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Special Report: Mideast turmoil rocks western reputations

A rebel fighter looks at a burning vehicle during a battle along the road between Ras Lanuf and Bin Jiwad (reuters_tickers)

By Peter Apps, Political Risk Correspondent

LONDON (Reuters) - NMS International has taken to hiding its website behind a password and director Louis Oliver gives a false name when he answers his phone.

The company -- based in the small town of Market Harborough in central England and employing less than a dozen full-time staff -- provided equipment and training to the police forces of Libyan leader Muammar Gaddafi. But after Amnesty International posted video of one of the firm's armoured police buses pushing through protesters in Tripoli in the early days of the uprising, NMS became a target for rebuke from British newspapers and activists alike.

It's not the only one. A host of companies piled into the North African country during its rapprochement with the West over the past few years. Now the unrest that has swept Tunisia and Egypt's presidents from power and pushed Libya to the brink of civil war has many western firms, universities, politicians and others scrambling to protect dented reputations.

The Arab uprisings have already claimed foreign scalps. French Foreign Minister Michele Alliot-Marie resigned last week over her ties to the ousted Tunisian regime, and in particular a holiday she took in the country shortly before the uprising. A few days later, the head of the London School of Economics Howard Davies resigned over a 1.5 million pound ($2.4 million) donation from the family-run Gaddafi Foundation.

Some of those caught out seem genuinely surprised. As well as the armoured buses, NMS provided Libya with riot shields and equipment including baton guns which fire tear gas, smoke and rubber bullets. The company also used former British police and military instructors to train local police. But Oliver says his company did nothing more than try to help bring Libya in from international isolation and teach its authorities to handle dissent without killing people.

"Everything we did was legal and with the knowledge of the British government," Oliver told Reuters by telephone from the company office. "We never sold anything lethal to Libya or anyone else. It looked like the regime was improving, and it was right to encourage that."

"I HOPE WE HAVEN'T SOLD THEM SOMETHING".

That was then. As the old order unravels across the Middle East, even the most innocuous deal or political friendship can suddenly look like appalling judgement. Rights groups, political dissidents and ordinary citizens in the Middle East and elsewhere have long complained of abuses and repression by security forces, corruption and a lack of democracy. As people have taken to the streets, western allies, backers and suppliers have come into the spotlight.

"Companies and governments haven't been paying nearly enough attention to what has been going on in the countries in which they were working," said

Amnesty International's senior director for international law and policy Widney Brown. "We've always known they knew that things were happening -- and WikiLeaks proves it -- but it's often been deliberately ignored."

One official at a western defence firm, who like many interviewed for this story asked not to be named to protect their commercial or career interests, says the public reckoning has people in the industry on edge. "Every time one of these countries goes, everyone starts worrying: 'I hope we haven't sold them something,'" he said.

Reputational damage is notoriously hard to cost. But companies have lost customers and had to change strategy before: Barclays in its dealings with apartheid South Africa, cosmetics companies over animal testing. Gem giant De Beers has spent years working to rehabilitate its reputation after being accused of trading in "conflict diamonds."

Some firms can bounce back -- usually at a cost. Private military contractor Blackwater still has lucrative U.S. government and other contracts after several high-profile scandals in Iraq and elsewhere, particularly around alleged excessive use of force. But to make a break with the past it chose to rebrand itself Xe.

The fallout from recent weeks goes beyond defence firms. Telecoms, banks, construction companies, public relations consultancies, universities and politicians have all received an unwelcome reminder that dealing with authoritarian regimes is a riskier game than they had believed.

"The governments caught up in the recent fuss were not deemed 'dodgy' to most people until very recently," said the chief of one London-based public affairs company. "They were merely places where democracy was accepted as being practiced "differently" and where it was expedient for the old ways to be accepted."

The London School of Economics initially defended its decision to accept the Gaddafi Foundation donation. Gaddafi's son Saif al-Islam attended the school for his Ph.D. and spoke at an event organized by the university. But as the outcry grew, the university asked a senior judge to investigate its ties to Libya. LSE chief Davies -- who had also served as an unpaid economic envoy to Libya as then-Prime Minister Tony Blair led a diplomatic offensive to bring the country into the international fold -- stood down, saying it was the best way to protect LSE's name.

"The reputation of the school is my responsibility and it has, I might say, been damaged," Davies told BBC radio.

PANICKED POLICY-MAKING?

Politicians in Britain and France, too, have faced questions about their relationships with Arab leaders. French President Nicolas Sarkozy and his government have been heavily criticized for sticking with Tunisia's Ben Ali until just before he fled power. Paris then swiftly turned on him, refusing him entry and joining other European nations in locking down his personal finances.

U.S. President Barack Obama's administration was quick to distance itself from Egypt's Mubarak, but Washington has found itself facing domestic criticism over its close ties to countries such as Saudi Arabia. Italian Prime Minister Silvio Berlusconi -- once seen as Gaddafi's closest ally in Europe -- has also moved to distance himself from the Libyan leader.

In Britain, Prime Minister David Cameron has criticized the previous Labour administration's policy of rapprochement with Gaddafi, and particularly the release of the convicted Lockerbie bomber. "While of course it was right to try to bring that country in from the cold. The question is whether parameters should have been put on the relationship," Cameron told parliament in answer to a question on whether dealings had been too close.

But Cameron himself has taken criticism over a recent tour of the Middle East with a group of business leaders including the heads of several arms companies. "This does make (UK foreign secretary William) Hague's strategy of 'commercial diplomacy' more difficult," said one former British diplomat, referring to an approach in which UK diplomats were told to prioritize trade relations and perhaps pull back on criticism over human rights and other issues.

Perhaps hoping to stave off further criticism, Cameron and Sarkozy have been among the most hawkish international voices on Libya, calling for a potential no-fly zone. More hardline voices -- including some who backed the invasion of Iraq in 2003 -- want western powers to go further, arguing that cozying up to dictators has done more harm than good.

"There was huge neglect from Britain in deliberately bending over backwards to accommodate Gaddafi," Daniel Kawczynski, an MP in Britain's ruling Conservative party and sometime Hague adviser, said on the fringes of an event calling for military support for Libya's opposition. "It just shows how oil contracts and business interests have superseded an ethical foreign policy. Britain's reputation has been hugely damaged. We will only know for certain what weapons we sold him once he has been forced from office."

CRUDE CHOICES

How politicians and companies react to the threat to their name depends in part on what sort of investments they have.

When British mobile phone operator Vodafone shut down its networks in Egypt last month on the orders of President Hosni Mubarak's officials, the company claimed it had little choice but to obey instructions.

Vodafone's approach contrasted sharply with that of Google, which worked to find ways around Egypt's internet shutdown. One of Google's regional managers was involved in organizing protests, was detained for several days by security forces and gave a tearful testimony to TV cameras on his release that helped revitalise street protest.

"It's one thing to take a political line if you are Google and don't have much in the way of infrastructure or offices in the country," said Mark Pursey, a former Vodafone spokesman who now runs his own PR consultancy, BTP Advisers. "But if you have thousands of local staff who can be compromised by not following the requests of the government, and heavy equipment and installations that can be seized, it's another question."

Nowhere is that more true than in the mining and oil sector. Oil firm contingency plans have been especially tested in Libya, with hundreds of foreign staff needing rescue from remote desert air strips by Western special forces and Hercules transport aircraft.

With valuable facilities and national staff left behind, experts say the wiser operators will make sure the local population have a vested interest in looking after them. "It's very important to have the local people on side," said John Drake, senior risk consultant for London-based consultancy AKE -- which advises several oil companies. "If you look at what's happened in some areas of Libya, the security staff were from the local tribe and they are still there -- and from what we hear they are still protecting the facilities."

Oil firms have always worked in hazardous places. Much of the world's oil is found in countries known for corruption or autocratic rule or both. Revenues those firms help generate can fund repression and personal enrichment. Should oil companies simply walk away?

Rights groups acknowledge it can be a difficult balance. Even in corrupt, conflict-ridden countries, oil production and other investment can have a trickle-down economic effect, while sanctions and disinvestment can end up hurting those they were meant to protect. And if western firms walk away, then Chinese or Russian producers are likely to take their place. Is it better for a Canadian oil company to operate in Sudan or a Chinese one?

"We only rarely call for sanctions -- usually only when groups within the country are calling for them and we are confident that they are representative," said Amnesty International's Brown. "When firms are directly implicated in abuses, that is one thing, but sometimes they are not. You can't always offer easy answers."

LESSONS FROM SOUTH AFRICA

One of the first countries to be targeted by broad sanctions was apartheid South Africa, where everything from western banks to sporting teams were hit. But the South Africa experience offers another lesson as well: companies can make a difference.

In the early 1980s, as the apartheid government clung on with violence and repression, many mining companies realised they had a problem. Most believed apartheid would survive for years, but not indefinitely. That was a worry for firms digging expensive new shafts that they hoped to operate for several decades.

Michael Young, a 34-year-old political adviser to London-based Consolidated Goldfields, saw a novel solution. He went to his chairman and asked for permission to try to broker talks between the African National Congress (ANC) and elements linked to the Nationalist government.

The company agreed, freeing him of other duties to pursue the talks -- but only on condition that Young's negotiations would remain deniable if they were leaked.

"It was not a commercial decision, it needed a moral decision at a certain level within the company," he told Reuters over tea in a hotel near Whitehall. "There was much more potential downside for Goldfields than upside. There was no question it would ever be linked to mining concessions or anything like that."

After convincing the ANC that he did not work for British intelligence, Young began chairing sessions at an English country house owned by Goldfields. Gingerly, he tried to begin to bridge the gap between the ANC team led by future President Thabo Mbeki and a group of white South Africans who feared ANC victory would destroy everything they knew.

It was a difficult process. The rooms and Young's offices had to be repeatedly scanned for bugs, and participants had to check under their vehicles for car bombs. Violence by both sides in South Africa prompted walkouts.

ENGAGEMENT WORKS?

Young chaired the sessions from 1985 until 1991, helping pave the way for formal negotiations and eventual majority black rule. He says his business background made his role as facilitator easier. "I wasn't subject to political direction as if I had been a government servant," he said. "I didn't have to answer to a political constituency. It gives you much greater flexibility."

There were also policy implications. As the participants discussed what the economy of a post-apartheid South Africa might look like, Young was able to introduce senior figures from firms such as British Airways and South Africa's Sanlam, who he believes helped nudge the ANC away from Marxist economic ideology.

"There is a role for a detached organisation to be played with that kind of precise, due diligence, bottom-line kind of approach that comes with business," he said. "It was unusual. But I think there are cases when business can play a role."

Some of those involved in Britain's attempts to engage Gaddafi agree, arguing that the benefits were worth the compromises, despite the current turmoil. At the very least, they say, cooperation prompted the Libyan leader to hand over nuclear material in 2003. If that hadn't happened the current crisis would be infinitely more complex.

"For the best part of 40 years Libya under Gaddafi had constituted an international security threat," one former British intelligence official with detailed knowledge of dealings with Libya told Reuters. "Engaging with him, disarming him and encouraging him in the direction of reform made sense -- though... there was a degree of naivete and wishful thinking about what could be achieved in the short term."

Even some of those involved in Gaddafi-funded programmes at the LSE say they believe they did good. The money might have come from the Gaddafi dynasty, they say, but it was spent on working with dissident groups and building civil society organisations, including some now at the heart of the Benghazi uprising.

INDIVIDUAL CHOICES

Former Vodafone employee Pursey of BTP Advisers has grappled with the question of whether to engage or not. His firm represents the Rwandan government, which is accused by rights groups of clamping down on media freedoms and orchestrating fatal attacks on key opposition figures ahead of last year's elections, charges the Rwandan government -- which took over in the aftermath of the 1994 genocide -- rejects.

"Rwanda has been the subject of some controversy, but you have to look at where they have come from in only 17 years," said Pursey, adding he believed bringing developed world standards and skills to Africa was a positive for everybody.

"The bottom line is that you are taking money from these governments or individuals," he said. "You have to make a moral judgement. Would I represent (Zimbabwe leader) Robert Mugabe? No, I wouldn't, because the weight of evidence against him for all the things that he has done is too strong."

But Pursey said he might be willing to represent other controversial African politicians, including some Kenyan figures named by the International Criminal Court in relation to post-election violence in 2007-8. "I think you can see Kenya as a reasonable democracy," he said. "The court case will take its course, as of course it should, but there are two sides to every case and it's not wrong to help put one of them."

JUST CAN'T WALK AWAY?

Few companies with interests in the Arab world are likely to cut ties there, even with the current unrest. The fast-growing markets are simply too appealing, oil supplies from countries such as Saudi Arabia too vital. But many companies are now much more nervous of unrest--both in the Arab world and elsewhere.

"We have been getting calls (on Saudi) and there are obviously concerns -- although it is not as vulnerable as Tunisia, Egypt or Libya," said Anthony Skinner, associate director of political risk consultancy Maplecroft. "But no one is thinking of pulling out."

Saudi's rulers -- and to a lesser extent those of other oil-rich Gulf emirates -- have vast reserves of cash with which to placate protesters. But so far there seems little enthusiasm for offering the kind of fundamental reforms protesters might demand.

Western dependence on Saudi is not just about oil supplies. One former diplomat said Saudi arms purchases were crucial to Britain retaining enough of a defence industry to be able to equip its own armed forces with UK-built equipment at reasonable cost.

The former British intelligence officer said that in an era of WikiLeaks, internet scrutiny and social media protest it was becoming more difficult to pursue ruthless realpolitik. But with Western economies in decline and emerging powers such as China increasingly showing their muscle, he said there was sometimes little choice.

"We will have to get more used to pragmatism in foreign policy -- not that it is anything new -- and that will involve dealing with people we don't like or agree with," he said. "People in the UK need to remind themselves that it took us many hundreds of years and a civil war... to get to where we are now. Countries have to find their own way at their own pace and we shouldn't kid ourselves that we can force that."

That leaves company executives and politicians on edge about the future and hoping they will be able to adapt fast enough.

"Some of these states are like sand piles," said one oil executive. "You know they can be unstable and collapse but predicting exactly what will do it and when can be impossible."

(Editing by Simon Robinson and Sara Ledwith)