Investigating Corruption in the Media and Telecoms Industries

European Corruption Observatory Workshop Minutes / Report
Budapest, Hungary
March 18th 2016

Agenda

10.00 – 10.30 Registration

10.30 – 11.30 Investigating Corruption in the Media and Telecoms Industries

- **Transparency International Georgia:**
    - Who owns Georgia's media? Study of ownership of media outlets in Georgia
- **OCCRP Smari McCarthy, Chief Technologist**
    - Who owns the internet? The Internet ownership project
- **Transparency International Hungary: Krisztina Papp**
    - How Transparent are Global Telecommunications Companies? Transparency in Corporate Reporting

11.30 – 12.00 Discussion

12.00 – 12.30 Introduction to the European Corruption Observatory Platform

Interactive session where the database will be showcased to the participants, they will be invited discuss the practical aspects of the Observatory as a platform and monitoring tool and provide feedback on improvements / additions to the tool.

12.30 – 2.00: Lunch

See Annex 1 for a list of participants

Introduction and welcome

Alison Coleman from Transparency International EU (TI EU) welcomed the participants and introduced the topic for the workshop. Corruption is a transboundary issue in that it does not respect borders, which in turn means that investigative journalists and civil society also need to cross borders to follow the story. That is why TI EU created the European Corruption Observatory to bring together journalists and anti-corruption campaigners – to encourage pan-European tracking of corruption related news and foster awareness of corruption trends. The overall aim is to improve awareness of the transnational dimension of corruption and to strengthen monitoring and detection capacities of the media, public authorities and civil society around Europe. The key aim for today's workshop is to look at corruption in the telecoms and media industries from a national, regional and global perspective and from different angles see how different actors investigate corruption and look for areas of cooperation.

"How Transparent are Global Telecommunications Companies? Transparency in Corporate Reporting"

Krisztina Papp – Transparency International Hungary

Krisztina introduced the recent Transparency Report "Transparency in Corporate Reporting: Assessing the World's Largest Telecommunications Companies" which analyses the 35 largest telecoms companies (service providers and equipment manufacturers). The Transparency in Corporate Reporting (TRAC) reports uses publicly available information to rank companies them based on their reporting of the measures they take to prevent corruption, information about subsidiaries and holdings, and key financial information including payments abroad.

The data for this report was collected in the second quarter of 2015, and the average result was only 65%. Key findings included:

- European companies are the best performers, Asian companies the worst. Three companies (Deutsche Telekom, Vodafone and Telenor) scored over 50 per cent in all three dimensions.

- While there are anti-corruption programmes in place at most of the assessed companies, only 15 out of the 35 companies have a mechanism for regular monitoring of this programme. An anti-corruption programme can only be applied effectively in practice if it is adequately and regularly checked.

- At management level, senior members of the management or board in the majority of the companies (83 per cent) demonstrate support for anti-corruption measures. However, only half of the assessed companies make it clear that the anti-corruption policy or the code of ethics applies to their directors as well.

- A number of telecoms companies have started to report their income and taxes on a country-by-country basis; however, community contributions, the amount of investments made and the profit generated before tax are seldom reported country-by-country.

Key recommendations made by TI in the report included introducing strong anti-corruption laws, having more comprehensive reporting and more regular monitoring.

Why are telecoms industries so prone to corruption? The telecoms industry is one marked by rapid grown and improper risk assessments. Due to the large capital investment needed to break into new markets the stakes are high. Also companies may only be allowed to take minority ownership in existing major market players with no or limited delegation of key personnel and decision makers. There are high incentives for corruption via large license fees, equipment contracts, and purchase of state operators.

What should be done? Strong and coherent management systems are required to be adopted groupwide. Also anti-corruption policies must be monitored on a regular basis and exhaustive anti-corruption due diligence must be undertaken to avoid substantial regulatory and legal risks when entering a market. There needs to be legally binding rules setting out transparency and accountability requirements that are applicable to the telecommunication sector worldwide. And regulators must require companies to apply strong anticorruption policies and more comprehensive and transparent reporting systems, particularly of those companies bidding for spectrum licenses.

Transparency International has increased engagement with companies via the Telecom Integrity Initiative which is a sector wide dialogue on anticorruption issues and exchanges best practice.

Who owns Georgia's media? Study of ownership of media outlets in Georgia

Nino Robakidze, Transparency International Georgia

Nino explained that there are few media outlets but is considered to have a semi-free media. However there is a trend of a worsening situation in the pre-election periods – politically interesting periods cause increased political influence and many media outlets have close ties with the current government.

In the past there was unclear ownership of the media, accessing public information was difficult and there as political pressure on the business sector. Since 2011 there has been positive changes. The digital switchover process was successful, it's easier to get licenses and there is better access to public information.

The online media in Georgia is not regulated – ownership is not transparent unlike the ownership of broadcasters. There is also no financial income disclosure and no obligation to disclose information publicly about online media companies. This is worrying as the impact of online media is increasing. A Russian NGO (Caucasian Cooperation) controls many of the media outlets in Georgia and is actively pushing anti-western, homophobic and xenophobic agendas. This has had a visible impact on public

opinion and anti-western sentimentality along with an increased rise in homophobia. The funding for these online media sites are often opaque with no advertisements on the site and some claiming not to have any income at all.

There are no recommendations in place to regulate the online media however it must be noted that strict regulations can be dangerous because they can actually create obstacles for unbiased media organizations. Its also difficult to monitor these online medias sites as new websites are created regularly and there is a perpetual cycle of re-branding. The advertising sector in Georgia is young and have no knowledge of the risks of corruption they mostly look at the number of views per site and not who owns the site or if it's unbiased or producing propaganda.

Transparency International Georgia expects to see political contributions in the media sector to skyrocket before the next election period due to is potential influence.

The Internet Ownership Project

Smari Mccarthy OCCRP and Tamas Bodoky, Atlatszo.hu

As the internet becomes more central to our lives, the question grows more urgent: who owns it? *The Internet Ownership Project* examined the gatekeepers of information and communication technology infrastructure across Eastern Europe. What was revealed were non-transparent businesses with political ties?

- ***Smari Mccarthy - Why should we care who owns the internet?***

There are many reasons why we should care about who owns the internet including:

- o What interests Deutsche Telekom has for instance?
- o What are the business structures, who really owns the business?
- o Who decides which service should be available and convenient?
- o Why and how access to the internet is shut down? Who decides?
- o Network neutrality regulation has just come through the European Parliament – it is very hard to track and monitor.
- o Issue of surveillance comes to the picture as well. Directive is still being implemented
- o The fact that law proves that the phenomena exists – it is possible to conduct a monitor. Certain minorities, certain groups can be the target – it is a huge question of abuse. Can activities of certain people be monitored to track down human trafficking for instance
- o LEVEL 3 Networks – one of the 12 tier networks – anonymous network – can be handed over to the government if necessary
- o Who is benefiting? Telecommunication is a profitable market. Organized crime groups have a huge interest in it.

- o Pricing on SMS could be 40 % cheaper without the Telecommunications company losing any money
- o Fueling extremist groups for instance is a characteristic of the system – with no adequate proof of course

The Internet Ownership project revealed a lot of information including that in Romania 80% of shareholders of the 144 telecommunication services are under some type of investigation (including for fraud, bribery and mismanagement of public funds). In Moldova, the largest ISP, Moldtelecom, is wholly-state owned with a 60 to 65 percent market share. The company's ex-general manager is now Vice-Minister of the Economy, Vitalie Iurcu, a member of Moldovan oligarch Vlad Plahotniuc's business association. While in Ukraine the largest telecom company, Ukrtelecom, is controlled by the country's wealthiest businessman Rinat Akhmetov, once mentioned by police as the leader of an organized crime gang.

- • ***Tamas Bodoky – the situation in Hungary***

Hungary had a relatively underdeveloped telecommunications market until 2002, when it was fully liberalised. The country's telecommunications sector attracted a number of international investors such as Deutsche Telekom, Vodafone, Telenor and UPC, which have considerably improved telecom infrastructure, providing effective competition and expanding coverage and quality of offered services, while buying up or simply forcing out of business several smaller local ISPs, cable operators and telcos. Now 80% of the market falls into the hands of 4 companies, Telekom, Digi, Invitel and small ICP with local ownership. The market leader is Magyar Telekom a subsidiary of (Deutsche Telekom).

In December 2011 the U.S. Securities and Exchange Commission charged Magyar Telekom and three of its former top executives with bribing government and political party officials in Macedonia and Montenegro to win business and shut out competition in the telecommunications industry. Magyar Telekom's parent company Deutsche Telekom AG was also charged with violations of the Foreign Corrupt Practices Act. The two companies paid $95 million alltogether to settle FCPA offenses.

Magyar Telekom has also bent under from the Hungarian Government. The Origo.hu online news portal, owned by Magyar Telekom was one of Hungary's most widely read and reputable news sites that operated relatively free from political pressure. That was until an investigative journalist of Origo filed a lawsuit for more data on some suspicious hotel expenses of a government politician he was denied to access. After the forced resignation of the Editor in Chief of Origo in 2014, most of the staff left, leaving the outlet struggling to re-establish itself on the domestic media landscape.

One of the key issues is surveillance and it is happening here in Hungary and there is proof of it. IN 2013 the Hungarian government was among the users of Finfisher, a surveillance software package used by oppressive regimes, according to Citizenlab, a University of Toronto research unit and a recently published Wikileaks document. The software package is undetectable even for sophisticated antivirus programs and enables users to access literally all of an individual's personal data, including

emails, computer files and internet-based phone calls. The . Government did not react nor did it deny these allegations. Then In 2014 a hacker attack against the servers of surveillance specialist Gamma International confirmed what was already suspected: the Hungarian secret service is on the list of clients for the firm's Finfisher program, a spy software commonly used in oppressive regimes to monitor political opponents and NGOs.

Introduction to the European Corruption Observatory

Alison Coleman Transparency International EU

Alison shortly introduced the European Corruption Observotory and the aims of the project.. This was mostly an an interactive session where the database was showcased to the participants, they were invited to discuss the practical aspects of the Observatory as a platform and monitoring tool and provide feedback on improvements or additions to the tool.

See Annex 2 for the presentations

Annex 1: Attendees

First Name	Organisation
Tamas Bododky	Atlatzo Hungary
Amy Brouillette	Center for Media, Data and Society
Kate Coyer	Central European University
Anna Csonka	Direckt36
Branimir Dukic	Central European University
Frederic Eger	Freelance Journalist
Liana Ganea	ActiveWatch (Romania)
Cezara Grama	Expert Forum Romania
Lauren Hosp	Central European University
Kovács Ildikó	Atlatzo Hungary
Eszter Kiss	
Tina Kristan	DELO
Lili Márk	Governance Transparency Institute
Christiana Mauro	
Ilona Moricz	Centre for Independent Journalism
Smari Mccarthy	OCCRP
Gyula Mucsi	Transparency International Hungary
Balazs Nagy Navarro	European Centre for Press and Media Freedom
Andrej Nosko	OSF
Krisztina Papp	Transparency International Hungary
Manuela Preoteasa	Euractiv Romania
Dora Rechnitzer	Transparency International Hungary
Nino Robakidze	Transparency International Georgia
Diana Sebestyen	Transparency International Hungary
Dean Starkman	
Borbála Tóth	Media Monitor

Annex 2: Presentations

TRAC TELECOM
ABOUT THE REPORT

EVALUATED DIMENSIONS:

reporting on anti-corruption programmes
- demonstrates if the company has AC policy in place, shows the level of committment to AC
- questions are based on *TI's Business Principles for Countering Bribery*, that influenced leading global AC standards: explicit commitment to AC with a policy that applies to all employees, agents, suppliers, contractors, prohibitation of facilitation payments and whistle-blower protections

organisational transparency
- level of transparency of the company's corporate structure
- disclosure of corporate holdings: complete transparency of the existence, name and location of the holding

country-by-country reporting
- makes it possible to collect financial data across all countries of operation
- standards were developed to ensure sufficient information to understand the top-line revenues and expenses in a particular country of operation

RANKINGS/ANALYSIS:
- three separate company rankings for each evaluated dimension
- an overall transparency index

TRAC TELECOM
AVERAGE SCORE 4.1/10
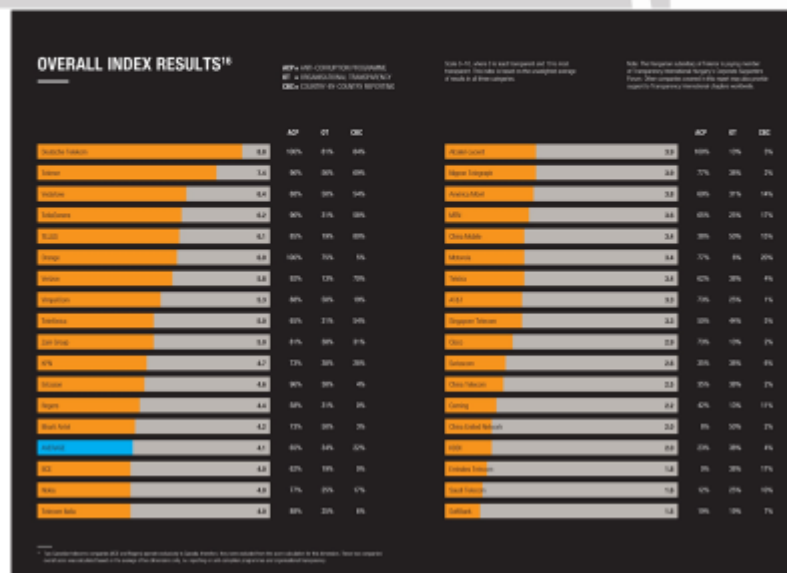
TRAC TELECOM
REPORTING ON ANTI-CORRUPTION PROGRAMMES

COMPANY RANKING

• *average result 65%*
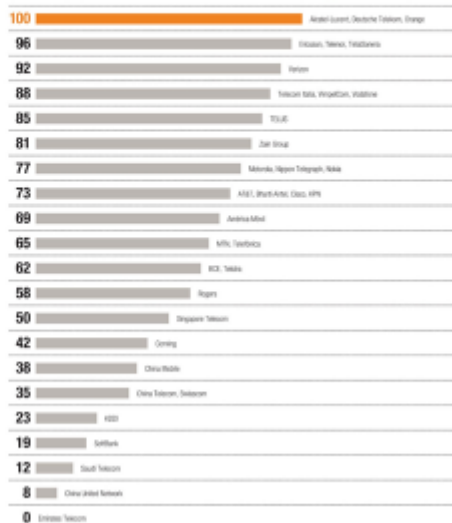• three companies at the top with 100%, three with 96%, all European companies, 15 companies achieved more than 75%
• Asian companies ranking low
• average performance of service providers: 63%, of equipment manufacturers: 78%

3 companies scored 100%

Score	Companies
100	Alcatel-Lucent, Deutsche Telekom, Orange
96	Ericsson, Telenor, TeliaSonera
92	Verizon
88	Telecom Italia, VimpelCom, Vodafone
85	TELUS
81	Zain Group
77	Motorola, Nippon Telegraph, Nokia
73	AT&T, Bharti Airtel, Cisco, KPN
69	América Móvil
65	MTN, Telefónica
62	BCE, Telstra
58	Rogers
50	Singapore Telecom
42	Corning
38	China Mobile
35	China Telecom, Swisscom
23	KDDI
19	Softbank
12	Saudi Telecom
8	China United Network
0	Emirates Telecom

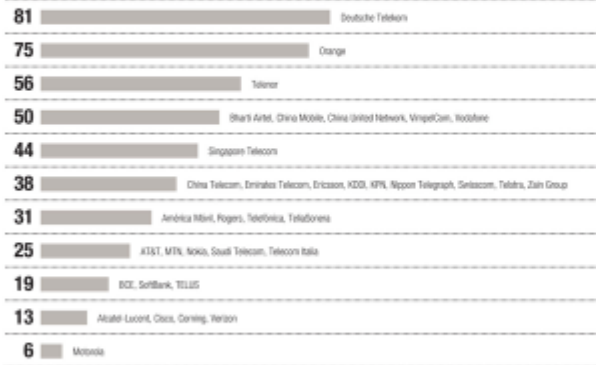# TRAC TELECOM
AC PROGRAMMES – ANALYSIS BY QUESTION

83% companies state publicly that they are committed to complying with laws, operate confidential reporting channels for whistleblowers

• at management level: 29 demonstrates commitment to AC, only 17 companies state that the code of ethics applies to their directors; 6 companies train their directors on anti-corruption

• 18 companies do not have a regular monitoring of the AC programme in place

• political donations are only reported by 15 companies

Question	1 point	0.5 point	0 point
Commitment to comply with laws	29	0	6
Confidential reporting channel	29	1	5
Leadership support	29	0	6
Zero-tolerance statement	21	10	4
Gifts, hospitality, travel	22	8	5
Prohibition of retaliation for reporting	26	0	9
Code applies to all employees and directors	17	12	6
Code applies to suppliers	15	13	7
Disclosure of political contributions	20	0	15
Training programme for employees and directors in place	6	22	7
Prohibition of facilitation payments	17	0	18
Code applies to agents	16	0	19
Regular programme monitoring	15	2	18

0 companies scored 100%

81	Deutsche Telekom
75	Orange
56	Telenor
50	Bharti Airtel, China Mobile, China United Network, VimpelCom, Vodafone
44	Singapore Telecom
38	China Telecom, Emirates Telecom, Ericsson, KDDI, KPN, Nippon Telegraph, Seriascom, Telstra, Zain Group
31	América Móvil, Rogers, Telefónica, TeliaSonera
25	AT&T, MTN, Nokia, Saudi Telecom, Telecom Italia
19	BCE, SoftBank, TELUS
13	Alcatel-Lucent, Cisco, Corning, Verizon
6	Motorola

COMPANY RANKING

average result 34%

• companies do not disclose enough about how they organize themselves in terms of corporate structure

• difficult for the public, regulators, investors to hold them account

• highest score 81% of Deutsche Telekom, lowest Motorola with 6%

• average performance of service providers: 38%, of equipment manufacturers: 18%

Question		1 point	0.5 point	0 point
Which of the following information does the company disclose for all of its fully consolidated subsidiaries	the full list with names	4	31	8
	percentages owned in each of them	2	27	6
	countries of incorporation (for each entity)	4	23	8
	countries of operations (for each entity)	1	8	26
Which of the following information does the company disclose for all of its non fully consolidated holdings, such as associates, joint-ventures	the full list with names	3	24	8
	percentages owned in each of them	3	21	11
	countries of incorporation (for each entity)	2	13	20
	countries of operations (for each entity)	0	8	27

• due to the global presence, telecoms companies have a large number of holdings and subsidiaries, most companies limit their disclosure to material/principal holdings, smaller markets are not considered to be material

• only 4 companies disclose full lists of their consolidated subsidiaries

• 27 of the 35 companies surveyed do not disclose where their subsidiaries operate

• companies where legislation compels the disclosure of all subsidiaries (Germany, India) regardless of materiality did better than companies from countries where the disclosure rules are less demanding (US)
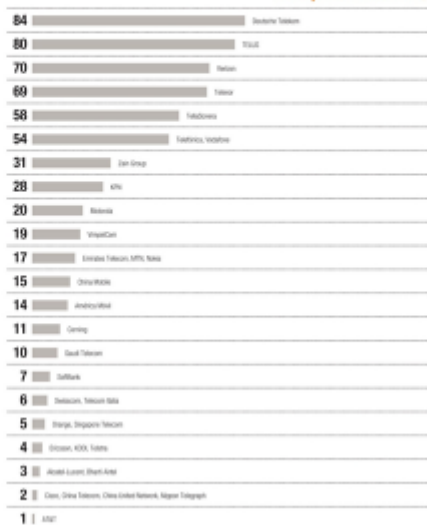
TRAC TELECOM
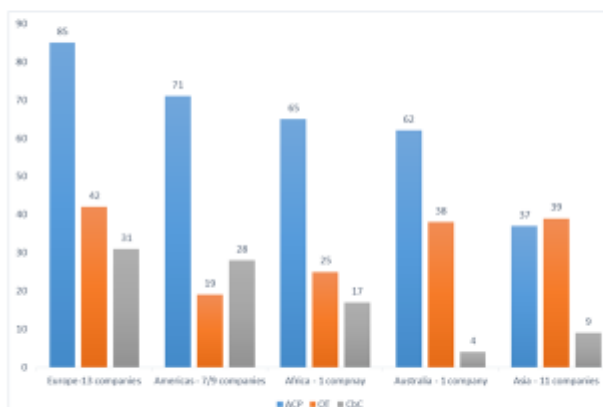### COUNTRY-BY-COUNTRY REPORTING

COMPANY RANKING

average result of 22%

• companies are not sharing enough financial information on their operations abroad

• 84% Deutsche Telecom, 1% AT&T

• revenues are the most often disclosed data; community contributions, profit before tax and CAPEX are the least

• only 4 companies reveal information on their tax payments in each of the countries they operate

• average performance of telecom service providers is 25%, of equipment manufacturers 10%

0 companies scored 100%

Score	Company
84	Deutsche Telecom
80	TLLG
70	Telstra
69	Telenor
58	Vodafone
54	Telefonica, Vodafone
31	Zain Group
28	KPN
20	Belenia
19	VimpelCom
17	Emirates Telecom, MTN, Tele2
15	China Mobile
14	America Movil
11	Corning
10	Saudi Telecom
7	Softbank
6	Swisscom, Telecom Italia
5	Orange, Singapore Telecom
4	Ericsson, KDDI, Telstra
3	Alcatel-Lucent, Bharti Airtel
2	Cisco, China Telecom, China United Network, Nippon Telegraph
1	AT&T

TRAC TELECOM
GEOGRAPHICAL ANALYSIS

7 of the top 10 companies are from Europe

• 7 of the bottom 10 companies are from Asia

• relatively better performance of European companies is assumed to be due to higher level of regulation in the sector

• Chinese and Japanese companies generally provide little financial data relating to foreign operations, they fail to show they are taking anti-corruption measures

• in OT companies from the Americas perform worst, US companies are not required to report on their non-material holdings

TRAC TELECOM
KEY RECOMMENDATIONS

- **The telecom sector is particularly vulnerable to the risks of corruption, affects: spectrum licensing, market regulation, supply chain and third party engagement**
- **Rapidly growing sector, 7 billion mobile subscribers and 3.2 billion internet users worldwide**
- **The world's largest telecom companies need to do more to make sure corruption does not infiltrate their businesses**

- governments must implement strong anti-corruption laws and provide the necessary resources to enforce them
- investors should demand that companies report more comprehensively and use this information in investment decisions
- the public should use, monitor, analyze and disseminate public corporate information
- top management and the board of the companies should be involved to ensure that AC measures are more than rhetoric – the code of ethics should explicitly apply to board and supervisory board members as well
- the anti-corruption policy must be monitored on a regular basis
- political donations must be publicly disclosed
- EU directive adopted in October 2014, to be transposed by 6 December, 2016 requires EU companies of more than 500 employees to report on their AC programmes as part of their annual financial reporting

CASE STUDY - THE VIMPELCOM CASE
FACTS OF THE CASE

- Russian controlled international telco (Telenor minority shareholder), HQ in the Netherlands (the third largest telecoms provider in Russia, sixth largest globally) present in 14 markets with 200 million customers

- February 2016: VIP announced that it had agreed to pay $795 million (second largest foreign bribery resolutions after Siemens) to settle a bribery investigation by SEC, DOJ and Dutch authorities into its payment of bribes in Uzbekistan (investigated based on FCPA and relevant Dutch laws)

- Via its subsidiary in Uzbekistan, United LLC it paid $114 million in bribes from 2006 through 2012 to an Uzbekistan official to secure operation in the market (recipient of the illicit payments through a shell company in Gibraltar was the daughter of the Uzbek President Islam Karimov). Payment went via shell companies started flowing through US financial institutions and were deposited in accounts in Latvia, the UK, Hong Kong, Ireland, Belgium, Luxembourg and Switzerland. Ms. Karimova, who has since been investigated for corruption, is now under house arrest.

- Replacement of entire top management, strong measures to embed the corporate culture throughout the group, strengthen internal controls and compliance program.

CASE STUDY - THE VIMPELCOM CASE
WHY IS IT PRONE TO CORRUPTION?

- <u>rapid growth, high competition, global presence</u>: pressure for market expansion to more challenged, underserved areas of the world (JVs, subsidiaries), rule of law is weak

- companies often engage agents and undertake significant <u>arrangements with third parties</u>

- highly regulated, <u>requires governments' approvals</u> (licensing, market regulations): susceptible to corruption at the highest level

- large capital outlays when entering a market: <u>much at stake, costs a lot to divest</u>

- only allowed to take <u>minority ownership</u> in existing major market players, no or limited delegation of key personnel and decision makers: poses high <u>risk in applying</u> corporate governance policy and ensure <u>high ethical standards</u>

- HIGH INCENTIVES FOR CORRUPTION: large license fees, equipment contracts, purchase of state operators, M&A-s

CASE STUDY - THE VIMPELCOM CASE
KEY LESSONS LEARNT

- <u>strong and coherent policies and management systems</u> are required to be adopted groupwide

- the anti-corruption policy must be <u>monitored on a regular basis</u>

- exhaustive <u>anti-corruption due diligence</u> must be undertaken to avoid substantial regulatory and legal risks when entering a market, <u>risk based due diligence of third parties</u> would be necessary

- OT, CbC reporting: <u>exhaustive list of related entities to be publicly available</u>, with materiality thresholds removed

- legally binding <u>rules setting out transparency and accountability requirements</u> that are applicable to the telecommunication sector worldwide

- regulators to require companies to apply strong AC policies and more comprehensive and transparent reporting systems, particularly of those <u>companies bidding for spectrum licenses</u>

- TI: <u>Telecom Integrity Initiative:</u> sectorwide dialogue on AC issues, exchange of best practices

Who owns Georgia's Media?

Changes in Georgian media environment—
Media Ownership and strengthening of Anti-
Western propaganda

Transparency International – Georgia
Nino Robakidze, Program Manager

International Assessment

- Semi-free Media Environment
- Leading among post-soviet countries (except Baltic states)
- 48 points -- Freedom House
- 27.7 points - Reporters w/t Borders
- 1367 points – Media Freedom Index in EP countries

Trend of worsening of situation in media in pre-election periods
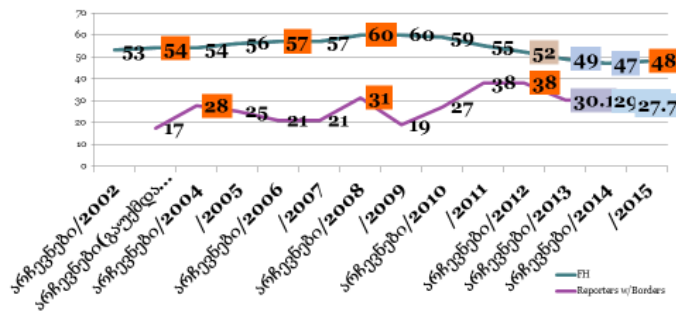
This slide was prepared by PhD. Maia Mikashavidze, Caucasus School of Journalism and Media Management (CSJMM)

New pre-election changes

- Aggressive process of ownership changes on TV broadcasting market

- Rustavi 2 - #1 rated TV company in Georgia - Court case regarding ownership dispute still active;

- "The decision is disproportionate and excessive and may constitute a threat to media pluralism in Georgia." OSCE (2015) about freeze of Rustavi 2 assets by court decision

Anti-Western group in Georgian Media and Civil Society
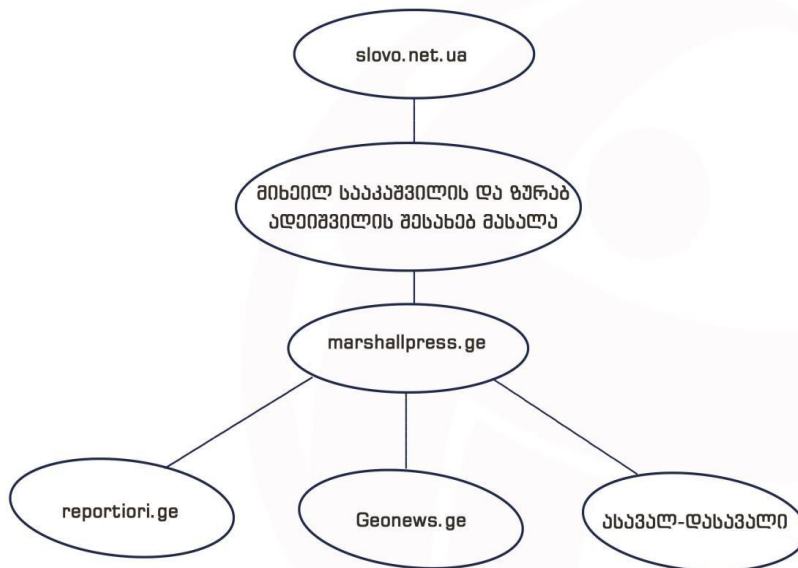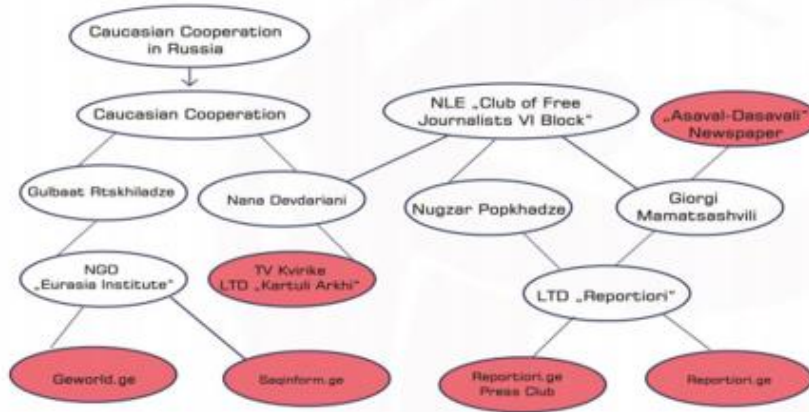
Hungary: No country for local ISPs

Hungary had a relatively underdeveloped telecommunications market until 2002, when it was fully liberalised. The country's telecommunications sector attracted a number of international investors such as Deutsche Telekom, Vodafone, Telenor and UPC, which have considerably improved telecom infrastructure, providing effective competition and expanding coverage and quality of offered services, while buying up or simply forcing out of business several smaller local ISPs, cable operators and telcos.
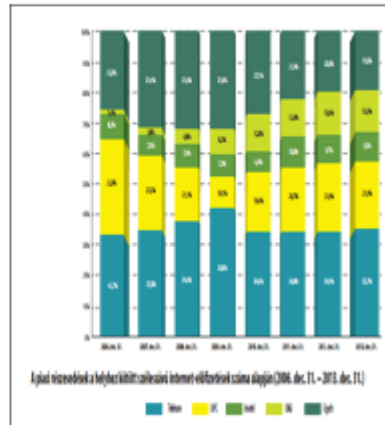
Ownership trees: offshore companies, proxy persons involved
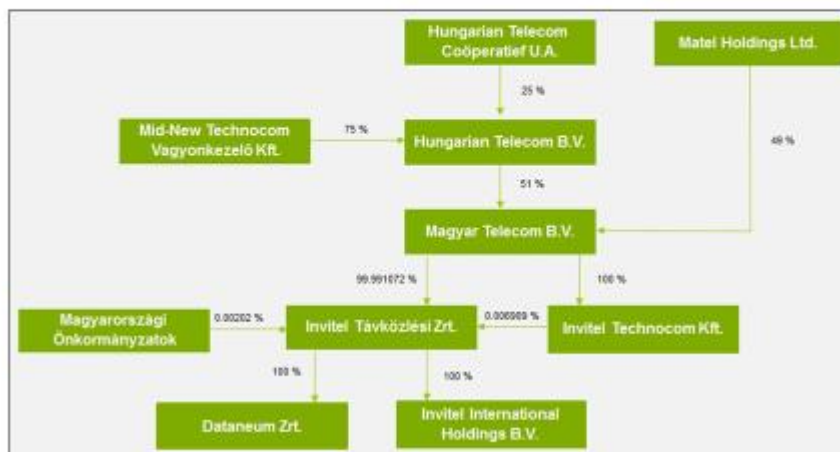
Magyar Telekom bribed it's way into the Macedonian and Montenegrin market

- In December 2011 the U.S. Securities and Exchange Commission charged the largest telecommunications provider in Hungary and three of its former top executives with bribing government and political party officials in Macedonia and Montenegro to win business and shut out competition in the telecommunications industry. Magyar Telekom's parent company Deutsche Telekom AG was also charged with violations of the Foreign Corrupt Practices Act. The two companies paid $95 million alltogether to settle FCPA offenses.

Magyar Telekom bent under pressure from the government

- The Origo.hu online news portal, owned by Magyar Telekom was one of Hungary's most widely read and reputable news sites that operated relatively free from political pressure.

- That was until an investigative journalist of Origo filed a lawsuit for more data on some suspicious hotel expenses of a government politician he was denied to access.

- After the forced resignation of the Editor in Chief of Origo in 2014, most of the staff left, leaving the outlet struggling to re-establish itself on the domestic media landscape.

Hungary exposed as user of FinFisher spy program

- 2013: The Hungarian government is among the users of Finfisher, a surveillance software package used by oppressive regimes, according to Citizenlab, a University of Toronto research unit and a recently published Wikileaks document.
- The package is undetectable even for sophisticated antivirus programs and enables users to access literally all of an individual's personal data, including emails, computer files and internet-based phone calls.
- 2014: A recent hacker attack against the servers of surveillance specialist Gamma International confirmed what was already suspected: the Hungarian secret service is on the list of clients for the firm's Finfisher program, a spy software commonly used in oppressive regimes to monitor political opponents and NGOs.