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Business

The Siemens scandal Bavarian baksheesh

Dec 18th 2008 | BERLIN
From *The Economist* print edition

The stench of bribery at Siemens signals a wider rot in Europe

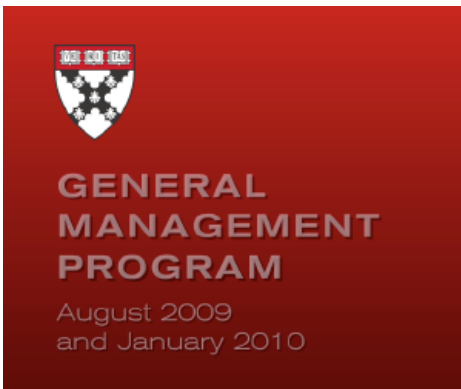
WHEN Siemens, Europe's biggest engineering firm, adopted the slogan "Be inspired" in the mid-1990s, bribery was not what it had in mind. But no one can accuse its managers of lacking inspiration in devising ways to pass generous backhanders to corrupt officials and politicians around the world. On December 15th Siemens pleaded guilty to charges of bribery and corruption and agreed to pay fines of \$800m in America and €395m (\$540m) in Germany, on top of an earlier €201m.

There is something almost touching about the candour and trust with which Siemens went about a very dirty business. Take the three "cash desks" it set up in its offices, to which employees could bring empty suitcases to be filled with cash. As much as €1m could be withdrawn at a time to win contracts for Siemens's telecoms-equipment division, according to America's Department of Justice (DoJ).

Surprisingly, considering their crooked purpose, the cash desks seem to have operated on an honour system. Few questions were asked, no documents were required and managers who asked for money were allowed to approve their own requests. Until 1999 Siemens openly claimed tax deductions for bribes, many of which were listed in its accounts as "useful expenditure". Between 2001 and 2004 some \$67m was merrily carted off in suitcases. "There was no complex financial structuring such as you would find among drug smugglers or money launderers," says Mark Pieth, chairman of the working group on bribery at the OECD. "People felt confident that they were doing nothing wrong."

Even when they knew they were doing wrong, they could not break the habit. Illicit payments continued for years after Germany outlawed the bribery of foreign officials in 1999 and after Siemens listed its shares on the New York Stock Exchange in 2001, which made it subject to America's tough anti-bribery laws. Instead of counting money in the office, the firm put cash in special accounts, kept off its books, from which nefarious payments could be made. Much of the dirty work was farmed out. As Siemens half-heartedly clamped down on corruption, managers took ever more eccentric steps to avoid getting caught. When authorising payments, many of them signed on removable sticky notes.

The sums are staggering. About \$805m was paid to foreign officials to help Siemens win contracts over about six years after the firm's American listing, according to the DoJ. And the brazenness of the firm's bribe-paying points to a rotten corporate culture pervasive across Germany at the time. "The great



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majority of companies operating in the international market were well aware that German law—and the law of most OECD countries—allowed foreign bribery and even subsidised this,” says Peter Eigen, the founder of Transparency International, an anti-corruption group.

That, at least, has changed. Mr Pieth thinks about half of the 30 biggest German and French firms are being investigated or prosecuted for bribing foreign officials. And Germany has steadily improved its rank in Transparency’s “Bribe Payers Index”, moving from ninth-least corrupt in 1999 to fifth in 2008. Yet the Siemens affair also shows how far Europe still lags behind America in prosecuting bribery. Few close to the case think it would have progressed nearly as far had Siemens not invited in Debevoise & Plimpton, a New York law firm, in the hope of winning leniency from American prosecutors. The lawyers pored over its books and interviewed staff in the largest private inquiry of its kind (and, at €204m, probably the costliest too).


Ellen Podgor, an expert in white-collar crime at Stetson University in St Petersburg, Florida, reckons that Siemens confessed all not to minimise the fine it had to pay but to avoid being barred from business with the American government. “The amount of money being paid is not the crucial factor,” she says. “The crucial factor is not being doomed.” If only European prosecutors could inspire such dread.

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