



**1st International Forum on Business Ethical Conduct
for the Aerospace and Defence Industry (IFBEC)**

13th January 2010, Berlin

Forum Report



Foreword

The first International Forum on Business Ethical Conduct for the Aerospace and Defence Industry (IFBEC) was successfully carried out on the 13th of January 2010 in Berlin, Germany. Co-sponsored by the AeroSpace and Defence Industries Association of Europe (ASD) and the Aerospace Industries Association of America, Inc (AIA), this Forum was at the same time the culmination of a visionary and challenging project led by Industry and the beginning of an ambitious story.

Organized in record time after the signing -by the President of ASD and the Chairman of AIA- of the Global Principles of Business Ethics on October 2nd, 2009 in Helsinki, the Forum brought together for the first time a large number of major global aerospace and defense companies with their main stakeholders (customers and civil society).

The initial motivation behind this groundbreaking sectorial initiative and the further encouragements given by the heads of the American and European business associations throughout the process lied in the following points:

- Encouraging extensive exchange between the industry, policy makers, customers and civil society,
- Fostering a “level-playing field” among all exporting companies, first for companies on both sides of the Atlantic and then more globally,
- Demonstrating the aerospace and defense industry’s true commitment to ethical business conduct.

Participants

Nearly 60 persons of 13 different countries (mostly European and American, but also coming from Australia, Israel and Japan) were present in Berlin. Representatives from global companies and national business associations as well as leaders from major institutions such as the OECD, NATO, the US Air Force, the European Defence Agency, or Transparency International actively participated in the Forum.

Program

This 1st IFBEC was divided in two sections:

- a morning reserved to member companies, that allowed them to recall the history of the efforts behind the Forum and to discuss openly the content of the Global Principles on a greater scale than that of the working group who had drafted them, and
- an afternoon open to customers and to civil society, to promote the industry’s initiative and to hear suggestions from its stakeholders on the way forward, and more generally to foster a dialogue between all participants.

Dialogue on what has been achieved

In his opening remarks, Åke Svensson, Saab CEO and past President of the ASD, recalled that *"the way the industry conducts business, and as crucial the way it is seen doing so, is of the utmost importance for its future"*. He further praised the IFBEC working group for the results that had been achieved in a very short time and encouraged the community to continue the work that had been started.

Philippa Foster Back, Director of the Institute of Business Ethics, after defining and illustrating how business ethics was *"the application of ethical values to business behavior"*, thanked Dominique Lamoureux, VP Ethics & Corporate Responsibility at Thales, for the energy deployed to make the first IFBEC happen, and gave the floor to the companies to illustrate the way they had reached the point where they would talk to each others on this topic and how they had succeeded in agreeing on common principles and on a shared Forum.

Both American and European companies stated that the whole process that brought them to Berlin had been a long unpaved road and that, as Alice Eldridge, VP Ethics & Business Conduct at Lockheed Martin Corporation, put it, *"the time had to be right"* for the transatlantic talk to succeed. Referring to J.-F. Kennedy, she added that *necessity* of a true global level-playing field had made US and European competitors best *allies* in setting up business ethics principles.

The D.I.I.

In the US, in the aftermath of a scandal between contractors and US government agencies in 1986, dozens of companies decided to join forces. The Defense Industry Initiative (D.I.I.) was created. Six general principles, listed by Laura Kennedy, Chair, D.I.I. Working Group on Business Ethics and Conduct, were agreed on. She also explained that the D.I.I. was a platform for open best practice sharing between the 85 member companies of all size. Ms. Kennedy also provided detail about the elements of an effective ethics program and explained that such elements had been implemented within D.I.I. member companies since its inception in 1986.

Steve Shaw, Deputy General Counsel of the US Air Force, recommended in 2005 *"formation of a consortium of international defense contractors dedicated to the issues of ethics and business conduct in international defense procurement"*. This resulted in the AIA agreeing to pursue this initiative and, ultimately, in the establishment of the International Coordinating Council of Aerospace Industry Associations (ICCAIA) endorsing a new ICCAIA Round Table on Aerospace Business ethics. By 2008, after continued dialogue with members of the European defense industry and the distribution of a new Federal Acquisition Regulation (FAR) clause on "Contractor Code of Business Ethics and Conduct", US aerospace and defense companies sought to have a set of principles that would go beyond anti-corruption.

The CIS

In Europe, after the ratification of the 1997 OECD Convention by all Member States and the evolution of each national regulation, companies adapted their process accordingly. As time went by, more and more responsibilities were entrusted to companies, either by regulators or by the civil society, with request for *"increased transparency and traceability"* and *"global and*

fully comprehensive compliance policies” (D.Lamoureux). He added that, to endorse these new responsibilities, companies had to get stronger through a common shared approach and that in the face of lasting extortion from the demand side in the international business arena, the only *“appropriate and proactive answer from companies was a sectorial initiative”*.

The “Clovis principles” of 2002 reunited 4 major European aerospace and defense companies under the supervision of Mark Pieth, Professor at the Basel Institute and Chairman of the OECD Working Group on Bribery in International Business Transactions. Four years later, the ASD created a specific Anti-Corruption Task Force that gathered representatives of its largest companies, which developed a common set of principles to tackle the issue of corruption through the use of agents. The Common Industry Standards (CIS), to date signed by more than 400 companies in Europe, were created. The time was about right to engage discussions with American companies to extend both the scope of the standards (to other areas of business ethics) and the origin of the companies that would comply with them.

Mark Serfözó, Chief Counsel, Compliance and Regulation at BAE Systems and Anne Gynnerstedt, GSVP and General Counsel at Saab, gave abundant details on the organization and the practice they had each put in place within their companies to comply with the CIS. These practical examples illustrated how the IFBEC commitments could be translated into day-to-day business practices.

The Global Principles

A joint ‘ASD-AIA Working Group’ was launched during Farnborough Air Show in July 2008. After a founding meeting in Washington, DC in December 2008, the IFBEC WG was to meet twice more (Paris and London) to negotiate the text of the first edition of the Global Principles that was presented to the ASD and AIA councils in September 2009 (less than a year after the first talks) and solemnly endorsed by the respective ASD and AIA Chairmen on October 2nd 2009 in Helsinki.

The challenging process of negotiation was described by Tim Schultz, Director Business Ethics & Compliance at Raytheon. He stressed the influence of interpersonal relationships and highlighted the result of the transatlantic discussions: *“greater trust and understanding”* between companies that were at least ignorant of each other and often fierce competitors. As Tim bluntly put it, the Global Principles *“have teeth”* and *“are more than aspirational”*. He then summarized the various Global Principles and explained in detail how U.S. companies approach meaningful implementation of these principles. He also explained how the principles largely are consistent with D.I.I. member company ethics programs, and where the principles diverge.

The four points of the first edition of the Global Principles:

- zero tolerance on corruption,
- management of consultants,
- management of conflicts of interest,
- respect for confidential information

strive to higher ground (i.e. on facilitation payments) and, despite the complex legal work that surrounded the whole negotiation process, the result meet original expectations.

For Mauro Gigante, SVP Legal and Corporate Affairs & General Counsel at Finmeccanica, the real innovation about the Principles is not as much their content as the commitment of companies to apply them and comply with them. *"The real message is that people who are doing this are right, and that if your colleague next door is not convinced that this is the best way to promote his career he is wrong"*.

Dialogue on what is to be achieved

Saying it is one thing, and implementing it is another. Pedro Montoya, Group Chief Compliance Officer at EADS, stressed that US and European companies had now to *"walk the talk and show their engagement"* in order to export the level-playing field outside of the transatlantic perimeter. He reminded all participants of the great responsibilities of the aerospace and defense industry due to the very specificity of its products, critical for safe transportation and world security: *"there is no place for non responsible companies, and the IFBEC is a unique opportunity to demonstrate our commitment to business ethics"*. The concrete nature of this commitment was also developed by Charles Chadwick, VP Contract and Business Conduct, BAE Systems Inc, who invited the Working Group to specify in the future the criteria for IFBEC membership, suggesting that it goes beyond the wording of the US Federal Sentencing Guidelines or the FAR Clause (see before) and associates *"compliance and culture"*. He added that *"these principles [were] a natural evolution of self-governance in the international arena"*.

Governmental and Inter-Governmental views

Steve Shaw (USAF) responded on the IFBEC commitment to walk the talk and to act both on compliance and culture and warned of *"companies that have so-called ethics programs which are in fact just compliance programs, or window dressing programs tailored for the government. Ethics programs are tools to convince employees that management really does want them to do the right thing. The USAF encourages suppliers to conduct themselves ethically and supports organizations such as the IFBEC"*. Steve further added that *"IFBEC challenge is to remain dynamic, engaging in dialogue throughout the year, and maintaining a broad scope of stakeholders, including business managers and government representatives"*.

Reaching beyond the regulatory framework was also the motto of the European Defence Agency (EDA). Reinhard Marak, Senior Officer for Defence Market at EDA, welcomed that the IFBEC has real potential to complement current governmental initiatives for more transparency and fair and equal opportunities, and that the EDA considers appropriate ways to promote the initiative to all its participating Member States, as the IFBEC commitments might develop into *"a benchmark for all competitors and an example for other markets"*.

He further added that *"this initiative might also contribute to the development of a more level transatlantic playing-field by encouraging and facilitating reciprocal market access"*.

Mark Pieth (OECD) confirmed that companies adhering to the IFBEC and its Global Principles were *"on the right track"*. The *"considerable exposure"* of the aerospace and defense companies and the number of cases currently being prosecuted in OECD countries in this sector demonstrate the need of a move forward by the industry. The earlier remark by companies to put more emphasis on governments to tackle the demand side of corruption was illustrated by

the OECD monitoring program. The launch in March 2010 of a Phase 3 country analysis on the implementation of the Anti-Bribery Convention is a way for the OECD to help the industry in its efforts to realize its commitment.

The bottom line of these actions was summarized in three words by Michael Gaul, Head Defence and Security Economics Directorate at NATO: striving to get a *"business-friendly environment"*. Reducing corruption risks are an integral part of NATO's programs, as the link between economic development and security is certain. Therefore, and as *"it always takes two to tango"*, Michael *"welcome[d] the IFBEC initiative"* and the strong commitment shown by the industry, that matched NATO's Building Integrity Initiative. He did not exclude that NATO would in the future consider creating a label on these issues and that the IFBEC was good food for thoughts in that respect.

Non-Governmental Organization views

Mark Pyman, Director International Defence Programme at Transparency International (TI), confirmed that *"civil society is mostly highly dubious about the defense industry"*, but that *"such collective action can usually achieve more than conflict and challenge"*. He then highlighted what steps should be next in order to transform yet another voluntary code into a successful initiative: *"credible verification"* of actions taken within companies; up-to-date Principles which would address the new issues across the sector, including other countries (as Russia); a Forum left open to the outside world, to use it *"as a means of attracting government customers and assuaging their anxieties"*. As examples, work with governments and civil society on the anti-corruption provisions of the future Arms Trade Treaty, or on a template on good integrity practice in offset implementation. Overall, TI *"welcome[d] the inauguration of IFBEC and [declared that it was] ready to assist and participate in the further development of the initiative"*.

Conclusion

The German Trade Association (BDI), through Heiko Willems, Managing Director Law and Insurance, concluded the first IFBEC by sharing the faith that this aerospace and defense initiative, until now and against all odds a success, will be a landmark approach for all sectors, and that its reach will go beyond companies' way of doing business ethically, to facilitate the way governments, industry and civil society can relate for the good of all.

In a joint press release, the two business associations expressed their broad satisfaction as the day represented a real step forward for the whole aerospace and defense industry.

"European aerospace and defense companies are committed to fostering ethical business conduct in their corporate business practices", said François Gayet, Secretary General of the ASD.

"Today's meeting was the perfect setting for a constructive dialogue between our industry and major stakeholders".

"The members of AIA are absolutely committed to the highest ethical business standards in the aerospace and defense industry" said Marion C. Blakey, President and CEO of the AIA. *"The Forum is fostering a productive dialogue among all stakeholders, as well as an ethics commitment that will span the globe in a few short years"*.