



U.S. Securities and
Exchange Commission

Press Release

SEC Charges Alcoa With FCPA Violations

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Washington D.C., Jan. 9, 2014

The Securities and Exchange Commission today charged global aluminum producer Alcoa Inc. with violating the Foreign Corrupt Practices Act (FCPA) when its subsidiaries repeatedly paid bribes to government officials in Bahrain to maintain a key source of business.

An SEC investigation found that more than \$110 million in corrupt payments were made to Bahraini officials with influence over contract negotiations between Alcoa and a major government-operated aluminum plant. Alcoa's subsidiaries used a London-based consultant with connections to Bahrain's royal family as an intermediary to negotiate with government officials and funnel the illicit payments to retain Alcoa's business as a supplier to the plant. Alcoa lacked sufficient internal controls to prevent and detect the bribes, which were improperly recorded in Alcoa's books and records as legitimate commissions or sales to a distributor.

Alcoa agreed to settle the SEC's charges and a parallel criminal case announced today by the U.S. Department of Justice by paying a total of \$384 million.

"As the beneficiary of a long-running bribery scheme perpetrated by a closely controlled subsidiary, Alcoa is liable and must be held responsible," said George Canellos, co-director of the SEC Enforcement Division. "It is critical that companies assess their supply chains and determine that their business relationships have legitimate purposes."

Kara N. Brockmeyer, chief of the SEC Enforcement Division's FCPA Unit added, "The extractive industries have historically been exposed to a high risk of corruption, and those risks are as real today as when the FCPA was first enacted."

According to the SEC's order instituting settled administrative proceedings, Alcoa is a global provider of not only primary or fabricated aluminum, but also smelter grade alumina – the raw material that is supplied to plants called smelters that produce aluminum. Alcoa refines alumina from bauxite that it extracts in its global mining operations. From 1989 to 2009, one of the largest customers of Alcoa's global bauxite and alumina refining business was Aluminium Bahrain B.S.C. (Alba), which is considered one of the largest aluminum smelters in the world. Alba is controlled by Bahrain's government, and Alcoa's mining operations in Australia were the source of the alumina that Alcoa supplied to Alba.

According to the SEC's order, Alcoa's Australian subsidiary retained a consultant to assist in negotiations for long-term alumina supply agreements with Alba and Bahraini government officials. A manager at the subsidiary described the consultant as "well versed in the normal ways of Middle East business" and one who "will keep the various stakeholders in the Alba smelter happy..." Despite the red flags inherent in this arrangement, Alcoa's subsidiary inserted the intermediary into the Alba sales supply chain, and the consultant generated the funds needed to pay bribes to Bahraini officials. Money used for the bribes came from the commissions that Alcoa's subsidiary paid to the consultant as well as price markups the consultant made between the purchase price of the product from Alcoa and the sale price to Alba.

The SEC's order finds that Alcoa did not conduct due diligence or otherwise seek to determine whether there was a legitimate business purpose for the use of a middleman. Recipients of the corrupt payments included senior Bahraini government officials, members of Alba's board of directors, and Alba senior management. For example, after Alcoa's subsidiary retained the consultant to lobby a Bahraini government official, the consultant's shell companies made two payments totaling \$7 million in August 2003 for the benefit of the official. Two weeks later, Alcoa and Alba signed an agreement in principle to have Alcoa participate in Alba's plant expansion. In October 2004, the consultant's shell company paid \$1 million to an account for the benefit of that same government official, and Alba went on to reach another supply agreement in principle with Alcoa. Around the time that agreement was executed, the consultant's companies made three payments totaling \$41 million to benefit another Bahraini government official as well.

The SEC's cease-and-desist order finds that Alcoa violated Sections 30A, 13(b)(2)(A), and 13(b)(2)(B) of the Securities Exchange Act of 1934. Alcoa will pay \$175 million in disgorgement of ill-gotten gains, of which \$14 million will be satisfied by the company's payment of forfeiture in the parallel criminal matter. Alcoa also will pay a criminal fine of \$209 million.

The SEC appreciates the assistance of the Fraud Section of the Criminal Division at the Department of Justice as well as the Federal Bureau of Investigation, Internal Revenue Service, Australian Federal Police, Ontario Securities Commission, Guernsey Financial Services Commission, Liechtenstein Financial Market Authority, Norwegian ØKOKRIM, United Kingdom Financial Control Authority, and Office of the Attorney General of Switzerland.

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