdray. Houdray could not be reached for comment.

But the payments for the weapons were never made. Lissouba was desperate for cash; he asked Elf for a new loan that would be financed with future oil supplies. Lissouba wanted the money to be advanced to him as early as August. Sigolet wrote the draft of the loan agreement, which mentioned 10,000 barrels of crude oil per day as collateral. The contract was known as Darrow, the name of the offshore company created specifically for the deal. Darrow never came into effect. After months of indecisive conflict, in which the capital was divided into fiefs under the rule of various brutal youth militias, and up to 800,000 people fled their homes, the Angolan armed forces intervened and helped install Nguesso as the unchallenged leader of Congo-Brazzaville. The Angolan initiative was motivated by two factors. Under Lissouba, Congo-Brazzaville had become a launching pad for the rebel movement in the neighboring Cabinda enclave which Angola claims as its own territory. Just as troubling to the Angolan government, the Angolan rebel UNITA movement of Jonas Savimbi was using Congo-Brazzaville to smuggle out the diamonds it used to finance its war machine. The Angolan intervention proved decisive and brought the conflict to an end. Nguesso became leader of the country through the force of arms for a second time on October 15, 1997 – the same day that Lissouba fled the country.

But Monsieur had not been paid for his weapons and protested to the incoming government. The new president was in no hurry to honor debts accumulated up by his predecessor. Nor was he eager to pay for war materiel that had been used against the forces who had swept him to power. In 1998, Nguesso's government and executives from Elf proposed terms of a settlement. That year, Pierre-Yves Gilleron, a former adviser to Lissouba and a member of the French DST, contacted Jack Sigolet in order to resolve the legal dispute between Monsieur and Congo-Brazzaville. Sigolet, who had retired from Elf, was back in the Congo, as financial advisor to the new president. The new Congolese minister for Internal Affairs, Pierre Oba, was working with Gilleron.

On Dec. 9, 1998, in the Noga Hilton Hotel in Geneva, a meeting took place between Sigolet, Gilleron and Monsieur. There was little room for negotiation: Oba was prepared to acknowledge a debt of $15 million, but only willing to pay $5 million to settle the dispute. The $5 million would be paid before June 30, 1999, according to the terms of the settlement. A day after the meeting, Monsieur drew up a hand-written summary of the discussions in order to formalize the oral agreement: “The staff of Jack Sigolet commits itself to employ its best efforts in order to assist the suppliers in recovering all or most of the unpaid sums, using their relations and financial expertise in order to obtain new markets: within Congo-Brazzaville; Angola (...). Last, Jack Sigolet guarantees the payment, both its amount and timing.” On Dec. 11, 1998, Sigolet wrote to Monsieur: “If I can’t ‘guarantee the payment’ …because this is absolutely not within my reach or competence, I once again guarantee my availability in order to promote and legitimize the financial schemes that have been proposed to you.” Sigolet was unable to follow through on the agreement arranged in Geneva. The $5 million due Monsieur was not paid on time. By the end of June 1999, only $3 million had been paid. Another $1 million was paid in the first half of 2000.

The situation grew tense because at the same time Monsieur and his associates had come under the scrutiny of French investigators. On May 20, 1999, the French government placed Monsieur and three of his associates under judicial control – meaning they could not leave the country and had to report regularly to the police – for “trade of war materials, weapons and ammunitions without the license of Defense Ministry.” Two of Monsieur’s associates claimed they were working with the approval of the DST – but this defense failed to get them off the hook. In mid-2000, Monsieur once again met with Sigolet to insist on payment of the outstanding amount, Sigolet told ICIJ. But he also wanted to make sure that both of them would tell the same story to the French judge in charge of Monsieur’s case.

Little came from the meeting. Monsieur wrote a threatening letter, warning that, in the event of non-payment, he would destroy the reputations of Sigolet and Tarallo, who had already been named in connection with the burgeoning Elf scandal in France – Tarallo was indicted, though later acquitted in the high profile fraud case of Dumas. Monsieur also threatened to damage the entire reputation of Elf: “For the time being, the last payment is lacking,” he wrote. “This last payment would permit [me] to bury definitively one file everybody would like to forget as soon as possible. Especially since it now seems to interest some French authorities. By matter of circumstances, I have at my disposal an important amount of documents related to you, and among others: orders of weapons and ammunitions on behalf of Lissouba government, some signed J.S., other initialed J.S., (...)
the detail of every flight on behalf of African governments using Elf planes(…) freighting of a helicopter, paid by Elf, for the election campaign in Gabon…”

The letter goes on, making charge after charge. Sigolet had always maintained that Tarallo was innocent of those accusations, and Tarallo himself denied any involvement in weapons sales at any time. Sigolet would not confirm or deny the substance of Monsieur’s letter in any detail, noting only that it was not totally accurate but appeared to be authentic.

Incarcerated in Iran

Monsieur was scheduled to testify in a French court at the end of 2000, but he disappeared in November. He turned up in Iran, where he faced another legal proceeding. On Nov.19, 2000, Branch Three of the Tehran Revolutionary Court arrested Monsieur and charged him with “spying and collecting classified information.” Tehran had a long record of relations with Monsieur. Business letters between Modelex, the state-owned arms manufacturing company, and Monsieur show how closely the arms trafficker had worked with Iranian officials. In the letters, Modelex, Monsieur, Tarallo and Sigolet appear to be working together as a unit.

There’s no question that Tehran was extremely well informed about the man they had arrested. Monsieur had worked closely with the Iranian regime to aid its arms exporting and its pursuit of raw materials, including some nuclear materials. Fourteen months prior to his arrest in Tehran, Monsieur was still negotiating with the Democratic Republic of Congo a “barter” of Iranian weapons for “copper, cobalt, uranium 294, 298, 380, thorium, titanium…”

Some of the circumstances of Monsieur’s captivity led French authorities to believe, at least at first, that the arms trafficker had eluded French justice by having the Iranians stage a mock arrest and detention. For example, Monsieur was unable to receive visitors in his Iranian jail, uncommon even in Iran. He also had given orders related to the maintenance of his property in France before traveling to – and being arrested in – Iran, suggesting he knew he might be gone for some time. But from the beginning of 2001, it became clear that Monsieur was genuinely detained against his will. In early 2001, a single handwritten fax issued by the Iranian lawyer representing Monsieur reached his Parisian attorneys. According to the fax, Tehran knew that the Iranian weapon operations of the Belgian trafficker could have resulted in the payment of illicit commissions to Iranians, deposited into their Dubai bank accounts in amounts ranging from $17,000 to $25,000. In the same fax, Monsieur indirectly let his European lawyers know where they could find documents that could help prove he worked with knowledge and approval of the Iranian government.

In December 2001, Monsieur was finally sentenced behind closed doors in Tehran and declared "dischargeable on bail." During his detention, the last $1 million installment for the weapons delivered to Lissouba had been paid. But the payments appear to raise more questions about Monsieur's dealings in Iranian arms and African wars. When Monsieur told his lawyers "in which place, unknown until then to the French investigators" they could find documents he hoped would clear him of the charges in Iran, the Belgian trafficker unwittingly gave French investigators a new lead in their case.

French police later discovered documents in Tarascon in the south of France revealing the existence of an offshore company named Telogis ("Sigolet" spelled backwards) used for the payment of invoices related to planes. Sigolet denies any connection to Telogis, claiming that it is the creation of one of Monsieur's closest associates. However, the documents exposed the financial web behind the Monsieur weapons: when the FIBA bank paid Monsieur and his partners, most of the money went to an anonymous beneficiary codenamed "CH," suggesting another player beyond Monsieur. The French investigation continues, as does a Belgian inquiry. And Monsieur appears to be within the reach of both countries. On May 11, 2002, Monsieur was arrested in Istanbul. Belgium, which has indicted him on charges of arms trafficking, is seeking his extradition.

10. Drugs, Diamonds and Deadly Cargoes

At ten minutes past midnight on Aug. 5, 2000, police from the Milanese suburb of Cinisello Balsamo received a tip from a confidential source about a man known as "Leo" or "Leon." He was said to be hanging out at a smart party in room 341 of the Hotel Europa, where substantial quantities of cocaine were being consumed. The tip turned out to be excellent. As they entered the room at the hotel, the officers found four scantily clad women gathered around a man. They searched the room and found 58 grams of the highest quality coke. One of the girls, a Russian, was diluting it.The policemen had no idea who it was they hauled back with them to the station. The name Leonid Minin, a 52-year-old Israeli industrialist originally from Odessa in the Ukraine, meant nothing to them. Minin is, in fact, an Israeli citizen with an Israeli passport, but also has passports from the former Soviet Union, Russia, Germany and Bolivia.

The initial investigation in Monza, the Milanese suburb where Minin was held, revealed little of interest. Some prostitutes had been pampering a businessman, who was fond of cocaine and sex. Under questioning, he admitted to sniffing 30 to 40 grams a day. He spent about $1,500 a day on his habit. But he could afford it: he also had bank deposits worth up to $3 million. He told the investigators he had come from Sofia and traded precious wood from Liberia and owned companies in China, Liberia and Gibraltar.
The police knew that Minin was hardly a pauper. When they arrested him, he had $25,000 and 12.5 million Italian lira (almost $6,000) in cash on him, as well as Mauritian rupees, Hungarian forints and some polished diamonds, worth nearly $500,000. "Some of those diamonds come from the selling of my shares in a company I own on the island of Mauritius," Minin told them. But despite his wealth, he wasn't able to get out on bail because of the seriousness of the drug possession charges.

The authorities in Monza were, at first, unaware whom they had arrested. It was not until weeks later that they learned that the man with the expensive drug habit and the fondness for beautiful women was under investigation in five countries for various crimes. It would take even longer to piece together the documents that he carried with him: the papers would tell the story of his illegal arms trading, including selling weapons to the most brutal of Africa's rebel insurgencies, the Revolutionary United Front in Sierra Leone.

Before his arrest for drug possession, Minin operated with near impunity as an illegal arms dealer and an ally of brutal regimes. He was also a high-ranking member of a Russian organized crime syndicate. His arrest was fortuitous, but also a disturbing illustration of the inability of law enforcement agencies to prosecute criminals whose operations are international in scope. A lack of international coordination among law enforcement and intelligence agencies has allowed arms dealers like Minin to develop complex businesses involving individuals, companies and governments in dozens of countries, a nearly two-year global investigation by the International Consortium of Investigative Journalists has found.

While the Italian police who arrested Minin had no idea who he was for several weeks, intelligence services across Europe had no idea that the infamous mobster had been arrested on a mundane drug charge. Unlike the police in Monza, the spy agencies had lengthy dossiers on Minin. Switzerland, for example, banned him from entering the country in February 2000 and recorded his aliases: Leon Minin, Wulf Breslav, Igor Osols and Leonid Bluvshtein. According to the Swiss authorities, he had been arrested in Germany in the mid 1970s for falsifying stolen identity documents, and had a record of fraudulent dealings in the art world. The Swiss were sketchy about his more recent activities, but did know that "for several years he has been depositing millions of dollars in Europe and Switzerland – according to him, from international oil trades." Other European intelligence agencies helped fill in the gaps – the money, they had discovered, was laundered from sales of oil stolen from Russia. Belgium, too, had intriguing files on Minin: on Dec. 18, 1994, in a smart Brussels suburb, three men had assassinated a certain Vladimir Missiourine, who had connections to the "oil mafia" of Odessa – an international organized crime group. Investigators traced calls made by Missiourine to a company in Rome, Galaxy Energy, which was owned by Minin. Another Belgian judge suspected Minin "of giving $200,000 to a [Philippe] Rozenberg, [a member of parliament] in order to obtain identity documents to allow him to set up a base in Belgium," according to court documents in the case. Rozenberg is still under investigation, has not been charged, and has not commented publicly on the investigation.

France, which had issued a public intelligence report on Minin for possession, transport and use of cocaine, also had a large file on him. One intelligence report stated that Minin "left the USSR in 1967, where he was known for racketeering." France claimed he had moved on to Bolivia, Switzerland, Germany, Monaco and Italy. Once again, he was dealing in oil products, and once again with oil mafia connections — "maintaining relations with confirmed members of the (criminal underworld) originating from CIS [the Commonwealth of Independent States, the successor entity to the Soviet Union], such as Viatcheslave Ivankov, considered by the American authorities as the Russian Mafia kingpin in the United States, and Andrei Skrylev, suspected of being an important drug trafficker in Eastern Europe."

Like Switzerland, Monaco had declared him a prohibited immigrant on June 18, 1997. The French docket also referred to information from the Italians themselves: "At the end of 1998, the Italians authorities regarded Minine [sic] as the head of a criminal group of Ukrainian origin, close to the criminal organization Solnstevo [sic] and specializing, among other things, in the international trafficking of weapons and narcotics, money laundering and extortion. In Ukraine, Minine [sic] maintains close relations with Alexandre Angert, the head (pivot) of organized crime in Odessa."

And while the public prosecutor's office in Monza had never heard of the man, the Italian national police were very familiar with Leonid Minin. As far back as October 1998 the Italians had compiled a detailed report, which declared that Minin was "one of the most important members of the 'Neftemafija' " – that is, the oil mafia, based in Odessa. The report was based on the work of the Servizio Centrale Operativo, the elite investigative unit and the nerve center of the Italian National Police, which at the time had spent almost a year on a complex investigation of a Ukrainian criminal group associated with the Russian mafia and involved in international arms and drug trafficking, money laundering, extortion and other offenses. The leader of the group was listed as "Minin Leonid." The report chronicled Minin's taste for cocaine, but the 1998 investigation focused on Minin's activities at the oil terminals in Odessa and on the laundering of his oil money.

The investigators were also interested in his role as head of an organization, the Neftjemafija, that included top members of the Ukrainian mafia, such as Alexandre Angert, alias "Angel," and Nicholay Fomichev, alias "Kolija." The report said these men had "a large quantity of weapons such as guns, machine-guns, pistols, hand grenades [sic] and explosives."14 The report also described assassination attempts on some politicians at election time in Odessa. In July 1997, Angert, Fomichev and two bodyguards had been intercepted on the main road encircling Brussels, the investigators noted. In a video camera the men had been carrying, the police found a cassette that appeared to have just been recorded in Eastern Europe – of a training camp for bodyguards and assassins. Minin appears on the tape, which also shows armed men in training, shooting targets and using pump action shotguns.

When the report was compiled – between 1997 and 1998 – its analysis of Minin's phone and travel activity did not reveal any connections to Africa.16 But when he was arrested in Milan, investigators discovered clues about his new life: contracts, faxes and letters related to Liberia, weapons catalogs and price estimates, and end-user certificates issued by the Ivory Coast, price lists for weapons, ammunitions and military goods. Yet before those clues could be studied, there was still the matter of Minin's arrest in the Hotel Europa and subsequent trial. In 2000, Minin was convicted and sentenced to two years in prison for possession of drugs. Minin's appeal failed. With the drug case finished, Walter Mapelli, the public prosecutor, turned his attention to investigating the documents found in Minin's luggage that threw light on his arms sales, including sales to some of Africa's most brutal thugs.

No living thing

Ostensibly created to challenge the corrupt regime of Joseph Momoh in Sierra Leone, the Revolutionary United Front never managed to construct a coherent ideology. At best, its leader, Foday Sankoh, a former army corporal who had been exiled to Libya after leading a failed coup, spouted a half-baked version of pan-Africanism inspired by Col. Moammar Gadhafi's "Green Book," the Libyan leader's political manifesto. Published in 1976, the book is replete with the Libyan leader's own brand of revolutionary ideas on economics, political theory and social musings.

The origins of the war in Sierra Leone had more to do with the frustrated ambitions of Charles Taylor, a warlord in neighboring Liberia, than any ideology of the RUF to better the country. In 1990, a peacekeeping force assembled by the Economic Community of West African States – including two units of troops from Sierra Leone – thwarted Taylor's attempt to seize the Liberian capital, Monrovia. An angry Taylor warned in a radio broadcast that neighboring Sierra Leone would "taste the bitterness of war." At the time Taylor, though not a head of state, was in control of a large part of the Liberian interior, a territory known as Greater Liberia. He ran his fiefdom as a business, exporting timber, iron ore and other commodities through the port of Buchanan. As he took control of trade in the interior, he soon became interested in the rich deposits of diamonds on the Sierra Leone side of the border. The RUF became the instrument of Taylor's vengeance and greed.

In March 1991, the RUF struck across the border with several units of Taylor's armed forces, as well as mercenaries from Burkina Faso. The first target they hit was the diamond-rich district of Koindu. Throughout the 1990s, as the United Nations and other international agencies have documented, Taylor and his foreign partners used the RUF to profit from Sierra Leone's diamonds, while the RUF launched a campaign of unprecedented brutality against the population of Sierra Leone.
Among the worst episodes was the January 1999 campaign aptly called "Operation No Living Thing." Over four months of slaughter, RUF thugs killed 5,000 people, and amputated the arms, hands, feet and ears of thousands more. Some 150,000 people were left homeless by the RUF's rampage; they burned down more than 80 percent of Freetown's buildings – including mosques, churches and schools. There were both motive and method to the madness of the RUF. A confidential intelligence report from the former British Foreign Secretary Robin Cook in 2000 concluded that Taylor's strategy was to maintain his influence over the diamonds of eastern Sierra Leone through the RUF, capitalizing on the breakdown of all state authority in the area. Minin's bag of documents provided a rare window into the details of the arms deals that fueled the conflict.

A frequent flyer, with cargoes of arms

A closed hearing on Nov. 28, 2000, opened the way for Mapelli to indict Minin. On June 20, 2001, he was charged with weapons trafficking, and for delivering a hundred tons of weapons, spare parts, ammunition and explosives to the Revolutionary United Front. Minin was charged with using false end-user certificates, and for delivering 68 tons of weaponry from Eastern Europe supposedly destined for Burkina Faso, and 113 tons marked for the Ivory Coast, to Liberia and Sierra Leone. Documents from Minin's luggage illustrated his methods. One fax sent to Minin on March 23, 1999, discusses missiles with a range of more than 4,000 meters. "The procurement can be done with 'end-user' or without. If we can declare that we can deliver without the Certificate, the Buyer can realize the procurement without going through a bidding procedure." The advantage of this would be to keep costs down. Another fax, sent to Minin on April 28, 2000, expressed an interest in communication satellites and launchers: "Rostelesat is planning to launch its 24 (plus 4 back up satellites) into orbit with SS-18 rockets. These rockets are converted from intercontinental ballistic missiles and our company obtained access to them for launching its satellites." Some of the letters and faxes appeared to be in code, discussing matters like the trade of flowers between Amsterdam and Israel — a reference, the prosecutor in Monza believed, to illicit diamonds.

The United Nations, which was also investigating Minin's involvement in arms trading, provided background that helped Italian authorities make sense of Minin's role in two operations alluded to in the documents. In December 2000, a panel of U.N. experts determined that there was "conclusive evidence of supply lines to Liberia through Burkina Faso. Weapons supplied to Burkina Faso by governments or private arms merchants have been systematically diverted for use in the conflict in Sierra Leone. For example, a shipment of 68 tons of weapons arrived in Ouagadougou [in Burkina Faso] on 13 March 1999. They were temporarily off-loaded in Ouagadougou and some were trucked to Bobo-Dioulasso [in Burkina Faso]. The bulk of them were then trans-shipped within a matter of days to Liberia. Most were flown aboard a BAC-111 owned by an Israeli businessman of Ukrainian origin, Leonid Minin."

Those shipments violated international sanctions. In 1997, the United Nations slapped an arms embargo on the RUF. (It was less than effective. Arms continued to reach the movement through Liberia, which led the United Nations to put that country under an embargo in March 2001, with the intention of preventing the arms trafficking to the RUF.)

On Jan. 10, 2001, Johan Peleman, one of the U.N. experts and a co-author of the December 2000 report, went to Mapelli's Monza office to make a statement. Peleman told Mapelli about the delivery to Ouagadougou. According to Ukrainian documents, the weapons had been sold under the terms of a contract between the Ukrainian state-owned arms exporting company Ukrspetseksport and a Gibraltar company representing Burkina Faso's defense ministry. An airplane belonging to the British company Air Foyle then delivered the weapons to Ouagadougou, on behalf of Antonov Design Bureau, a Ukrainian cargo shipper. The arms did not remain in Ouagadougou. At first, Burkina Faso denied to the United Nations that the weapons were meant for Liberia, but later admitted the truth to the U.N. investigators: the arms had been shipped to Liberia in March 1999 using a BAC-111 belonging to Minin.

Peleman's account was supported by Mapelli's investigation. When the Italians arrested Minin on drug charges in August 2000, he had been trying to sell the very BAC-111 used to transport the arms. His luggage was full of papers documenting the aircraft's history, which any prospective buyer would want before purchasing the aircraft. A summary of the plane's flights found in Minin's luggage matched the U.N. account of the route that weapons shipped from Ouagadougou to Monrovia in March 1999 had taken. On March 6, Minin had left Odessa for Kiev and, on March 8, he went to Monrovia via Ibiza, in the Mediterranean.

The records suggested that Minin, himself, could have closely supervised the shipment of weapons from Ukraine to Burkina Faso. And, according to the papers, the plane made several roundtrips between Monrovia and Ouagadougou during March to carry "Liberian Gov Cargo." The Monza police also got two pictures taken during March 1999 that showed Minin's plane at Bobo-Dioulasso airport. Another photograph showed the inside of a plane filled with boxes of weapons. The U.N. experts also concluded that in the weeks before his arrest, Minin was planning to deliver a massive amount of weapons to Liberia via the Ivory Coast.

Among the documents taken from him were several copies of a buyer's certificate signed by Gen. Robert Guei, then the leader of the Ivory Coast. According to this document, which was authenticated by the Ivory Coast embassy in Moscow, on May 26, 1999, Guei authorized the following to be bought in his name: 5 million rounds of 76 2x39mm Ball ammunition; 50 M93 30mm grenade launchers; 10,000 30mm bombs for M93 launcher; 20 thermal image binoculars. The authorization for the deal was made out to a certain Valery Cherny, from the company "Aviatrend." When the prosecutor confronted him with this document during a judiciary interview, Minin sought to distance himself from Cherny. He said he had met him by chance, and the Ivory Coast document had come into his possession by accident. Minin explained that he had come across Cherny in a hotel in Italy, and that Cherny had left some of his documents in a green wallet in Minin's room. "Poco verosimile" (hardly credible), was the Italian judge's opinion of Minin's explanation.

The judge's opinion was soon confirmed. Minin shipped wood through his Liberian company Exotic Tropical Timber Enterprise (ETTE) – logging is one of the prime sources of revenue in Liberia and was a mainstay of Taylor's forces – using Cherny's trucks. Minin was forced to concede that he knew Cherny as his supplier of trucks, but still denied any involvement in an arms deal with Cherny. When asked to explain other documents in his luggage referring to weapons, Minin said: "These are photocopies of magazines. I do not and have never been concerned with weapon trading. My company Exotic Tropical Timber Enterprise deals with wood. Aviatrend is not a company you can link to me. It belongs to Valery Cherny and this company (Aviatrend) has a contract with a Ukrainian company that produces trucks.

They have sold lorries to Exotic Tropical for my company to transport timber from the interior of the country to Liberia's ports."

Other documents found in Minin's luggage were to shatter this defense, too. One fax, sent by Cherny on an Aviatrend Limited letterhead, offered to furnish weaponry that was identical to that listed on the buyer certificate from the Ivory Coast. The fax was sent to a certain "Leonid." Aviatrend bought the weapons in Ukraine and then offered them to Minin, even though the buyer certificate was under the name of Cherny. Other documents confirmed the deception. Another fax specified: "Delivery terms: FCA airport Bourgas. Delivery time: up to 30 days from date payment is received and after EUC [end user certificate] submitted." The weapons were to be shipped through Bulgaria, and the price, according to various notes on the faxes, varied between $910,500 and $1,071,350. The Italian prosecutor also managed to get hold of a bank order from Minin. On June 7, Minin had told his contact at Banco di Lugano, a Mr. Pessina, to pay $850,000 to Alpha Bank Ltd, in Nicosia, Cyprus, in the name of Aviatrend Limited. The transfer was purportedly for the "purchase of engineering for a wood industry."

The delivery of the weapons eventually took place in the middle of July 2000, according to faxes sent by Aviatrend to the Ivory Coast defense ministry. Copies of the faxes went to Minin, who, at that time, was staying in room 204 of "Hotel Atlantic" in Sofia. Via fax, Minin received a blow-by-blow account of the weapons transaction. One telex dated July 11, 2000, sent to room 204, said an Antonov 124-100, registered as UR82008 and belonging to the Ukrainian company Antonov Design Bureau, would deliver on the following day 113 tons of cargo "cartridges UNOO14, 1.4S" from the Kiev-based military company Spetstehnoexport. According to the document, the captain of the plane, Vitalii Horovienko, would be assisted by 18 other Ukrainian citizens, and had to deliver the goods officially to the defense ministry of the Ivory Coast. The Italians then managed to prove that the buyer certificate dated May 26 – which was used for that July weapons delivery – was falsified. Marius Assemian, a counselor at the Ivory Coast embassy in Italy, testified to that on June 7, 2001.

There was plenty of circumstantial evidence to back up the hunch that the weapons were destined for Sierra Leone. Through his timber business, Minin had met with Taylor. The arms dealer was even closer to Taylor's son, known as "Chucky" and "Junior," who has been known to be active in Sierra Leone. On July 27, 1999, a business contact of Minin's (the same one who had written to him about "flowers") sent a fax: "I flew from Spain straight to Turkey to start work on (.) special package for JUNIOR. We can deliver provided he can pay for it (.) Kindly arrange that I have a line of communication with JUNIOR in case I will need it. The package consists of 20-30 items, in addition to the 100 units you know about." Mapelli believed the figure of 100 referred to 100 missiles.

Another fax sent to Minin, dated Feb. 5, 2000, and signed by one of Minin's associates in Liberia, shed further light on the relations between the arms dealer and the younger Taylor. The fax said: "Dear Leo, I'm just coming from Chucky's house. He called me this morning for a business proposal …. Nature of the business: to be the sole importer of crude oil by-products to Liberia. Duration of the business: 2 to 3 years (.) so estimated profit would be around: 3,000,000 US$/month." Minin even paid expenses for Taylor's son. The Italian investigation came across a fax, sent by the younger Taylor to "Minin-Switzerland" on Feb. 15, 2000, concerning the expenses he had incurred on a trip to Trinidad. Inscribed on the top of the fax was the single word "Pessina," an apparent reference to Minin's contact at the Banco di Lugano, which Minin used to pay for arms purchased from Aviatrend.

It is unclear on what else the two men were collaborating, since the younger Taylor cut off all ties with Minin after his arrest. Among the last documents seized and analyzed by the Italians was a hand-written fax by "Charles McArthur Taylor Junior." The Liberian president's son wrote to Minin: "And from this day forward never in your life ever contact me again."

From bullets to ballots

British forces, acting as part of a U.N. peacekeeping force, entered Sierra Leone in 2000 after other U.N. troops had been forced to surrender to the RUF. Step by step, they began to recapture the country's districts and demobilize the rebel forces – about 47,000 fighters were disarmed. By May 2002, the situation had finally turned around. Foday Sankoh was in jail in Freetown awaiting trial for murder; Leonid Minin was in jail in Italy, awaiting trial for gunrunning, scheduled for December 2002; Charles Taylor was warding off an offensive by rebels from the Liberians United for Reconciliation and Democracy and had seen the war move to within 25 kilometers of his own capital, Monrovia. On May 14, citizens of Sierra Leone went to the polls and peacefully re-elected Ahmad Tejan Kabbah as president. Ed Royce, the

Africa subcommittee chairman in the U.S. House of Representatives, commented: “One can’t help but be moved by the photos of Sierra Leoneans who had their hands amputated managing to cast ballots.”

11. The Merchant of Death

From the outside, the $3 million property in the plush, residential Sandhurst area of Johannesburg could easily have been mistaken for a detention facility. The property was surrounded by 5-meter high walls topped by electrified fences. Armed guards with machine guns and dogs patrolled the grounds, and the daily security expenses ran higher than what most South Africans made in a year. But the compound was no prison. Within the walls were all the amenities of the leisure class: two swimming pools, a luxurious guesthouse, cascading ponds and a corolla of tropical plants surrounding the main house. On a warm afternoon in March 1998, an elderly Russian woman was cutting up fruit in the kitchen, while her daughter and son-in-law played tennis across the street. Suddenly, the idyll was destroyed by the sound of grenades blasting open the door, as armed intruders stormed in. The Russian woman grabbed a large watermelon and smashed it on the head of one of the gunmen before she was knocked unconscious by a rifle butt. Hustling across the street, her son-in-law arrived in time to confront the armed thugs, who roughed him up. The masked men fled with $6 million dollars in cash, but left paintings and expensive artifacts untouched. A message had been sent to Victor Bout. A short while later, a motorcycle gunman opened fire on a car carrying Bout and two associates, and another of his employees was beaten up and robbed on a Johannesburg street. Whatever the circumstances, for Bout the intent was now unmistakable. “The message was you’re vulnerable so get out,” said Richard Chichakli, one of his business associates. A few months later, Bout put his home up for sale.

Bout, a short, stocky 35-year-old native of Tajikistan, graduated from Moscow’s Military Institute of Foreign Languages and reportedly is fluent in six. He started out in business in Afghanistan when his air force regiment was disbanded during the breakup of the former Soviet Union. According to intelligence documents, the polyglot with personal skills was able to establish working relationships with various African heads of state and rebel leaders – the late Angolan rebel leader Jonas Savimbi, Liberian President Charles Taylor, former Zairean President Mobutu Sese Seko, Libyan President Moammar Gadhafi, Jean-Pierre Bemba, the leader of the Congo Liberation Front, and the former leaders of Congo-Brazzaville, among others. Bout had access to what they wanted. The end of the Cold War resulted in a massive amount of surplus weapons and spare parts being dumped at often very low prices onto the private market. Bout had the capacity to deliver not only small arms, but also major weapons systems, and deliver them almost anywhere in the world.

And his associates – ranging from former U.S. military personnel and Russian officials to African heads of state and organized crime figures – gave him a lengthy list of buyers and sellers with whom to do business. He ran a maze of individuals and companies, which employed some 300 people and owned and operated 40 to 60 aircraft, including the largest private fleet of Antonov cargo planes in the world, according to an investigation by the Center for Public Integrity’s International Consortium of Investigative Journalists. Through his web of companies, Bout made it almost impossible to trace his activities. He leased aircraft to other individuals and companies so that he was not directly tied to illegal activities. Indeed, Bout adamantly denies that he was involved in weapons trafficking, or that he was anything other than a legitimate air cargo entrepreneur.

Bout’s companies shipped vegetables and crayfish from South Africa to Europe, transported United Nations peacekeepers from Pakistan to East Timor, and reportedly assisted the logistics of Operation Restore Hope, the U.S.-led military famine relief effort in Somalia in 1993. In the Democratic Republic of the Congo, he explored investment opportunities in agriculture and telecommunications and expressed interest in promoting conservation of the country’s national parks. “That was the staple stuff,” a former associate, who refused to be named, said in an interview. “The dodgy flights were all extras.”

U.N. monitors have accused Bout of shipping contraband weapons to rebel movements in Angola and Sierra Leone and to the Taylor regime in Liberia. Bout and his associates operate, or have operated, in Afghanistan, Angola, Cameroon, Central African Republic, the Congo, Equatorial Guinea, Kenya, Liberia, Libya, Congo-Brazzaville, Pakistan, the Philippines, Rwanda, Sierra Leone, South Africa, Sudan, Swaziland, United Arab Emirates and Uganda, according to reports by the United Nations, the U.S. State Department and non-governmental organizations. Intelligence documents obtained by ICIJ and interviews conducted with many of those following and working in the global arms trade further support the allegations against Bout.

Dubbed “the merchant of death” by a British government official, Bout is a former Cold Warrior who became the most notorious gunrunner of the post-Cold War period. He was among the major arms suppliers to combatants in Africa and Afghanistan, often in violation of international embargoes. His planes carried weapons to war zones, and left loaded with diamonds and other valuable resources, such as the mineral coltan, used in the electronics industry. Bout’s international shipping business operated through a maze of companies registered around the world, and he was an expert at maneuvering through the labyrinth of brokers, transportation companies, financiers and transshipment points. Shuttling among Africa, Russia, Europe, the Persian Gulf and Central Asia, Bout left few, if any, trails. One associate said he had never seen Bout put his signature on a document. There’s some question of what he would sign if he did: in law enforcement circles, Bout is known simply as ‘Victor B’ due to his many aliases.

Until allegations surfaced in January 2002 that he had armed the Taliban in Afghanistan, Bout’s global empire operated with impunity in Western democracies, former East Bloc nations, and the developing world. He relied on his network of business partners to provide weapons that fueled some of the most brutal conflicts of the last decade. No national government had been able to do more than temporarily inconvenience him, and the international community – through the United Nations – had done nothing more than attempt to embarrass him.

“Bout would fly for anyone that paid”

During the Cold War, Africa had been one of the arenas where client regimes and insurgencies battling them had served as proxies for the United States and the Soviet Union. When the Cold War ended, the involvement in the continent’s affairs of both the Soviet Union’s successor states and the United States waned. But the conflicts continued and presented a lucrative market to arms dealers. Bout saw these opportunities and seized them. His charisma, language skills and, not least, his ability to deliver the goods and fly to places no one else would, gave him access to political leaders and rebel commanders. “Bout would fly for anyone that paid. He was apolitical,” the former associate told ICIJ. “He is good because he takes the chances.”

In May 1997, as rebel troops of Laurent Kabila were approaching Kinshasa, the capital of what was then Zaire, Mobutu and his immediate family fled to his ancestral village Gbadolite. Realizing he was no safer there than in the capital, Mobutu decided to leave Zaire on May 17. But because his luxurious private jet was in Kinshasa, picking up more family members, Mobutu relied on an old Soviet-built cargo plane to escape the rebel forces, according to sources interviewed by ICIJ. Bout supplied the aircraft. Rebel forces got close enough to fire on the plane as it took off. “We were lucky it was a Russian plane. If it had been a Boeing, it would have exploded,” Mobutu’s son Nzanga is quoted as saying in Michela Wrong’s book, *In the Footsteps of Mr. Kurtz*, which chronicles Mobutu’s misrule of the country.

Chichakli, the Syrian-born American who worked for several companies owned by Bout, said Mobutu was just one of many clients. “We do not support specific dictators, presidents and so on. We’re a transport company,” he said in an interview. “If you buy a ticket from A to B, we will carry.” Between July 1997 and October 1998, point A was Burgas, a Bulgarian city near the Black Sea, and point B was purportedly Togo in Western Africa. Thirty-seven flights left Burgas carrying weapons — including 20,000 82mm mortar bombs, 6,300 anti-tank rockets, 790 AK47 M1 assault rifles, 1,000 rocket launchers, 500 anti-tank launchers, 100 anti-aircraft missiles, 20 missile launchers, and almost 15 million rounds of ammunition — that ended up in the hands of Savimbi’s UNITA forces in Angola, according to a 2000 U.N. report. The shipments were worth $14 million. Chichakli denied that Bout was involved in shipping weapons to UNITA, but said they did transport food and mining equipment to Savimbi in November 1995. “Arms are not a good commodity to trade,” Chichakli said in an interview. “You’ll lose your client.”

Angola – the ultimate destination for the weapons – had long been a market that Bout, a former Soviet air force officer, coveted. According to former associates, Bout worked in Angola after his regiment was disbanded. Angola had been caught in the middle during the Cold War; the United States backed Savimbi and his UNITA rebels and the Soviet Union supported the government of President Jose Eduardo dos Santos. Angola has one of the largest fleets of Russian-manufactured aircraft in Africa, a fact that was not lost on Bout, who wanted to establish a maintenance facility for Russian planes in South Africa, according to two former associates. Bout’s time in Angola gave him a chance to establish contacts and explore future business prospects. He found one in UNITA. From 1996 to 1998, UNITA was rearming itself. A UNITA general told the United Nations that Bout was their main supplier. Gen. Jacinto Bandua said that the flights arranged by Bout “were known to combine arms with general cargo in order to disguise their missions.”

According to the United Nations, Bout provided forged end-user certificates to KAS Engineering, a Gibraltar-registered company, which contracted the Togo arms shipments from the Bulgarian suppliers. End-user certificates are the documents that validate the sales – required whenever arms are shipped to ensure the transaction is legal – but since there is no international standard they are easily forged. A U.N. report states that "some of the end-user certificates had been provided to the representative of KAS Engineering (Gibraltar) through the captain of a flight coming from Togo and some by express mail from Dubai, United Arab Emirates. Further investigations disclosed that the mail was sent by a Mr. Victor Bout. The forged end-user certificates were all based on a genuine document issued in July 1997 by Col. Assani Tidjani, at the time Togo's Army chief of staff, which he had given to a representative of UNITA, Marcelo Moises Dachala, or "Karrica." Togo was a supporter of UNITA, and Dachala was one of the rebels' main arms procurers. The U.N. report concluded that UNITA was dependent on this "lifeline" provided by brokers, shipping agents and aviation companies who shift their "operations in pace with the dynamics of the battlefield and the ever-changing locations of the UNITA forces." "The murder and mayhem of UNITA in Angola, the RUF in Sierra Leone and groups in Congo would not have been as terrible without Bout's operations," Peter Hain, the British Foreign Office Minister for Europe, told ICIJ. Hain has been at the forefront of the international effort to expose criminal networks behind Africa's trade in small arms and the "conflict diamonds" that fund such purchases. Hain also said that the danger posed by Bout was clear in his supply of weapons to another deadly regime: the Taliban.

Supplying the Taliban

According to a Belgian intelligence document first reported by ICIJ in January 2002, Bout earned $50 million selling weapons to the Taliban in the late 1990s. Another European intelligence source independently verified the sales, and an intelligence document from an African country in which Bout operated claim that Bout ran guns for the Taliban "on behalf of the Pakistan government." Bout, in a statement, denied any association with the Taliban or al Qaeda and with "arms traffickers and/or trafficking or the sale of arms of kind [sic] anywhere in the world." A Pakistani official denied that Pakistan served as a conduit for weapons shipped to the Taliban, saying that Pakistan abided by the Dec. 19, 2000, U.N. arms embargo imposed on Taliban-controlled Afghanistan and actively promoted interdiction. The weapons allegedly supplied by Bout were delivered before the sanctions were in place.

Bout's relationship with the Taliban began in August 1995, when the radical Islamist movement was trying to overthrow President Burhanuddin Rabbani's government in Kabul. One of Bout's planes flying from Albania via Sharjah and transporting small arms and military equipment on behalf of Israeli company Long Range Avionics to Rabbani was intercepted by a MiG-21. The plane was forced to land in Taliban-controlled territory, according to the ICIJ investigation. Bout, together with Russian diplomats, met Mullah Omar and other Taliban leaders to negotiate the release of the detained crew in Kandahar, but they were not successful. A year later, on Aug. 16, 1996, the seven Russian crewmembers disarmed their guards and took off in the Il-76 for Sharjah, according to press reports. The Washington Monthly later quoted an unnamed source, who said he believed Bout turned the situation to his advantage by establishing contacts with the Taliban.

After being a blip on the radar screen of the international community since the mid-1990s and operating with impunity for years in Africa's conflict zones, Bout's profile rose markedly after he was linked to supplying the Taliban, which gave military support to al Qaeda. The United Arab Emirates, the main base for his operation, told the United Nations in early 2002 that his companies were prohibited from operating there and banned him from entering. In February 2002, Belgian authorities issued an international arrest warrant through Interpol for him on "money laundering practices and criminal conspiracy." The case is still pending. Chichakli, who lives in Texas and was named by the United Nations as being Bout's chief financial manager, said U.S. authorities had not contacted him about Bout, even though Bout listed the Texas corporate address for San Air General Trading, a United Arab Emirates-based company owned by former Bout employee Serguei Denissenko, as his destination when he applied for a visa to come to the United States in summer 2000. Chichakli "clearly has connections to Bout," Lee S. Wolosky, a former National Security Council official told ICIJ. Wolosky, who closely followed the international arms trade, said the connection "concerned me and others at the National Security Council," but that there was a limit to what the White House could do, aside from referring the case to law enforcement. "U.S. authorities know everything about Bout," Chichakli said.

On Feb. 28, 2002, Bout surfaced in Moscow to defend himself. Just a few blocks from the Kremlin, he walked into the studios of radio station Ekho Moskvy to protest his innocence in a live interview. "What should I be afraid of?" Bout said. "I haven't done anything in my life to worry about…I deal exclusively with air transportation. And I have never been involved in arms trade. I have never taken part in it." The same day, the Russian news agency Interfax quoted Igor Tsyryulnikov, a spokesman for Interpol's Russia bureau, saying that no arrest warrant had been received. “We can say for sure that Bout is not in Russia,” Tsyryulnikov said.

Paper trails leading nowhere

Flights carrying arms to Afghanistan were the primary operations from Bout’s European base at Belgium’s Ostend airport, frequently cited by human rights groups for hosting companies and individuals involved in arms trafficking. Bout established his first Western European company there in November 1994. In March 1995, Bout and a Frenchman, Michel-Victor Thomas, founded Trans Aviation Network Group (TAN), according to U.N. and intelligence reports. Ronald De Smet, a Belgian pilot who used to fly for the Saudi royal family, was TAN’s chief executive officer. Chichakli told ICIJ that De Smet, the son of a former official of Gecamines mining company in Congo, “spearheaded” the expansion of Bout’s air cargo business in western Europe. Between 1995 and 1997, TAN’s operating base was Ostend airport. De Smet and Thomas could not be reached for comment.

At first, most of the shipments from Ostend were intended for Afghanistan, according to reports compiled by local citizens’ groups that monitor the airport. The Belgian intelligence document obtained by ICIJ noted that Bout’s company Trans Aviation (TAN) delivered at least 40 tons of weapons from Ostend to Afghanistan. Soon Bout was also reportedly associated with arms traffickers who armed Hutu extremists carrying out the Rwanda genocide. In 1996, two years after the genocide in Rwanda, Bout and a group of European arms traffickers in Ostend were arming Hutu forces in Congo, according to Johan Peleman, a U.N. investigator into arms violations.

But Ostend did not remain an ideal base for Bout’s operations. After details of the shipments to Afghanistan were reported in the local media, Bout packed up his possessions, moved out of his home, and left Belgium in June 1997. TAN had already vacated its Ostend headquarters. And Belgian authorities started an investigation into allegations of illegal arms shipments out of Ostend and money laundering. But Bout wasn’t ready to give up on Belgium entirely. A company called Air Cess, registered in Liberia, moved into the offices vacated by TAN. Air Cess listed Bout as its director. Later in the 1990s, Bout allegedly transferred the daily operations of Air Cess to his brother Serguei. Such arrangements are typical of how Bout did business. He established a veritable web of companies, some of which he ran, some of which were run by former employees and associates of his, obscuring his involvement in the arms trade. Air Cess, for example, though registered in Liberia, operated in Ostend, Geneva, and Sharjah in the United Arab Emirates.

The planes that were the backbone of his operations either flew under “flags of convenience” – that is, registered in countries that allowed him to circumvent international regulations on air cargo – or from airports like Burgas and Ostend that are known for their lax oversight of air freight operations, or from Sharjah. The United Arab Emirates is a major financial center and crossroads for east-west trade. With its large volume of transiting cargo, its bank secrecy laws, and its bustling free trade zones, it is a perfect base for arms dealers. According to the United Nations, almost all of Bout’s aircraft operated out of the United Arab Emirates – regardless of where they were registered. Bout used Sharjah as an “airport of convenience.”

Bout excelled at getting around international rules and regulations governing the cargo industry, thanks in part to his connections. The industry lacks effective oversight and the regulations are viewed as being out of date by industry associations. Shipping agents and brokers are unregulated, which makes it difficult to tell who is a legitimate operator and who is not. Airfreight documents do not require cross-referencing of the goods described in the arms export and import licenses. Arms shipments are often described as engineering, mining or agricultural equipment. One is not required to specify the travel route or any possible sub-contractors and the ultimate customer.

In addition to the lax and outdated regulations, it is not difficult for someone who knows the system to change the aircraft registration from one country to another – something Bout and his associates took advantage of. “Flag of convenience” countries allow aircraft to operate without the same level of cargo documentation. It is not even necessary for an airplane to be physically present in a such a country in order for it to be registered there. Indeed, there’s a cottage industry in shifting aircraft registrations around the globe. Michael Harridine, for example, not only can provide services such as aircraft registration and operators’ certificates, but openly advertises the fact, according to the United Nations. Harridine, who runs Kent-based Aircraft Registration Bureau in the United Kingdom, now offers a full range of services for the Equatorial Guinea Civil Aircraft Register – a country to which Bout moved most of his aircraft registrations in 2001. According to a December 2000 United Nations report, Harradine can provide a client with a company name, air operators certificates, full aircraft and company documentation, ferry permits and validations for the crew.

A maze of companies

After Bout left Belgium in 1997, southern Africa became the base of his entrepreneurial efforts. According to the United Nations, Bout used his expertise to expand the trade in weapons there. “[L]ocal carriers had the established routes and well formed contacts in the area, but lacked capacity. Mr. Bout, through his numerous contacts in the ex-Soviet air force, was immediately able to provide the required capacity and, in return, took advantage of the established routes and contacts in the southern African region,” the 2000 U.N. report on Bout said. He also had the necessary capital: the proceeds from selling weapons to Afghanistan helped Bout establish his business interests in South Africa.

Bout’s Liberian company, Air Cess, formed a joint venture with Norse Air, a South African cargo company headed by Dierdre Ward. That new company, registered with South African authorities on Feb. 19, 1997, was called Pietersburg Aviation Services and Systems (Pty) Ltd. but did business under the name of Air Pass, according to intelligence files obtained by ICIJ. Corporation records listed Valerii Naido, a Ukrainian pilot and former Bout employee, as a director of Pietersburg Aviation Services and Systems, along with Ward, the company’s financial controller.

Bout owned 90 percent of Pietersburg Aviation, and Ward owned the rest. In exchange for that 10 percent stake in the company, Ward let Bout use Norse Air’s charter operator’s license, which allowed Air Pass to operate in South Africa. Air Cess used Norse Air to apply to South African aviation authorities for its own foreign operators license. Ward, in comments to ICIJ, characterized her relationship with Bout as “a straight business operation” with shared premises. “Nothing illegal left here,” she said, adding that she had no idea that Bout was accused of gun-running until much later when she started hearing rumors through industry sources. Their business relationship ended in 1998.

Bout’s activities in South Africa soon came under official scrutiny. Authorities launched an investigation in 1998 and charged Bout’s company with various violations, such as busting U.N. sanctions by sending trucks, fuel tanks and other supplies to UNITA-held areas of Angola. The inspections occurred at a time when South African Airlines (SAA) was trying to increase its cargo capability through its subsidiary SAF Air, according to South African lawyer and law professor André Thomashausen, who defended Bout against some of the charges. At the time, Bout was more than just an arms trader: his legitimate operations made him one of the largest air cargo operators in South Africa.

Thomashausen said that most of the charges against Air Pass were mainly aimed at harassing Bout. “Bout was attacked from all sides … it was amazing,” Thomashausen said. “Authorities started showing up at all times measuring equipment and aircraft parts, which was never done.” Bout did not rely on the courts alone to protect his operations. “Before the company [Air Pass] could be charged with 146 breaches of civil aviation law,” read one intelligence document obtained by ICIJ, “the whole operation was moved to Swaziland.” Air Cess Swaziland (Pty) Ltd. had been established on August 20, 1997, and obtained a two-year operations license from the civil aviation authorities in Swaziland.

South African authorities alerted civil aviation authorities in Swaziland that Bout’s aircraft were “suspected of involvement in illegal acts.” In May 1998, “43 aircraft operated by five companies including Air Cess and Air Pass” were grounded because of “inadequate documentation,” the African intelligence file shows.
Bout shifted bases again. On May 28, 1998, he registered another company, Centrafrican Airlines, in Bangui, the capital of the Central African Republic, which was licensed to operate domestic flights two months later. The company had an operations office in Sharjah, headquartered at Transavia Travel Agency, a part of Bout’s TAN group. The United Nations said in 2001 that an airplane belonging to Centrafrican Airlines had been seen parked at airports in Sharjah and Ras-al-Khaimah in the United Arab Emirates. According to a database of worldwide cargo aircraft, Centrafrican Airlines operated several of the Air Pass and Air Cess aircraft that were de-registered in Swaziland.

In January 2000, authorities in the Central African Republic issued an arrest warrant for the director of civil aviation, the local manager of Centrafrican Airlines, and Bout. Allegedly, the three had “fabricated airworthiness certificates, air operator permits and certificates of registration for a great number of aircraft,” according to a U.N. report. Bout managed to escape the local authorities while the director of civil aviation was sentenced to a year in prison for fraud and forgery. In March 2000, Bout was sentenced in absentia to two years in prison by a tribunal in the capital of Bangui after an aircraft belonging to him used the markings of the state-owned airline on a flight to Gabon. For unknown reasons, a Bangui court absolved Bout of the charges three months later, on June 28, 2000, according to the United Nations. Nevertheless, the office of Centrafrican Airlines in Bangui was closed.

The company, however, lived on. By the fall of 2001, Centrafrican Airlines shared an address and phone number in the United Arab Emirates with San Air General Trading, a company run by a former employee of Bout's, Serguei Denissenko. According to the United Nations, both companies became part of an entity called CET Aviation Enterprise in the Ajman Free Zone in the United Arab Emirates. San Air General Trading, which also registered in Texas with Denissenko, Chichakli and a Vladimir Kviazeo as directors, acted as the commercial and operations agent for Centrafrican Airlines. Ultimately, all the filings and companies led back to Bout. The United Nations reported that Centrafrican Airlines, San Air and Transavia Travel Cargo in Sharjah "all appear to have originated from the Transavia Network (TAN [Trans Aviation Network] Group) which originated in Ostende, Belgium."

In 2001, Centrafrican Airlines aircraft registered in the Central African Republic were re-registered in Equatorial Guinea, according to the United Nations. Naido, the former Bout pilot and one of the directors of Pietersburg Aviation Services and Systems, assisted an agency that registers planes in Equatorial Guinea, according to the United Nations. Naido also ran a company called CET Aviation in Equatorial Guinea. A former Bout associate told ICIJ that Naido was "Bout's number two" in South Africa.

'A covert network'

By 1999, it appeared that the efforts of the South African authorities and the setbacks in Swaziland had caused Bout to cease operations in southern Africa. He had put his Sandhurst home on the market in 1998, and appeared to have given up on his lucrative cargo business in the region. However, investigative reports obtained by ICIJ reveal that he just changed his tactics. "Bout is now operating a covert network of sub-contractors consisting of smaller Russian operators," one document states, adding that "there were 36 flights of his [Bout's] aircraft through South Africa" in 2000 and another 16 up to March 2001. According to U.N. reports, intelligence documents and interviews with sources, these smaller Russian sub-contractors operated mainly out of South Africa. Indeed, Yuri Sidorov, Andrei Kossolapov and Victor N. Zieleniuk all run legitimate cargo businesses out of South Africa. They also ferry arms to Angola, the Congo, and Rwanda, according to intelligence and other investigative reports obtained by ICIJ. Sidorov, Kossolapov and Zieleniuk did not respond to requests for comment.

Some reports suggested that both Sidorov and Kossolapov competed with Bout before they started to work with him, but Chichakli denied this. "Buying an aircraft is one thing, running an air cargo business is something different," Chichakli said. He said Bout was the only one who had the skills and know-how to master the logistics of a far-flung international cargo operation. One intelligence document, which ICIJ could not independently verify, identified Yuri Sidorov, Bout's former chief pilot, as a member of "Russian Organisatziya" or Russian organized crime. A former Bout associate told ICIJ that Sidorov was "one of the pioneers in the cargo industry" in South Africa and "is involved with Volga Air," a company that operated 10 Antonov aircraft. The intelligence document alleged that Volga Air supplied the Rwandan-backed rebel army Rally for Congolese Democracy (RCD) in the Congo. It also claimed that one aircraft was also dedicated to supplying UNITA on almost a daily basis. Sidorov is one of the directors of Volga Air, according to South African incorporation records. He worked for a South Africa-based Russian company in the early 1990s called Romoco.

Kossolapov, another of Bout's subcontractors, has also been connected to Romoco. A former Bout associate described Kossolapov as a "maverick that always wanted to go at it alone." The source said Bout took the maverick under his wing; Kossolapov also did some of the logistic work for Bout after he sold his house and moved from South Africa. Bout's subcontractor has some notable business partners of his own. According to the United Nations, one of Kossolapov's business partners is Zieleniuk, who runs News Air and is the director of Mega Manufacturing Holdings, which was set up by Rosvooruzheniye, the Russian state weapons manufacturing company, to build a client base for arms deals. Zieleniuk owns an Antonov-12 aircraft stationed at Entebbe in Uganda and has military connections in the Congo and Zambia. One U.N. report said Bout is "strongly suspected to be connected to Russian organized crime," and the African intelligence document obtained by ICIJ alleged that Zieleniuk, Sidorov and Bout all belonged to the same Russian organized crime syndicate.

Bout's man in Liberia

Bout's connections to arms deals were often shrouded by middlemen. One such was Sanjivan Ruprah, a politically well-connected Kenyan businessman who aided Bout in his dealings with Liberia's president Charles Taylor. "The actions of Sanjivan Ruprah are equally odious as those of Victor Bout," Hain, the British Foreign Office minister, said. "He supplies diamonds and brings in arms with Victor Bout's assistance." According to the United Nations, Ruprah acted as a middleman between Bout and Taylor, assisting in supplying rebels in eastern Congo and the Revolutionary United Front (RUF) in Sierra Leone. An October 2002 U.N. report said Bout operated two companies in the Congo that gave logistical support to the various foreign armies and criminal networks involved in the exploitation of that country's mineral resources. Ruprah told ICIJ that he has known Bout since April 1998, and made use of his planes for legitimate purposes only. "I utilized his aircraft – as did several other companies, as well as various African governments and I believe the [United Nations] – several times for transporting my mining equipment." He also denied any connection to arms trafficking.

Associated with the Kenyan subsidiary of Branch Energy, a British company that owned diamond rights in Sierra Leone, Ruprah introduced Executive Outcomes, the South African mercenary company, to the government of Sierra Leone in 1995. EO provided security for mining company Branch Energy and helped the government successfully turn the war against the Revolutionary United Front from mid-1995 to early 1997.

Ruprah denied any connection to Executive Outcomes. He further stated that, "My business has been predominantly diamond mining since 1996 and I have been awarded completely official and legal concessions for the same." He dismissed allegations that he had traded in conflict diamonds as "rumors." Ruprah is closely connected to the Liberian government, and was authorized to act as a worldwide agent for the Liberian Civil Aviation Regulatory Authority in November 1999, giving him authority to issue aircraft registration certificates. Bout registered several aircraft in Liberia. Ruprah was also given a Liberian diplomatic passport in the name of Samir M. Nasr, making it easier for him to avoid the travel ban imposed by the United Nations. In his response to ICIJ, Ruprah said he "maintained a fairly good relationship" with Taylor and his government.

In an Oct. 2001 report, the United Nations noted that Ruprah "carries additional authorization from the Liberian International Ship and Corporate Registry." The same United Nations report says that the Liberian International Ship and Corporate Registry (LISCR) made two payments totaling $925,000 to San Air General Trading – the United Arab Emirates-based company that acted as the agent for Bout's Centrafrican Airways – through a bank in the United Arab Emirates for arms and transportation in 2000. LISCR, based in Vienna, Virginia, outside Washington, D.C., channels $18 million a year to the Liberian government and acknowledged to the United Nations that it had made payments to non-government accounts.

Ruprah, whose links to conflict diamonds, arms smuggling and mercenaries in West Africa were first exposed by the United Nations in 2000, moved to Belgium in mid 2001 and was immediately put under surveillance by Belgian intelligence. At the time, his relationship with Taylor, the Liberian president, had started to deteriorate, and his wife, the sister of Rally for Congolese Democracy-Goma (RCD) leader Adolphe Onusumba, was severely ill. (She later died.) After a three-year investigation by Belgian authorities into companies suspected of involvement in laundering the proceeds of Bout's arms sales, Ruprah was arrested in Uccle, an exclusive neighborhood in Brussels, on Feb. 5, 2002. He was charged with criminal conspiracy and possession of false passports. The arrest was untimely for the United States since Ruprah was in frequent contact with U.S. authorities, with whom he was trying to negotiate a deal to talk about past weapons deliveries to the Taliban and possibly al Qaeda.

Ruprah was later released and jumped bail in Belgium. He was arrested again in northern Italy on Aug. 2, 2002, and is being investigated for alleged criminal association and possession of a false passport. Ruprah's lawyer, Stefano Sangiovanni, told The Associated Press that his 36-year old client had helped Bout transport some mining equipment to Africa but denies any further involvement with Bout. Italian authorities ruled him a flight risk and moved him to a high-security prison near Milan, but said that Ruprah would likely be released since the charges were not serious enough to keep him incarcerated. In September 2002, Ruprah was released from jail but ordered to report daily to Italian police while the investigation continues.

Beyond Bout

While Bout's use of shell companies, middlemen and current or former employees to obscure his role in trading arms has been well established, one crucial question remains about his operations: what are the sources of the sophisticated weaponry that Bout sold? Or, as one retired businessman who specialized in black market gunrunning for the U.S. government told ICIJ, “You don’t just walk into Tirana or Romania and say give me tanks. It just doesn’t work that way.”

Several sources involved in the weapons trade, interviewed by ICIJ, noted Bout’s “deep connections” with Ernst Werner Glatt, reputedly one of Washington’s favorite gunrunners during the Cold War. Glatt also had ties to Washington’s Cold War opponent. He was “very well ensconced in downtown Moscow,” one source said. “He was so tight with the KGB in the early 1990s that they even tried to get him into the building next door to their headquarters.” Glatt did not respond to requests for comment. There are also allegations that Bout has ties to the director of Russia’s Ministry of Internal Affairs. Maj. Gen. Vladimir Marchenko, who was appointed in May 1998, is a career counterintelligence officer who served in Federal Security Bureau units in Krasnodar and Rostov, and as deputy head of the FSB’s anti-terrorism department. When he joined the Ministry of Internal Affairs, the Russian press wrote that Marchenko “is considered a specialist in organized crime among ethnic groups, and specialists believe that his arrival will seriously change the way things are done in the ISA.”

According to the African intelligence document obtained by ICIJ, Marchenko is also the head of a crime syndicate carrying his last name. Marchenko allegedly recalled Bout to Russia after the Angolan government canceled its business with Bout when it found out in 1998 that the alleged gunrunner had supplied both sides in the war. Marchenko and the Ministry of Internal Affairs did not respond to several requests for comment. Chichakli, who said Marchenko was “a business acquaintance” of Bout’s, nonetheless disputed that account. “Bout cannot be recalled by anyone, because he works for no one.