

# The Arms Dealer Next Door

## International billionaire, French prisoner, Angolan weapons broker, Arizona Republican. Who is Pierre Falcone?

By Ken Silverstein

**O**n December 1, billionaire businessman Pierre Falcone walked out of the Fleury-Merogis prison near Paris after a judge opted not to prolong his provisional detention. Despite having spent a full year behind bars, it's doubtful that Falcone felt a great sense of relief that day.

The key player in a huge scandal that has tarnished some of France's best-known politicians, Falcone is still expected to stand trial later this year for his role in the sale of half a billion dollars worth of Eastern European weapons to Angola. He obtained his release only after paying a \$15 million bail, turning over his passport to the court, and accepting severe restrictions on his movements and activities.

Falcone was initially charged with illegal arms dealing because he allegedly brokered the Angola sales without authorization from the French government agency that reviews weapons exports, but prosecutors later dropped that count due to a legal technicality. He remains accused of bribing numerous prominent parties to further his arms business—most notably Jean-Christophe Mitterrand, son of ex-President Francois Mitterrand—and of failing to pay tens of millions of dollars in taxes on profits from the Angola deals, legal or not.

Though largely unreported, the man at the center of "Angolagate," as the French press has dubbed the scandal, has extensive American ties. Falcone's primary residence is a mammoth estate in Paradise Valley, Arizona, where he and his wife, Sonia, a former Miss Bolivia International, are active in political and community affairs. Falcone's American activities range from advising a major U.S. oil company to teaming with a Virginia-based arms dealer who has worked for both the CIA and Saddam Hussein. What's more, a floundering health and beauty company run by Sonia Falcone made a controversial \$100,000 donation to the Republican Party during the 2000 presidential campaign.

Beyond Falcone's own stake in the legal outcome, Angolagate has significant geopolitical implications. Angola has emerged as one of the world's leading oil producers—it is now America's ninth-largest supplier, ahead of Kuwait and England and right behind Norway and Colombia—and is sitting on enormous untapped reserves. But civil war and rampant corruption in Angola, which serves as the backdrop to the Falcone affair, has kept the country isolated on the international stage and its economy in shambles. "Angola is going to remain a pariah as long as the government keeps cutting deals with people like Falcone," says a former State Department official who has closely followed Angolagate. "It sends a terrible message to the rest of Africa, because if Angola can't make it with all of its energy resources, there's not much hope for the rest of the continent."

**W**hen I first heard about Pierre Falcone—and his beautiful Bolivian wife, vast wealth and jet-setting lifestyle—I imagined a dapper, handsome man straight out of a John Le Carré novel. It came as something of a surprise when I first saw his picture, which revealed him to be a plump, balding man who looked more like an upscale insurance salesman than a covert operator.

Falcone was born in 1954 in Algeria, which was then under French rule. His father, Pierre Sr., was the mayor of a town called Bou-Haroun-Alger, ran a fishing fleet and, according to *Le Monde*, was involved in the arms trade. After the Algerian Revolution of 1962, the family moved to France, where Falcone lived until he was 22. Since then, he has traveled the world, building a business empire that runs from advertising in China to oil in Africa.



Pierre Falcone is out on \$15 million bail.

Falcone bought a home in Arizona in the '80s and met Sonia Montero at a 1990 Formula One auto race in Phoenix. They were married four years later at a church outside of Paris. Hundreds of guests attended the wedding and reception—the latter was held at the Chateau de Ferrieres, the 19th-century home of the Rothschilds—including the groom's good friend, Jean-Christophe Mitterrand.

The arms trade comprises a small, if notable, part of Falcone's commercial activities. In France, he served as a consultant to a government agency known as SOFREMI, which exports military equipment under the auspices of the Interior Ministry. In that capacity, he reportedly arranged sales to Africa and Latin America. Through Arcadi Gaydamak—an

immensely wealthy Russian émigré businessman and his chief partner in Angola—Falcone also had good contacts in Eastern Europe, which in the post-Cold War period has become a global weapons bazaar.

The deals that sparked the Angolagate scandal took place in 1993, when the Angolan government of Eduardo dos Santos was under siege by the right-wing guerrilla group known as UNITA, headed by Jonas Savimbi. During the Cold War, Angola could count on the Soviet Union for weapons—UNITA had been backed by Presidents Reagan and Bush, but was dumped by the Clinton administration—but its former ally had disappeared from the map. Furthermore, arms purchases by the government and UNITA remained prohibited under the 1991 Bicesse Accords negotiated in Portugal. Desperate, dos Santos contacted Jean-Bernard Curial, a friend and member of the French Socialist Party, to see if Paris would arm his regime.

Curial was dubious about the prospects. France was then in a period of political “cohabitation” with Socialist Francois Mitterand (who died in 1996) holding the presidency, but day-to-day governing was carried out by conservative Prime Minister Eduardo Balladur. Several key members of Balladur’s government, including the minister of defense, traditionally had been close to UNITA. Curial turned for advice to Jean-Christophe Mitterand, who had built up a network of contacts in Africa while serving as his father’s chief adviser and, despite having resigned his post the previous year, remained well-connected at the presidential palace. He suggested to Curial that his friend Falcone might be able to offer assistance to dos Santos through less formal channels.

In November 1993, Falcone and Gaydamak helped arrange the sale to Angola of \$47 million in small arms. A second deal for \$563 million worth of weapons, including tanks and helicopters, got underway early the following year. The supplier in both cases was ZTS-OSOS, a Slovakian company that rounded up the weapons from Russia, Bulgaria and Ukraine. The Angolans paid for the weapons with oil, which Falcone and Gaydamak sold with the help of Glencore—a company owned by Marc Rich, the fugitive financier who would later receive a controversial pardon from Bill Clinton during his last days as president.

Thanks to their sensitive role in Angola, Falcone and Gaydamak became intimate cronies of dos Santos, whose systematic pilfering of the state treasury has made him by some accounts one of the world’s 50 richest men. (On December 12, Reuters reported that \$1.5 billion of the \$3.5 billion that Angola earned in 2000 from oil exports was unaccounted for.) The two men were given a stake in virtually every key sector of the Angolan economy, from food to diamonds to oil. In 1999, the government picked Falcon Oil Holdings, a Falcone-owned firm registered in Panama, as a minority partner to ExxonMobil on a huge offshore site.

Beyond these economic privileges, Falcone and Gaydamak gained a remarkable degree of political influence in Angola.

According to Gaydamak—a wanted man in France who now resides in Israel, where I reached him on his cell phone—both he and Falcone were granted Angolan citizenship and diplomatic passports, served as advisers to the government and were named employees of the Ministry of Foreign Affairs. Indeed, Falcone was so well-connected in Angola that before his arrest he had become a door-opener for companies hoping to do business there. In June 2000, top officials from Phillips Petroleum, which has been seeking to expand in Angola, made the pilgrimage from corporate headquarters in Bartlesville, Oklahoma to Arizona to seek Falcone’s counsel and assistance. (Phillips declined to discuss the meeting.)

The first vague details of Angolagate came to light five years ago when a highly regarded insider newsletter called *La Lettre du Continent* broke the story. French judicial officials later found that Brenco International, a Falcone firm involved in the Angola arms transfers, subsequently made payments to a number of his associates. Jean-Christophe Mitterand, who has been out on bail since early last year but remains under investigation, acknowledges receiving \$1.8 million into his numbered Swiss bank account four years ago, but says that the money was for consulting work unrelated to Angolan arms sales.

There’s surely an element of hypocrisy in the French government’s prosecution of Falcone, for it’s clear that key officials viewed his arms transfers to Angola as serving French foreign policy objectives and approved of the deals. France depends on Africa for most of its petroleum needs, but traditional suppliers like Gabon and Cameroon have declining reserves. Angola—set to become one of the world’s major petroleum exporters in the next 20 years—has not traditionally had strong ties to France, but in recent years it has become an increasingly important source of its oil, and French energy companies have been awarded major contracts by the dos Santos regime. “There is a relationship between Falcone selling the weapons and the improved relationship between France and Angola,” says Sharon Coutoux of Survie, a Paris-based human rights group.

Falcone, too, has suggested that the French government endorsed his activities. In a 14-page letter to investigators, he denied paying off any government officials, saying his role in the Angolan arms sales was limited to selling the oil that paid for the weapons. The greatest indignity of all, he wrote, is that the French are the primary beneficiary of his activities. His work with SOFREMI enabled Paris to “penetrate delicate and complex markets” abroad, while his role in Angola helped France win favor with an energy-rich regime that “the entire world is interested in courting.” The accusations against him, Falcone said, are as “unjust as the charge of witchcraft [was] in the Middle Ages.”

In Washington, Falcone’s complex ties in Angola were well known among government Africa specialists. Four past and present officials told me they were acquainted with Falcone via diplomatic cables and intelligence reports. J. Stephen Morrison, who served on the secretary of state’s policy-

## **Falcone may have been lobbying for Angola’s interests when his wife sent \$100,000 to the Republican Party.**

planning staff until last year, says Clinton administration officials were aware that Falcone was a key player in Angola and that “most of what he did was not very transparent. The scandal caught people by surprise, but it was not a big shock.”

Falcone’s name is also familiar within the narrow world of international arms dealers. Sarkis Soghanalian, whose 40-year career in the arms business began when he armed Christian militias in Lebanon at the request of the CIA, says he met Falcone several times in Paris, where both had offices off the Champs-Élysées. Through Mark Geragos, his American attorney (whose other clients include Rep. Gary Condit), Soghanalian said that he and Falcone shared a mutual client, Mobutu Sese Seko, the former dictator of Zaire (now the Democratic Republic of the Congo). According to Soghanalian, Falcone brokered diamonds-for-weapons deals on behalf of Mobutu and was intimate with the dictator and his entourage.

Among Falcone’s closest contacts in the arms business is Stephen “Satch” Baumgart, who operates out of Reston, Virginia. A former Naval officer, Baumgart has been involved in the murkier fringes of the weapons trade since the ’70s, when he brokered sales to American allies such as Mobutu and Ferdinand Marcos in the Philippines—all apparently with a wink and a nod from U.S. intelligence. “A CIA agent would drop by our office and Baumgart would brief him about his overseas travels, particularly about his contacts in the Arab world,” recalls Gerhard Bauch, a one-time German intelligence officer who worked for Baumgart. “They knew about everything we did.”

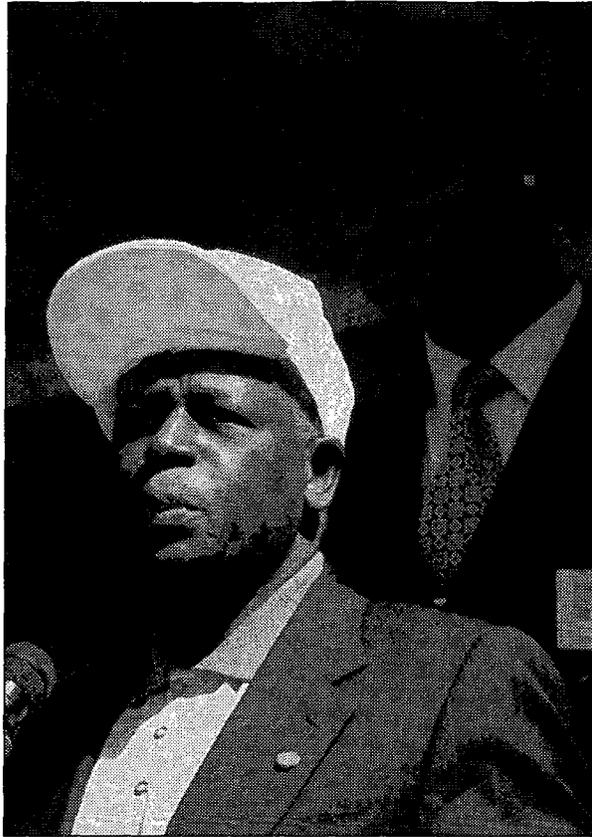
During the mid-’80s, Baumgart—who did not return phone calls seeking comment—helped supply Saddam Hussein, who was then seen by the Reagan administration as a bulwark against the Ayatollah Khomeini in Iran. A prominent European arms broker who knows both Falcone and Baumgart says the two men first teamed up in the ’80s and worked together until at least a few years ago. This source says that Falcone and Baumgart had interests in Angola, among other places. (Gaydamak also confirms that Falcone and “Mr. Satch” worked together, though he denied knowing details of their business dealings.)

If it was an open secret in certain Washington circles, Falcone’s involvement in the arms trade was entirely unknown in Paradise Valley, an elite enclave wedged between Phoenix and Scottsdale. Reginald Ballantyne III, president of PMH Health Resources Inc., says the Falcones are highly regarded local figures and that he and other residents were stunned when Angolagate hit the press. “It didn’t make any

sense to me then, and it still doesn’t make any sense to me,” Ballantyne said. “I just couldn’t connect the dots.”

One of the nation’s wealthiest communities, Paradise Valley is solidly conservative. The local government levies no property taxes, and services such as water and fire protection have been privatized. I received a tour of the town from Kathy Smith of Hague Partners, which sold \$103 million worth of property here last year. As we drove along Lincoln Road in Smith’s cream-colored Cadillac, we passed one of the town’s few commercial properties, the newly renovated Applewood pet resort, where residents board their pets when they’re on vacation. A suite for a dog, which includes a bed and cable TV, goes for \$38 a night, but extras—a fitness walk, “pupsicles,” a swim in the resort’s bone-shaped pool, topped off with a blow dry—can raise that rate quite a bit higher.

JUDA NGWENVA/REUTERS



For brokering the arms deals, President Eduardo dos Santos gave Falcone a stake in everything from oil to diamonds.

Far atop Mummy Mountain, Smith pointed to the estate of Leona Helmsley, which has been on the market for several years without attracting a buyer, despite a price cut from \$24 million to \$14 million. Smith used a magnetic card to pass through the gates of the El Maro neighborhood, where Chicago Bulls owner Jerry Reinsdorf erected a private playground for his grandchildren on a two-acre lot adjacent

to his summer home. Just before his arrest, Falcone bought a new \$10.6 million estate not far from the El Maro section—the most expensive home purchase in state history, according to the *Arizona Republic*. A post-sale real estate listing speaks in hushed tones of the property’s paneled library, theater, swimming pool, tennis courts, seven bedrooms and 11 bathrooms, and reveals that the Falcones don’t have a mortgage on the property. It was purchased outright by SPEP, a Turk and Caicos Island trust controlled by Pierre.

As members of the area’s upper crust, the Falcones occasionally pop up in local society pages. Based on nuggets that ran after Falcone’s arrest, their standing has not been tarnished by his legal difficulties. In the April 2001 issue of *Arizona Trends*, a magazine filled with ads for Feng Shui consultants, plastic surgeons, anti-aging treatments and day spas, then-publisher Danny Medina recounted his lunch with Sonia Falcone: “She was perfectly stunning with a great personality and rich, rich, rich. Oy! You should have seen the square cut diamond on her hand!”

In May, *Scottsdale Life*, a glossy freebie sent to selected area homes with an assessed value of \$250,000 or more, featured a cover story on the Falcones’ new estate. It spoke of bedroom

suites that “bear the imprimatur of Sonia’s exquisite taste,” of the Vera Wang evening gowns hanging in her 1,100-square-foot closet, and of her devotion to family and friends. (“And, yes, it does help to have a butler, cook, domestic help, chauffeurs and an army of nannies to help out.”)

Like many Paradise Valley residents, the Falcones are regulars on the local black-tie charity circuit and contribute generously to organizations such as the American Heart Association, Phoenix Children’s Memorial Center and the Kids in a Korner Foundation. During my stay in Arizona, Sonia attended a fundraiser for the American Cancer Society at Marriott’s Camelback Inn resort. After dining on pinenut-crusted filet of beef and wild-mushroom risotto, attendees bid at auction on donated items such as a week at the Hacienda del Mar in Cabo San Lucas, a variety of golfing packages and diamond jewelry.

Sonia, who declined to be interviewed for this story, was accompanied to the fundraiser by Jason Rose, a Phoenix PR man and Republican political consultant whom she has retained to tell her husband’s side of the Angolagate story. The son of a prominent area family, Rose is a rising star in GOP circles. He knows the Falcones from local social and political circles (“They’re cool people who you’d like to have a drink with”) and argues that Pierre is the victim of a French legal system that deems people “guilty until proven innocent.”

In addition to charity, the Falcones have also taken an interest in politics. In June 2000, the couple hosted a fundraiser at their home for Scott Bundgaard, a Republican state senator and close ally of President Bush. (Bundgaard endorsed Bush over native son John McCain during last year’s GOP primaries and was a major fundraiser for his campaign.) The affair attracted political luminaries such as Gov. Jane Hull and several members of Arizona’s congressional delegation, as well as Jean-Christophe Mitterand.

Sonia Falcone was also a donor to the Bush campaign, and pictures of her with the president and first lady, snapped at political functions in Arizona, hang in her home. During the summer of 2000, Bundgaard invited Sonia to join a small local entourage that greeted then candidate Bush at the Phoenix airport when he flew in for a campaign event. Most of Sonia’s political contributions came from the coffers of Essante, her Utah-based health and beauty firm. The company gave \$20,000 to the Republican Party in May 2000 and another \$80,000 in November. Sonia Falcone has insisted that her husband had no connection to Essante and that the company’s political contributions came out of corporate profits. She made the donations, she says, to increase Latino awareness in the Republican Party. (The GOP returned the contributions following Pierre’s detention—“to avoid the appearance of impropriety,” in the words of a statement issued by the Republican National Committee.)

Yet Essante was incorporated in Delaware on April 6, 1994 with Sonia as its founding president and one of two directors—the other was Pierre Falcone. He no longer holds that title, but the firm’s accountant until just recently was Henry Guderley, who fills the same position for the London offices of Brenco International. More significantly, Essante, which has been losing money for the past seven years, has no profits from which to make political contributions. Essante publicist Lee Solters—a legendary Hollywood PR agent whose clients have included everyone from Frank Sinatra and Barbra Streisand to

Pia Zadora and Kato Kaelin—says Essante spent its first six years, and \$6 million, developing its product line. Sales only began in earnest last September, after Essante threw a three-day launch party at the Paris Hotel in Las Vegas.

So who’s been footing the bill? A source familiar with the company says Pierre has always provided the money for Essante. “The company has come a long way with Pierre’s generosity, but after a few years he’d like to see some profit,” this person says. “It rubs him the wrong way, but out of love for his wife he’s done it with a smile on his face.”

It’s possible that Essante’s political contributions were spurred by nothing more than Sonia’s open desire to be a player in state and national politics. Even after her husband’s arrest, she remains active on the Arizona scene and close to several state officials. Last June, Bundgaard accompanied her and several other friends to Washington for a gala affair at the Ritz-Carlton honoring Sharon Stone. A few months later, Sonia appeared at a campaign function for Matt Salmon, an Arizona congressman who’s running for governor on the GOP ticket. She called him a “true conservative” and said she planned to help his campaign “any way I can.”

But one of the American officials I interviewed suspects that Pierre may have been thinking about Angola’s interests when his wife sent \$100,000 to the GOP. As the official noted, businessmen who operate in Angola are expected to support its government back home, and Luanda is eager to cement ties to Washington, which during the Clinton years became its chief international ally and biggest source of foreign investment. Furthermore, dos Santos has reason to be jittery about the policies of George W. Bush, whose father’s supported UNITA. In February 2000, just weeks after Bush’s inauguration and a few months after Essante sent its final payment to the RNC, two major lobby shops in Washington—Patton Boggs and Daniel J. Edelman—signed contracts that called for them to work to improve U.S.-Angola ties.

Of course, only Falcone himself can offer a full explanation of why his money went to the Bush campaign. Given his current circumstances, chances are he won’t be talking anytime soon. ■

Ken Silverstein is a Washington-based reporter who frequently writes about the arms trade. His latest book, *Private Warriors, a look at the post-Cold War arms trade*, was just released in paperback.

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# The New America

By G. Pascal Zachary

**T**he tall, white-washed mosque is set back from a busy commercial street that cuts through a densely populated valley east of San Francisco. On a Friday in October, five rows of Afghan men pray in the hot, midday sun. They are mourning the death of an old friend in Hayward, a strip of suburban California that is home to one of the largest concentrations of Afghans in the United States.

In front of their mosque, on top of a 50-foot pole, flies an American flag. The flag went up after September 11. Before then, the Afghans felt no need to advertise their loyalty to America. Things have changed. These Afghans suddenly have a lot to prove. The U.S. government is fighting a self-styled "war on terror," and President Bush has declared that those who fail to help in this war are the enemy.

Along with other immigrants, they are racing to keep pace with the reality of America under threat. The task is complicated because there no longer is a single criterion, if there ever was one, of what it means to be an American. In World War II, Americans jailed law-abiding citizens of Japanese descent as a precaution. Today, Afghans freely criticize the U.S. bombing of their country, and even complain that Islamic extremists have reason to resent America. President Bush, though elected on the strength of his fervent Christianity, has visited a mosque and pointedly says he has no argument with genuine Muslims, only the phony ones who endorse or defend terror.

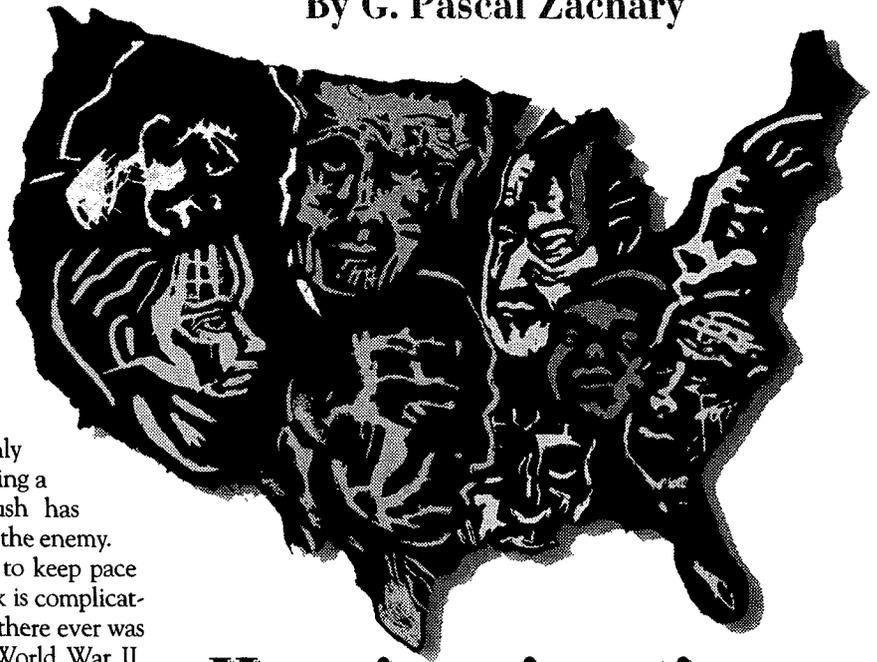
In California—the first state in which ethnic "minorities" comprise the majority—because no ethnic or racial community commands enough of a following, no great pressure exists in the U.S. for subcultures to conform to a single, national ideal.

As the men disperse, their prayers done, three volunteers from a local civil rights group hand out leaflets, telling the Afghans not to speak to any FBI agents without an attorney, which the group will supply as needed. One of the volunteers, Nadia Olmedo, is herself an immigrant, a social worker whose parents are from South America. "People in this country should feel solidarity with Afghans, not fear them," she tells the men.

Her words echo an American motto: *E Pluribus Unum*, "out of many, one." Yet this phrase is deceptively simple. Just how does a society create unity out of diverse peoples?

**T**he United States once imposed uniformity on its people by actively discouraging newcomers from maintaining ties with their homelands or speaking their native languages. Other countries in the world, including Germany, adopted this philosophy of assimilation. One of the outcomes of the civil rights movement was to discredit assimilationist policies.

When the landmark Immigration Act of 1965 opened American borders to immigrants from poorer, developing countries, especially Asia, these newcomers took advantage of the new laissez-faire attitude toward immigrant lifestyles



## How immigration is transforming our society

and values. By the early '90s, tolerance of immigrant cultures was so ingrained in U.S. law and social practice that many conservatives and even some liberals complained about "the unraveling of America."

Some unraveling is inevitable, of course. In the past 20 years, more than 20 million foreigners moved—legally—to the United States. While these newcomers energized the country—helping its economy, giving its population a younger, more dynamic cast—they carried costs as well as benefits. The differences among Americans, in short, probably are as great as they were during the last great wave of immigration at the turn of the 20th century. But these differences seem more likely to endure, as immigrants use the Internet, the telephone and easier modes of travel to maintain connections with their native lands.

To be sure, there is something wonderful about the new America. At a Catholic Church not far from this mosque, the congregation consists of people born in Brazil, Nigeria, the Philippines, Mexico and, yes, the United States. Masses are held in Mandarin Chinese, Spanish and Portuguese. Not only are immigrants welcome to worship at St. John the Baptist Church, the priest says, but the parish's survival depends on them.

Father John Maxwell walks his talk, too. One recent Sunday, after mass, the church gymnasium filled up with hundreds of immigrants from Nigeria. They came to attend mass and celebrate the fall harvest with palm wine, roasted chicken and rice.