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TRANSCRIPT

BLACK MONEY

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ANNOUNCER: Bribery- it's a trillion dollars a year.**MARK PIETH, Chairman, OECD Anti-Bribery Group:** It's huge amounts of money, with corporations on the one side and heads of state on the other side.**MARK MENDELSON, Chief FCPA Prosecutor, DOJ:** It's concealed. It's camouflaged. And there's a whole world of conduct that rarely sees the light of day.**ANNOUNCER:** Now there is an international crackdown and a pivotal case-**EVA JOLY, Fmr. French magistrate:** People in power do not like the investigation to come too close to them.**ANNOUNCER:** -involving prime ministers and princes-**Prince BANDAR BIN SULTAN, Fmr. Saudi Ambassador to the U.S.:** I would be offended if I thought we had a monopoly on corruption.**ANNOUNCER:** -with allegations of blackmail-

LOWELL BERGMAN, Correspondent: Blackmail?

ROBERT WARDLE, Fmr. Director, Serious Fraud Office: Sure.

ANNOUNCER: -involving billions in slush funds .

MARK PIETH: It goes to a few people, genuinely powerful people. You're talking about the center of legitimate power.

DAVID LEIGH, The Guardian: Look, this is black money. Mainly what happens with black money is people steal it because they can.

ANNOUNCER: Tonight on FRONTLINE, correspondent Lowell Bergman investigates Black Money.

Lord TIMOTHY BELL, Adviser to Margaret Thatcher: You're busy poking around. It's got nothing to do with you. You should mind your own business.

NARRATOR: May 13th, 2008, Houston, Texas, British Airways flight 195 arrived at the George Bush Intercontinental Airport. The chief executive officer of BAE Systems made his way toward Immigration. British-based BAE, also known as British Aerospace, is the world's third largest arms manufacturer, and its biggest customer is the Pentagon. But the CEO's visit quickly turned sour. He was being targeted on orders from the Justice Department. Armed federal officers detained the executive and took him to an interrogation room.

RICHARD GRIME, Former SEC Enforcement Lawyer: If you're under investigation, the U.S. authorities are probably going to take whatever steps they feel are lawful to try and get information.

NARRATOR: Officials copied his documents, downloaded his phone, and then gave him a subpoena to appear before a federal grand jury.

RICHARD GRIME: This was an aggressive tactic taken by Department of Justice to send a message that this investigation was being taken seriously by the United States.

NARRATOR: This investigation of BAE Systems is part of a new crackdown on corruption led by the Justice Department. The BAE case has become a critical test of that effort and the international fight against bribery.

This is a story that began over 20 years ago with what became an \$80 billion international arms deal, a fighter jet deal involving BAE, the United Kingdom and Saudi Arabia.

DAVID LEIGH, The Guardian: If there was one person who was the main man behind this arms deal, it turned out it was the U.S. ambassador Prince Bandar bin Sultan.

LOWELL BERGMAN, Correspondent: This is the same Prince Bandar who at times calls himself Bandar Bush?

DAVID LEIGH: This is the one that everybody now calls Bandar Bush because he's so close to President Bush and the Bush family. I mean, you couldn't be better connected than this man.

NARRATOR: A shrewd deal maker, friend to princes and presidents, Prince Bandar is connected on both sides of the aisle.

LOWELL BERGMAN: You know Prince Bandar?

JIMMY CARTER, Former President of the United States: Of course. Very well.

LOWELL BERGMAN: How would you describe him?

JIMMY CARTER: He's a master diplomat. As a friend of mine, he's been quail hunting with me, which is about as close together - in the South - as you can get to another person, to invite him to come quail hunting. So Bandar's a good friend of mine.

Lord TIMOTHY BELL, Adviser to Margaret Thatcher: He's a larger-than-life character. He had fantastically good political relationships, in that he was close to the American government and other European governments, and particularly the U.K. government. He managed good and close relationships that were positive and beneficial to both sides.

NARRATOR: In 1985, Prince Bandar was tasked with getting new fighter jets for the Saudi Arabian air force. At first, he approached the United States and a supportive President Ronald Reagan.

DAVID LEIGH: But the Saudis couldn't easily buy direct from the U.S. because there would be problems with Congress because of the Israel lobby. It was easier politically to buy this equipment from the British, and it was pretty much a secret at the time that then British prime minister Mrs. Thatcher and then U.S. president Ronald Reagan had been involved with Bandar in organizing this arms deal.

Prince BANDAR BIN SULTAN: [March 1990] She immediately informed us that she considers Saudi Arabia as a strong friend and would be willing to support the kingdom with whatever the kingdom needs. End of discussion. From there on, everything else was technical.

Lord TIMOTHY BELL: I can remember when Mrs. Thatcher told me that she had signed this fantastic contract that would secure thousands of jobs and create great wealth for Britain. It was an agreement between the British government and the Saudi government. And the subcontractor, the person to deliver the aircraft and the equipment, was British Aerospace.

NARRATOR: The deal was called al Yamamah, "the dove" in Arabic. It was seen as a political triumph for Margaret Thatcher and the U.K. Bandar watched as his father, the powerful Saudi minister of defense, signed the deal.

The secrecy that surrounded the al Yamamah contract fueled long-time suspicions of corruption within the Saudi royal family. The way the Saudis paid for all those arms was in oil, which was then sold, producing an enormous amount of cash that was exempt from any public accounting.

[www.pbs.org: *More on the al Yamamah deal*]

LOWELL BERGMAN: The suspicion is that if you have a deal like that, with that much money floating around in cash-

Lord TIMOTHY BELL: Of course there's suspicion and of course people are entitled to be suspicious, but there is a difference between suspicion and fact. As far as I'm concerned, if the British government and the Saudi government reached a sovereign agreement over an arms contract that resulted in a tremendous number of jobs in Britain, a great deal of wealth creation in Britain, and enabled Saudi Arabians to defend themselves, I think that's a jolly good contract.

DAVID LEIGH: There'd always been rumors about the Saudi arms deal, but nobody could ever stand it up.

NEWSCASTER: The headlines today-

NEWSCASTER: Allegations of bribery have marred Britain's biggest-

NEWSCASTER: There were claims that huge commissions had been paid to members-

NEWSCASTER: -saved 28,000 jobs in the aerospace industry-

NARRATOR: While rumors swirled, this man had an inside view. Peter Gardiner was a high-end travel agent working in London when the deal was signed. One of his clients was Prince Bandar's cousin, the Saudi Prince Turki bin Nasser. He was the deputy commander of the Royal Saudi Air Force, in charge of administering the al Yamamah contract.

PETER GARDINER, BAE Whistleblower: I could see the lifestyle of people improving vastly during this period.

LOWELL BERGMAN: You mean Prince Turki Nasser?

PETER GARDINER: Yes. His lifestyle changed greatly.

LOWELL BERGMAN: All of a sudden, he had more jets or more mansions or-

PETER GARDINER: There was the long-term building taking place in Beverly Hills and there were some very nice aircraft that were appearing. And there was a yacht. Money didn't seem to be tight anymore.

NARRATOR: Another thing changed, as well. Gardiner was told that from then on, all the bills for his services should be directed to BAE.

PETER GARDINER: I was required to be on call 24 hours a day year-round.

LOWELL BERGMAN: So if one of the Saudis turned to you and said, "We want this or we want that," you had to call BAE for authorization?

PETER GARDINER: The authority had to come from BAE in each individual instance, whether it was a few pounds or half a million pounds.

LOWELL BERGMAN: When someone asked you what you did, how would you describe yourself?

PETER GARDINER: Well, a super-duper valet, I suppose. The services that we provided had an enormous range- hotel accommodations, flights, anything.

LOWELL BERGMAN: At one point, you had to charter a jet to bring back a Rolls Royce or two?

PETER GARDINER: Well, there was more than one occasion when we shipped cars back to Saudi Arabia. The prince is a very keen collector of cars, including vintage cars. So that was not unusual.

NARRATOR: Gardiner and others would also take care of the prince's female friends, as well as his family.

PETER GARDINER: As far as the ladies were concerned, they liked to shop. And sometimes, there could well be quite a bit of shopping. We did, in fact, on one occasion charter a 747 from Los Angeles to take all the purchases back to Saudi Arabia.

LOWELL BERGMAN: Just shopping?

PETER GARDINER: Yes.

LOWELL BERGMAN: A cargo jet full of just shopping-

PETER GARDINER: It's the lifestyle that many people would like to have if they could afford it. It's a little bit beyond that of a film star because you've got the diplomatic passport with it. It is very much a different world. It's very much a private world, as well, usually.

NARRATOR: It wasn't just Prince Turki bin Nasser's family that was benefiting. When his son married the daughter of Prince Bandar bin Sultan,

it was Gardiner's travel agency that made the arrangements for their lavish two-month round-the-world honeymoon.

PETER GARDINER: I went on in advance to set things up. They knew exactly where they wanted to go. They wanted to start in Singapore, and then from Singapore, they went to Bali. And then afterwards, they went to Hawaii.

LOWELL BERGMAN: Who paid for Prince Bandar's daughter's honeymoon?

PETER GARDINER: It was paid by BAE.

LOWELL BERGMAN: Did you ever ask, "Why is it set up this way? Why is BAE paying me and not the Saudi royal family?"

PETER GARDINER: Well, I did raise the question with BAE. And BAE always made it very clear to us that this was a highly confidential government-to-government contract.

LOWELL BERGMAN: A country-to-country contract to provide travel services, honeymoons, Rolls Royces and so forth?

PETER GARDINER: Yes. It's unusual. I had never seen anything like it before and I haven't seen anything like it since. It was- it was unique.

NARRATOR: For decades, the United States was the only country in the world where it was illegal, where you could go to jail for bribing an official in another country to get business. That law emerged out of another era with revelations of political corruption in the Watergate scandal.

Pres. RICHARD M. NIXON: I've made my mistakes, but I am not a crook.

NARRATOR: During the Watergate hearings, it was revealed that major corporations made payments in cash to President Nixon's reelection campaign.

SAM DASH, Chief Counsel, Watergate Committee: Did you make a contribution to the president's reelection effort?

CLAUDE WILD, V.P. Gov't Affairs, Gulf Oil: Well, I did. I called the controller of one of our companies in the Bahamas and told him I needed \$50,000, and he brought it to me.

SAM DASH: In what form was the \$50,000?

CLAUDE WILD: It was in cash.

STANLEY SPORKIN, Fmr. Dir., SEC Enforcement: What sparked my interest was the fact that these were cash payments to the Committee to Reelect the President which came directly out of the corporate treasuries. And I knew

that was illegal.

ORIN ATKINS, President, Ashland Oil: He was soliciting a contribution for President Nixon's campaign-

NARRATOR: Stanley Sporkin was in charge of enforcement at the Securities and Exchange Commission, the SEC, which regulates publicly traded companies.

LOWELL BERGMAN: When you heard them talking about cash, what did you think?

STANLEY SPORKIN: How does Gulf Oil record a transaction of a \$50,000 cash payment? I wanted to know, what account did they charge? Do they have an account called "Bribery"? And so I decided to ask one of my investigators to go out and find out how they did it.

PETER CLARK, Fmr. Special Counsel, SEC: Stanley came in one morning and he was agitated, and he really wanted to know and was asking all of us, "How could this happen? What are we going to do about this?"

STANLEY SPORKIN: When we looked into these funds, we found out they were not only being used domestically in the United States for illegal campaign contributions, but we found that the same monies were being used to bribe officials overseas in connection with the companies' business.

NARRATOR: Sporkin's investigation found that 500 American companies had spent hundreds of millions of dollars bribing everyone from prime ministers to police overseas. Which, it turned out, was not illegal.

LOWELL BERGMAN: Bribery was something you deducted from your tax returns.

RICHARD GRIME, Former SEC Enforcement Lawyer: Right. Companies deducted those payments, just like any other regular expense. Bribing a foreign government official wasn't prohibited. It was something that people could do and they got away with and they got business as a result, and so they carried on.

PETER CLARK: We came up with a voluntary disclosure program, and some 500 or more companies eventually came in and made disclosures.

LOWELL BERGMAN: Hundreds of companies came in and confessed?

PETER CLARK: Yes.

JIMMY CARTER: I found out when I got in office that the Securities and Exchange Commission had gotten testimony from more than a hundred corporate executives that they were involved in what I considered to be

criminal activity- that is, bribery. So I was very eager to see this practice stopped and ran into a hornets' nest because a lot of the corporations claimed that they couldn't sell, in competition with the French and British and others overseas, if they didn't bribe officials who were in charge of making the purchases.

NARRATOR: Despite strong opposition from corporate America, in late 1977, Congress passed the Foreign Corrupt Practices Act, the FCPA, making it illegal for any company that uses the United States financial system to bribe to get business.

RICHARD GRIME: Around the world, I think, everybody looked at the United States and thought, "Well, that's great, but not for us." So you had the statute passed, and Americans went abroad and they had difficulty doing business because they knew that they could go to jail if they made payments to those foreign government officials.

NARRATOR: Even though the Justice Department aggressively pursued and convicted major U.S. companies, like General Electric, Lockheed and Goodyear, other U.S. companies continued to bribe.

PETER CLARK: The culture had not changed. There was undoubtedly a tendency of companies that had been engaged in bribery prior to the FCPA to continue to pay bribes, but to become more careful in how it was done.

1st ACTOR, Syriaana: Hell, Tommy, we've all got the Foreign Corrupt Practices Act committed to memory. I've got a little copy of it taped to the wall of-

NARRATOR: The movie Syriaana describes U.S. companies bribing, despite the law.

2nd ACTOR, Syriaana: Corruption? We have laws against it precisely so we can get away with it. Corruption is why we win.

NARRATOR: Syriaana may be a movie, but it is based on the life experiences of former CIA officer Robert Baer.

LOWELL BERGMAN: You were a briber.

ROBERT BAER, Former CIA Officer: I bribed all sorts of people. That's what I got paid to do. That's what I got trained to do. Twenty-one years in the CIA, I spent millions of dollars in cash bribing government officials, bribing Gulf princes, buying hookers for Gulf princes.

LOWELL BERGMAN: Were you ever competing with a multi-national corporation?

ROBERT BAER: That's who we competed with because they could pay real money. I mean, let's face it, the CIA were pikers when it came to this. It was

the big corporations who could out-buy us any day of the year.

NARRATOR: And the big corporations were also complaining to Congress. Because of the law against bribery, they said, they were at a competitive disadvantage doing business abroad. So the U.S. government took the case against bribery to Paris, to the OECD, the Organization for Economic Cooperation and Development.

Swiss prosecutor Mark Pieth was an early ally.

MARK PIETH, Chairman, OECD Anti-Bribery Group: I've been giving talks to heads of corporations in France, and they ask me, "What do you think you're doing?" Imagine a breakfast room with the CEOs of the top listed French companies sitting there in a hotel, looking at me. I didn't eat breakfast, they had breakfast. And they're saying, "You must be a madman, and you are messing up our- the way we do business. You have to know. And you're doing- you're basically the slave of the Americans."

LOWELL BERGMAN: Slave of the Americans?

MARK PIETH: Slave of the Americans.

LOWELL BERGMAN: You, a Swiss prosecutor?

MARK PIETH: Yes.

EVA JOLY, Fmr. French Magistrate: In the beginning of the '90s, we started really fighting against corruption also by the legal means.

NARRATOR: Eva Joly, then the French magistrate who was leading the largest corruption investigation in the history of France, was also arguing for an international treaty.

EVA JOLY: This was quite a revolution because people in power do not like the investigation to come too close to them.

NARRATOR: It took nearly 10 years of lobbying before the OECD members finally agreed to a treaty known as the Anti-Bribery Convention.

LOWELL BERGMAN: What changed their minds?

MARK MENDELSON, Chief FCPA Prosecutor, DOJ: I think it's hard to defend corrupt business practices. I think that those countries who ultimately joined the convention realized that this was the only path forward. I think it was untenable for some of these countries to say, "No, thank you. We'd rather permit our companies to bribe."

LOWELL BERGMAN: It's hard to be publicly in favor of bribery.

MARK MENDELSON: Indeed.

NARRATOR: Mark Pieth was appointed to lead the group. He knew that even though they had now criminalized international bribery, the practice was not going away.

MARK PIETH: Companies found themselves in a very awkward situation. Suddenly, the element of risk rose. And there's a double risk. On the one hand, you might be caught. On the other hand, you might lose out because your competitors are not playing the game.

LOWELL BERGMAN: Your competitors are continuing to bribe.

MARK PIETH: Right.

NARRATOR: That's what this man told us he kept doing for one of Germany's largest companies, the Siemens Corporation, after the anti-bribery treaty was signed.

REINHARD SIEKACZEK, Fmr. Siemens Manager: *[through translator]* Paying bribes was customary in nearly all business units of Siemens.

NARRATOR: Reinhard Siekaczek was in charge of part of Siemens's massive billion-dollar international bribery operations.

REINHARD SIEKACZEK: *[through translator]* I was a true Siemens man, for sure. I was known as the keeper of the slush fund. We all knew what we were doing was illegal.

NARRATOR: To avoid getting caught, Siemens used secret bank accounts in places like Switzerland and front companies, plus the age-old method, cash.

REINHARD SIEKACZEK: *[through translator]* For a million euros, you don't need a big suitcase because the bills aren't very big. A briefcase is enough-200,000 euros isn't so much that you couldn't carry it in your coat pocket.

NARRATOR: And what Siemens was doing was apparently not unique.

DAVID LEIGH, The Guardian: Companies like BAE, it seemed, didn't say, "Oh, we better stop doing it." They said, "We better find a safer way of doing it so we don't get into trouble."

NARRATOR: British investigative journalist David Leigh reported that at BAE headquarters outside of London, the company had packed up documents, documents about the way they conducted international arms deals. Then they trucked them out of London and out of England.

LOWELL BERGMAN: And BAE reacts by moving these operations to Switzerland.

DAVID LEIGH: That's how they react. They move everything to Switzerland, yes.

NEWSCASTER: -tougher laws come into effect today banning U.K. nationals from bribing foreign officials-

NARRATOR: After Britain signed that anti-bribery treaty, they enacted a new law.

NEWSCASTER: -economic cooperation and development-

NARRATOR: The change in the law drove Peter Gardiner out of the shadows.

PETER GARDINER: Our lawyers told us, "You cannot continue providing the services that you've been providing. You cannot do it. It would be illegal. You have to stop."

LOWELL BERGMAN: And did BAE say, "We also can't do business this way anymore, we'll have to figure out something else"?

PETER GARDINER: They were well aware that things had to change.

LOWELL BERGMAN: They knew they had a problem.

PETER GARDINER: Yes. This was mentioned on several occasions as a very substantial problem.

NARRATOR: Part of their problem was that reporter, David Leigh of The Guardian, who had been investigating BAE.

DAVID LEIGH: Well, you know, people call you up. The phone rings. They say, "I know something about this story you're writing about." You try and evaluate the person, don't you. You'd see whether they're genuine, try and understand what their motives are.

NARRATOR: Peter Gardiner became a confidential source for Leigh.

LOWELL BERGMAN: Why did you decide to come forward?

PETER GARDINER: Well, at some stage, the authorities - the Serious Fraud Office or the police or whatever - was going to come knocking on my door, and that meant I would lose total control over the circumstances and how to handle it.

DAVID LEIGH: When it started, he was a scared person. He didn't want his name to come out. But he did have these documents.

PETER GARDINER: This is just an example, fairly typical.

NARRATOR: Peter Gardiner had thousands of documents that backed up his story.

DAVID LEIGH: The documents surprised me for two reasons. One, what they showed was astonishing amounts of money being thrown around in what appeared to be ludicrously extravagant ways. The other thing was that it's very rare to get documents about this kind of thing.

NARRATOR: Gardiner showed Leigh the receipts for millions of dollars in expenditures, and then these very simple invoices that the company had him submit each month.

DAVID LEIGH: By the time the invoices went to BAE, they didn't tell the truth. They didn't say, you know, "Purchased a Rolls Royce for Saudis," or "Payment of flat for girlfriend for official in the Saudi air force." They were just one sheet of paper, "Providing support and accommodation services, November, \$100,000."

NARRATOR: The mountain of invoices would show that BAE paid a total of 60 million pounds, around \$100 million dollars, to cover the expense account of Prince Turki bin Nasser.

DAVID LEIGH: It was clear that BAE had a pretty big slush fund out of which they were paying off the books, using this travel company as a cutout. It was obviously corrupt and corrupting.

NARRATOR: And so David Leigh began to write front-page stories.

DAVID LEIGH: "Lifestyles of the rich and famous" was basically the theme. BAE made very little response, and we were surprised because normally, these global companies, they're pretty litigious. They're pretty aggressive. They would say, "We deny all wrongdoing."

NARRATOR: Which is exactly what BAE's then chairman, Sir Richard Evans, said when he was asked about these charges while testifying to the British parliament.

Sir RICHARD EVANS, BAE CEO: [May 5, 2004] I think that, you know, business practices have been changing over sort of- over a period of time. I mean, I can certainly assure you, I mean, that we, and I believe most companies, are not in the business of making payments- passing, as you suggest, large sums of money to employees of governments. I mean, it is just not the way, I mean, business is done.

DAVID LEIGH: And they'd refuse to say anything else. The reason why BAE never said anything to us- we thought we were clever. We had exposed this slush fund. They were obviously sitting there, thinking, "Well, thank goodness they don't know the real story" because all we had was a tiny little corner of what, in the end, proved to be an enormous worldwide network of secret

cash payments amounting to literally billions of dollars that had gone on for years with the connivance of the British government.

NARRATOR: In the United Kingdom, the agency that investigates white-collar crime like bribery is called the Serious Fraud Office, the SFO, and that's where David Leigh and Peter Gardiner went next. The director of the SFO was Robert Wardle.

LOWELL BERGMAN: It's sort of unusual that a journalist comes in to talk to a prosecutor about what evidence-

ROBERT WARDLE, Fmr. Director, Serious Fraud Office: Well, he had his story at that stage and he'd printed it. And having discussed it with him and seen what evidence he had, I took the view that there was sufficient to justify a suspicion that an offense may have taken place. And we began the process of requiring the company to provide us with information and documents.

HELEN GARLICK, Fmr. Prosecutor, Serious Fraud Office: And the investigation began to grow and grow, and it was proceeding reasonably smoothly, although it was a very difficult one.

NARRATOR: Prosecutor Helen Garlick supervised what would become the first investigation in the United Kingdom of overseas bribery.

HELEN GARLICK: The allegation was improper expenses that appeared to have been paid by British Aerospace through the medium of this small company run by Peter Gardner.

NARRATOR: As the prosecutors dug through thousands of BAE documents and bank records, they confirmed Peter Gardiner's story. And that wasn't all.

LOWELL BERGMAN: How would you describe the original allegations, the Gardiner services, to what you found in the end?

HELEN GARLICK: They were a drop in the ocean. I think that would be a fair way of describing them.

LOWELL BERGMAN: Over 60 million pounds, over \$100 million was. a drop in the ocean?

HELEN GARLICK: Yes, relative to the- you know, the amounts of money that we were dealing with here.

LOWELL BERGMAN: So we're talking about billions.

HELEN GARLICK: Yes.

NARRATOR: In the mass of documents and accounts, Helen Garlick's team made another startling discovery. Some of the money from the al Yamamah

account, around \$2 billion, had been sent to Washington, D.C., into the Saudi Ministry of Defense bank accounts controlled by the man who is credited with making the al Yamamah deal, Prince Bandar bin Sultan.

LOWELL BERGMAN: As much as \$2 billion went to accounts under the control of Prince Bandar bin Sultan in Washington.

HELEN GARLICK: Uh-huh. Uh-huh.

LOWELL BERGMAN: It's hard for me to believe that you didn't have a reaction when you found out how much money was going west.

HELEN GARLICK: The value of the al Yamamah contract itself was astronomical. It all becomes slightly relative when you're talking about such vast sums of money.

NARRATOR: As part of that \$2 billion, funds were sent to support the crew and the fuel for a widebody Airbus 340.

DAVID LEIGH: BAE admit that they made a gift of a brand-new Airbus to Prince Bandar, which he had painted in the blue and silver colors of the Dallas Cowboys, his favorite team, and has used ever since to fly around the world.

[www.pbs.org: Leigh's extended interview]

NARRATOR: And the British investigators also uncovered a complicated web of intermediaries and front companies.

DAVID LEIGH: They also discovered there was a special, separate offshore arrangement registered in the British Virgin Islands which was paying billions of dollars to Swiss bank accounts.

NARRATOR: British investigators suspected that those Swiss accounts may have benefited the man who signed the deal, Prince Bandar's father, Crown Prince Sultan, and his business associates.

HELEN GARLICK: We believed that we could show, if we got access to the Swiss accounts, whether or not a crime had continued to be committed, right up until the present day.

LOWELL BERGMAN: You had evidence already that there were crimes that had been committed.

HELEN GARLICK: Yes.

FREDRIK LAURIN, Swedish Public Television: And as I said, this story started on a hunch, really-

NARRATOR: The British prosecutors were not the only ones investigating BAE. At a journalism conference, investigative reporters from Sweden, South Africa, the United Kingdom and Romania gathered to talk about their reporting on BAE's international arms deals beyond the al Yamamah contract.

DAVID LEIGH: They were operating an entire network of secret payments to middlemen and politicians and ruling regimes all around the world to cement arms deals.

NARRATOR: These journalists discovered evidence of what appeared to be bribery by BAE in places like the Czech Republic.

FREDRIK LAURIN: They go to a country like the Czech Republic, they find out what politicians need to be paid and how much, and they don't just offer it to the government in place right now, they offer it across the whole political spectrum.

NARRATOR: And they found evidence of payments in Romania, in Tanzania and in South Africa, where BAE sold \$2 billion of weaponry to the fledgling ANC government.

FREDRIK LAURIN: In the case of South Africa, you have a country that comes out of something like apartheid, and the West hits them with an arms deal, with arms that they don't need, that they bribe this newly democratic government to buy.

LOWELL BERGMAN: Has any recipient of an alleged bribe gone to jail?

DAVID LEIGH: Not a single one.

LOWELL BERGMAN: And in Romania?

ROMANIAN JOURNALIST: Nothing happened.

LOWELL BERGMAN: In South Africa, has anyone been punished or jailed due to this BAE case?

SOUTH AFRICAN JOURNALIST: Not the BAE deal.

LOWELL BERGMAN: In Sweden, has anything happened?

FREDRIC LAURIN: No.

NARRATOR: Here in London, BAE was secretly pressuring the British government, sending letters complaining about the al Yamamah investigation.

HELEN GARLICK: From quite an early stage, the company made

representations that what we were doing was highly injurious to British economic interests, to British jobs, to the future of the contract itself.

NARRATOR: The pressure escalated to a new level after Helen Garlick's team requested information from the Swiss about those banks accounts.

ROBERT WARDLE, Fmr. Director, Serious Fraud Office: We were told that the Saudis were making very serious objections, particularly to our following up the money in Switzerland.

NARRATOR: What the prosecutors did not yet know was that there had been a visit here to 10 Downing Street, to Prime Minister Tony Blair's office, by Prince Bandar. With London still on edge after terrorist attacks a year earlier, Prince Bandar delivered a disturbing message.

Tony Blair's chief of staff told FRONTLINE that Prince Bandar brought a letter from his father, Crown Prince Sultan, threatening to cut off cooperation on terrorism if the investigations of al Yamamah continued.

ROBERT WARDLE: Well, I received a call saying there were concerns. It was plain that it was serious. Saudi Arabia regarded this as a breach of their privacy, a breach of the privacy of the royal family, if you like.

NARRATOR: At first, Robert Wardle and his staff resisted. And then the Blair government lined up everyone from the British ambassador to Saudi Arabia to Wardle's boss, Britain's attorney general, to get him to drop the investigation.

ROBERT WARDLE: The expression was, "You know, there's going to be people dead on the streets." And don't forget-

LOWELL BERGMAN: There's going to be blood on your hands if you-

ROBERT WARDLE: Well, yeah. Absolutely. If we go forward with an investigation into these accounts in Switzerland, we'll find we're not going to be able to do what we can do to stop terrorism.

NARRATOR: Prime Minister Blair himself sent this personal memo. Quote, "These developments have given rise to a real and immediate risk of a collapse in U.K./Saudi security, intelligence and diplomatic cooperation."

ROBERT WARDLE: I was left with a fairly stark choice. Should I continue with this investigation, or should I stop it?

LOWELL BERGMAN: But when you heard that it was Prince Bandar, it seems to me that would have set off a whole bunch of thoughts in your mind as to what's going on here.

ROBERT WARDLE: *[laughs]* Well, of course. It was unusual, to say the least.

LOWELL BERGMAN: Is this British understatement or is this-

ROBERT WARDLE: Yes, it's very much British understatement.

LOWELL BERGMAN: In a situation where one of the people who signs on the bank accounts involved in the money is the deliverer of the threats- so why go along with it?

ROBERT WARDLE: Because it's blackmail. It's not nice, but that's where we are.

LOWELL BERGMAN: Blackmail?

ROBERT WARDLE: Sure. I accept that. Threats were made, and I had to decide whether to give in to them or whether continue with the investigation. At the end of the day, much against the grain, much against what I would have liked to have done, I took the view that the risk was too great to continue the investigation and risk the damage being done.

NARRATOR: Soon after, Prime Minister Blair was at a G-8 summit when he was asked about the controversy.

REPORTER: Were you aware that your government was approving payments to a friend of President Bush's as part of British Aerospace's kickback system? And is that why you suspended a fraud inquiry?

Pres. GEORGE W. BUSH: *[laughs]* I'm glad you're answering that question!

Prime Minister TONY BLAIR: On the point you asked me, let me make one thing very clear to you-

I don't believe the investigation, incidentally, would have led anywhere except to the complete wreckage of a vital strategic relationship for our country in terms of fighting terrorism, in terms of the Middle East, in terms of British interests there, quite apart from the fact that we would have lost thousands, thousands of British jobs.

MARK PIETH, Chairman, OECD Anti-Bribery Group: Under our rules, it's absolutely outlawed to stop a case for economic reasons. That's fundamental. You cannot say jobs are at risk. That is a centerpiece of our convention. Otherwise, our convention doesn't work.

EVA JOLY, Fmr. French Magistrate: We were all really terrified by this decision. The oldest democracy in the world said that they will not respect the conventions they have signed and ratified. So the OECD convention alone don't change anything.

LOWELL BERGMAN: The treaty itself-

EVA JOLY: The treaty itself is worth the paper it's written on, and sometimes not even that.

NARRATOR: Despite repeated requests, neither former prime minister Tony Blair nor Prince Bandar or his cousin, Prince Turki bin Nasser, would speak with FRONTLINE. And no member of the British government agreed to be interviewed on camera.

Lord Timothy Bell, however, did agree. From the beginning, he's been closely involved in the al Yamamah deal, advising Margaret Thatcher, and at times BAE and the Saudis.

LOWELL BERGMAN: What's your opinion of that investigation by the Serious Fraud Office?

Lord TIMOTHY BELL, Public Relations Adviser: I think it was foolhardy to start it. Everybody got terribly excited and wanted to investigate something that had happened 20 years earlier and prove that it was wrong now. I think it's all tosh. I don't think any of it's got any real substance to it. I think certain groups of people set out to smear the al Yamamah contract, and I think various people wanted to accuse Margaret Thatcher of corruption.

LOWELL BERGMAN: So it's bias.

Lord TIMOTHY BELL: "Prejudice" is the word I would use, not bias. I think bias is a very kind word. I think prejudice is a harsh word, and that's the word I think belongs.

LOWELL BERGMAN: When people are saying to us, like Mr. Wardle and others, that this was blackmail-

Lord TIMOTHY BELL: I just don't believe that version of events. I think the use of the word "blackmail" is provocative, emotional, and absolutely wrong.

LOWELL BERGMAN: The al Yamamah contract, when we read about it, appears to be highly unusual because it's so secret.

Lord TIMOTHY BELL: So? That's the terms and conditions of the contract. I mean, this is the fundamental point about this. There is an agreement. People who make all these comments have never seen the contract.

LOWELL BERGMAN: Have you seen this secret agreement, the al-Yamamah contract?

HELEN GARLICK, Fmr. Prosecutor, Serious Fraud Office: We saw enough of the underlying contractual documentation to satisfy us that we were on the right track. The confidential nature of the agreement didn't amount to an insuperable case-stopping obstacle.

LOWELL BERGMAN: Didn't give them a blank check to do whatever they wanted with this money?

HELEN GARLICK: Not as far as we were concerned.

LOWELL BERGMAN: With all due respect, they are the authorities. They were conducting an investigation.

Lord TIMOTHY BELL: Yes, that's true.

LOWELL BERGMAN: You do have the rule of law in Britain.

Lord TIMOTHY BELL: We certainly do have the rule of law. And in our rule of law, you require prima facie evidence in order to charge anybody. And nobody has ever been charged, and I don't know that they should take any pride in the quality of their investigation. And in the end, it was stopped.

NARRATOR: After that decision, Robert Wardle was let go as director of the Serious Fraud Office, and then Helen Garlick resigned.

With the investigation of the al Yamamah deal out of the way, late in 2007, the King of Saudi Arabia made an official visit to the Queen of England. There were assurances of cooperation between the countries.

QUEEN ELIZABETH: We also continue to work together against the terrorists who threaten the way of life of our citizens in both countries.

NARRATOR: Prince Bandar and his father, Crown Prince Sultan, came along for meetings where they concluded a new arms contract with BAE, the successor to al Yamamah, worth at least \$20 billion.

All this had been watched with great interest from Washington. Today, the Justice Department still has the toughest anti-bribery law in the world and the biggest commitment to enforcing it. Mark Mendelsohn is the chief prosecutor for international bribery.

MARK MENDELSON, Chief FCPA Prosecutor, DOJ: The Department of Justice currently has well over 100 cases under investigation, and over the past two years or so has collected almost a billion-and-a-half dollars in fines and penalties.

REPORTER: Jack, you don't want to say anything?

NARRATOR: The biggest fine of all for an American corporation, over half a billion dollars, involves this man, Albert "Jack" Stanley, former chief executive of KBR, then a subsidiary of the Halliburton Corporation.

ATTORNEY: Mr. Stanley has been cooperating, and he cooperated today-

NARRATOR: Stanley was the mastermind of a \$180 million bribe paid to Nigerian officials. He's recently pleaded guilty and agreed to a sentence of seven years.

LOWELL BERGMAN: Can we expect more indictments as a result of Mr. Stanley's cooperation?

MARK MENDELSON: The only thing I can say with respect to that is that the investigation is ongoing.

LOWELL BERGMAN: It's not over yet.

MARK MENDELSON: It is not over yet.

JUSTICE DEPT. OFFICIAL: This morning in federal district court, Siemens AG plead guilty to violations of the Foreign Corrupt Practices Act.

NARRATOR: Siemens may be a German company, but because its stock is traded in the United States, the Justice Department can assert jurisdiction. And the Department just imposed another record fine, \$800 million. And that former manager of the slush funds, Reinhard Siekaczek- he was convicted in a German court for his part in the bribery.

REINHARD SIEKACZEK, Fmr. Siemens Manager: *[through translator]* I doubt that Siemens's name has suffered. Since bribery is very common in many countries, people will only say that they were unlucky and that they broke the 11th Commandment. The 11th Commandment is "Don't get caught."

[www.pbs.org: Watch this program on line]

NARRATOR: The U.S. government had also opened its own investigation into BAE, but the British were not cooperating. So on a Friday evening in May 2008, a secret meeting was called at the Justice Department. U.S. prosecutors decided to launch an unusual operation. In a dragnet aimed at BAE Systems in the United States, they served four executives with grand jury subpoenas, and on the same day detained and searched the company's chief executive officer as he arrived at Houston's international airport.

Lord TIMOTHY BELL: No explanation was given to him as to why this was happening. No charges were laid. And then he was allowed to go about his business. That's the way you conduct law, it's not the way I believe law should be conducted. You're busy poking around. It's got nothing to do with you! Just nothing. You should mind your own business.

LOWELL BERGMAN: What are we doing, prosecuting and investigating foreign companies?

MARK MENDELSON: If a company conducts business in the U.S. or takes some step in furtherance of a bribery scheme within the U.S., that is the

business of the United States. And those are cases that we're going to investigate and prosecute.

NARRATOR: Mendelsohn would not comment on the U.S. investigation of BAE, but FRONTLINE has learned that the investigation includes BAE's worldwide arms sales network, as well as the al Yamamah deal. And the Justice Department has secretly spirited at least one witness into the United States with documents.

LOWELL BERGMAN: Have they contacted you?

PETER GARDINER: Yes.

LOWELL BERGMAN: Are you cooperating?

PETER GARDINER: Yes.

LOWELL BERGMAN: So you traveled to the United States?

PETER GARDINER: I traveled to the United States, yes. And you know, it's an ongoing investigation and I'm a witness, so obviously, there's not a lot I can say about it at the moment.

NARRATOR: U.S. authorities are interested in those documents showing how BAE paid for the lavish lifestyle of the Saudi prince. A good part of that money was spent in the United States, and that's one reason the U.S. has jurisdiction. And then there's that \$2 billion that was transferred to bank accounts controlled by Prince Bandar in Washington.

DENNIS LORMEL, Fmr. FBI Supervisor: We conducted a very comprehensive review and investigation of those accounts.

NARRATOR: Former FBI supervisor Dennis Lormel examined those accounts as part of a larger investigation in the wake of 9/11. FBI agents had then found an unusual pattern of activity.

DENNIS LORMEL: There was so much interaction among the accounts, the manner in which they were taking cash out and then paying cash, it seemed questionable. It seemed like activities that I would see in money laundering or other types of investigations.

LOWELL BERGMAN: The pattern of activity you identified was kind of a mixture of the personal, if you will, and the professional?

DENNIS LORMEL: Yes, it appeared that there were both legitimate Saudi transactions - embassy-related transactions - through those accounts, and it appeared that there was a degree of personal activity being carried on through those accounts.

NARRATOR: According to these Suspicious Activity Reports, there were transactions that appear to be personal- for example, payments to an architect in Saudi Arabia for work on a new palace for Prince Bandar totaling \$17 million.

DENNIS LORMEL: That's something you don't see in the normal course of business, an individual moving \$17 million from an account, a business account, to what appears to be personal.

LOUIS FREEH, FBI Director, 1993-01: The \$17 million for his "residence" - quote, unquote - was not his residence. It's a government-owned property in the kingdom of Saudi Arabia which they make available to senior members of the royal family to live.

NARRATOR: After repeated requests, the former director of the FBI, Louis Freeh, who now represents Prince Bandar, finally agreed to an interview.

LOUIS FREEH: -allegations that my client received \$2 billion - Lowell, \$2 billion in bribes, and two, received for free as a bribe an Airbus 340- those allegations are totally false.

LOWELL BERGMAN: In U.S. government documents, the al Yamamah contract is described as off the books of the regular budget of the Saudi Ministry of Defense. Is that correct?

LOUIS FREEH: It's an off-balance barter deal, oil for planes.

LOWELL BERGMAN: But it was a pile of money, if you will, large amounts of money that didn't go through the regular budgetary process of the government of Saudi Arabia.

LOUIS FREEH: That's correct.

NARRATOR: Freeh has an explanation for the \$2 billion that was sent to Washington.

LOUIS FREEH: Look at it this way, Lowell. This was a treaty that was set up to ensure maximum flexibility for the purchase of arms. If the Ministry of Defense and Aviation wanted to purchase U.S. arms, U.S. arms could be purchased through BAE and the U.K. ministry in a way that did not deal with the objection of the U.S. Congress to the selling of American equipment to the Saudis.

LOWELL BERGMAN: So proceeds from the oil could be used under this contract to purchase arms from other countries, including the United States?

LOUIS FREEH: Of course.

NARRATOR: Following this interview, FRONTLINE asked Louis Freeh for a

specific example of an arms deal with the U.S. paid for from the \$2 billion. He did not provide one. Freeh had responded to our questions about that Airbus 340.

LOWELL BERGMAN: Can't you even see that as an indication that there's something funny going on here?

LOUIS FREEH: No. Absolutely not. Absolutely not. The plane was assigned to him. It was owned by the Royal Saudi Air Force, operated by them principally for my client because he traveled the most, and was never a gift or a bribe to my client.

LOWELL BERGMAN: Do you know of any other military aircraft that's painted in the colors of the Dallas Cowboys?

LOUIS FREEH: Don't know of any.

LOWELL BERGMAN: Sound like a private plane?

LOUIS FREEH: No, it doesn't sound like a private plane.

LOWELL BERGMAN: But when is something a government expenditure and when is something a personal expenditure when it's a prince like Bandar in the Saudi government?

LOUIS FREEH: Let's look at it from their perspective. If his majesty, the king of Saudi Arabia, and the Minister of Defense and Aviation-

LOWELL BERGMAN: Who's his father.

LOUIS FREEH: -who's his father, and the minister of oil and the minister of finance- if they all agree and are aware of what's being expended by whom, how they dispersed it or how they distributed it, including dividing what was personal or not personal, is really none of the business of the United States.

[www.pbs.org: Watch more of this interview]

LOWELL BERGMAN: What happens when the government says, "Oh, well, we knew about that payment. We approved it." Do you still have a case?

MARK MENDELSON: Under U.S. law, it's absolutely irrelevant whether a foreign government acknowledges awareness that one of its officials was being corrupted or even endorses or approves of the corruption. So long as the bribe payment is for a corrupt purpose and goes to personally benefit the foreign official, we can and will bring a prosecution.

NARRATOR: But under U.S. law, Prince Bandar and the Saudis cannot be charged if they received a bribe. The Foreign Corrupt Practices Act only targets the giver of an alleged bribe, in this case BAE.

BAE refused repeated requests for an interview, finally sending us this statement. Quote, "BAE Systems's view is that the interests of the company are best served by allowing these investigations to run their course."

[www.pbs.org: BAE's full statement]

LOWELL BERGMAN: The British aren't cooperating. The U.S. has requests in with the Swiss, but that's taking a long time. This could go on for years and years and years?

MARK PIETH, Chairman, OECD anti-bribery group: I doubt it. I think it's going to be ultimately not a question of years, but there's going to be something decisive happening in the next year.

LOWELL BERGMAN: This is based on a hunch or-

MARK PIETH: A combination of informations.

NARRATOR: BAE now employs 40,000 Americans and is a major defense contractor with the Pentagon.

DAVID LEIGH, The Guardian: I'm sure observers around the world are waiting to see whether the Department of Justice is also vulnerable to political pressure. We shall have to see.

NARRATOR: Many believe that what happens next in the BAE case will determine the future of the decade-old anti-bribery convention.

EVA JOLY, Fmr. French Magistrate: We are successful in fighting petty corruption. We are successful in fighting probably medium corruption. And sometimes by accident, we are successful in huge corruption, but it is by accident. There are one rule for the powerful and other rules for other people, and the rule of law is not complete. There are black zones, black holes.

DAVID LEIGH: Look, this is black money. The thing about black money is you can claim it's being used for all kinds of things. These are the evils of black money. These are the evils of money laundering. You get pots of black money that nobody sees, nobody has to account for, you can do anything you like with. Mainly what happens with black money is people steal it because they can.

LOWELL BERGMAN: There's been secret payments by major multi-national companies. Are we at a place where that habit is going to have to change?

Lord TIMOTHY BELL: Undoubtedly, the convention and the law which was passed will reduce the number of times that happens. But actually, what it will also do is make people much more cunning about how they do it because depending on your religion and on your belief, there is a thing called

temptation, which is promoted by the devil, who was a fallen angel. And it's very attractive and people are seduced by it.

Prince BANDAR BIN SULTAN, Fmr. Saudi Ambassador to the U.S.: You now what? I would be offended if I thought we had a monopoly on corruption.

NARRATOR: Prince Bandar would not give us an interview today, but he did in 2001 when FRONTLINE asked him about corruption and the Saudi royal Family.

Prince BANDAR: But the way I answer the corruption charges is this. In the last 30 years, we have made- we have implemented a development program that was approximately- close to \$400 billion worth. You could not have done all of that for less than, let's say, \$350 billion. Now, if you tell me that building this whole country and spending \$350 billion out of \$400 billion, that we had a- misused or get corrupted with \$50 billion, I'll tell you, "Yes." But I'll take that any time.

But more important, who are you to tell me this? I mean, I see every time all the scandals here, or in England, or in Europe. What I'm trying to tell you is, so what? We did not invent corruption. This happened since- since Adam and Eve. I mean, Adam and Eve were in heaven and they had hanky-panky and they had to go down to earth. So I mean this is- this is human nature. But we are not as bad as you think!

Black Money

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"MIRAGE", "THE ABDUCTION", "TORTURED", "TAKE THE TARGET",
"ELECTRICITY"

From "SYRIANA"

Written by Alexandre Desplat

Courtesy of Warner Bros. Pictures

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ANNOUNCER: This report continues on FRONTLINE's Web site. Explore more of the world of international bribery, read the interviews, and watch extended portions of the Louis Freeh interview and an interview with Lowell Bergman. Watch the program again on line and join the discussion at PBS.org.

Next time on FRONTLINE/World, in Pakistan, children forced to choose between extremists and an army waging war on its own people.

Maj. Gen. TARIQ KHAN, Pakistani Army: It's better to die than to live under the Taliban.

ANNOUNCER: And in South Korea, detox for Internet addiction.

DOUGLAS RUSHKOFF, Correspondent: When you go home, will you start using a computer again?

ANNOUNCER: Correspondent Douglas Rushkoff reports from the digital frontier.

These stories and more on the next FRONTLINE/World.

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