

The Ecclestone/Gribkowsky scandal: bribery and corruption

This is a long, complicated story extending over 12 years. It's recorded here in the public interest. The main sources of information are listed at the end of the article.

This story starts in the late 1990's, when **Bernie Ecclestone** attempted to turn his interests in Formula One into cash by floating the business on the London stock exchange, at a value of \$2-2.5 billion. The company to be floated was called **Formula One Holdings**, a wholly owned subsidiary of SLEC Holdings, an Ecclestone family trust, which, as part of an elaborate tax avoidance scheme, was owned by **Bambino Holdings**, which in turn was owned by another trust based in Switzerland.

The attempt to float Formula One failed because of the labyrinthine nature of its finances and because of an unfavourable finding on Formula One's business practices by the European Commission for Competition.

An attempt in 1998 to issue \$2 billion worth of Formula One 'Eurobonds' also failed, with buyers hard to find.

In 1999-2000, various investment groups circled around Formula One, including **Hellman and Friedman**, a San Francisco private equity firm. The managing director was **Brian Powers**, who was also chairman of the Australian publisher, **Fairfax**.

Ron Walker, the chairman of the Australian Grand Prix Corporation, a close friend of Ecclestone, and a trustee on an Ecclestone family trust, together with a business associate of Brian Powers, acted as the go-between in a deal in which Hellman and Friedman paid \$712 million for a 37.5% stake in Formula One. A month later, another deal was done, again with Ron Walker's involvement, in which Hellman and Friedman sold the stake to the German broadcaster, **EM.TV** controlled by **Leo Kirch**.

Kirch also bought an additional stake to bring his interest in Formula One to 50%, at a combined cost of \$1.65 billion. Hellman and Friedman made a profit of \$247 million, and Ron Walker was reported to have received a 'success fee' of around \$100 million.

In 2001, the Kirch group paid an additional \$1 billion and increased its holdings to 75%. The remaining 25% shareholding was owned by Bambino Holdings. Formula One then had an apparent market value of \$3.5 billion.

In 2002, the Kirch group became bankrupt due to excessive debt and poor investments. The Formula One shareholdings went to the three banks which had funded their purchase, **Bayerische Landesbank**, **Lehman Brothers** and **JP Morgan Chase**.

From 2002 until 2005 a titanic legal struggle ensued between Ecclestone and the banks regarding the voting rights in Formula One, and control over the millions of dollars flowing from the commercial rights to the business.

In an extraordinary move, Ecclestone paid one pound into Formula One Administration (one of a number of Formula One operating companies),

which had the effect of giving him 50% of the voting rights in Formula One Holdings, equal to that of the banks. Despite losing the voting rights battle, the banks agreed to keep Ecclestone on as CEO of Formula One because of his experience in running the business.

In 2005, the German bank Bayerische Landesbank showed interest in selling its 47% shareholding in Formula One, and the UK private equity company **CVC Capital Partners** was an interested buyer. At this time the chief risk officer of the bank, **Dr Gerhard Gribkowsky** acted as chairman of SLEC Holdings (owned by Bambino Holdings), and had been closely associated with Ecclestone for some years. Gribkowsky also worked on an Ecclestone family trust, most probably Bambino Holdings.

On November 25, 2005, CVC announced that it had reached an agreement to buy the bank's stake and part of Bambino Holdings stake in Formula One to acquire a controlling interest in the business.

A new company **Alpha Prema** was to be formed with shareholders comprising CVC, Bambino Holdings, Ecclestone, and the Formula One management team.

Ecclestone was to remain as CEO of the Formula One group and Gerhard Gribkowsky, who had handled the sale of the bank's interest in Formula One, was to join the board of Alpha Prema.

In late 2010, Gerhard Gribkowsky was arrested in Germany and charged with accepting bribes, breach of trust and tax evasion. In late June 2012, Gribkowsky confessed to the crimes, all relating to the CVC deal, and was jailed for eight and a half years.

As has been widely reported, the Gribkowsky story revolves around Bernie Ecclestone and his desire to continue to control Formula One. It was in Ecclestone's interest to have the CVC deal go through and, according to the prosecution, to ensure this he paid Gribkowsky a \$44 million bribe. The prosecution claimed that Gribkowsky sold the bank's 47% stake to CVC at the 'undervalued price of \$840 million, rather than choosing the right buyer with better potential returns to the bank'.

Having paid the bribe and seeing the deal go through, Ecclestone then apparently sought to recoup the cost of the bribe. According to Gribkowsky's evidence, Ecclestone first demanded \$100 million, but eventually accepted \$66 million, paid from the bank's funds with \$41 million going to Ecclestone and the balance to Bambino Holdings.

Ecclestone's side of the story is that the \$44 million was not a bribe relating to the sale, but payment to stop a 'shakedown' by Gribkowsky who was threatening to report him to the British tax authorities regarding the tax arrangements of the Ecclestone family trust. As for the \$66 million, he has said that this was a legitimate 5% commission, and the rest was repayment of a loan to Bambino.

There is now wide speculation that Ecclestone will face a German court and/or investigation by British tax authorities. Time will tell.

Information sources: Daily Mail online 20/6/12, The Telegraph online 27/6/12, businessday.com 20/6/12, f1sa.com 27/6/12, eurosport.com 29/12/12, pitpass.com 20/11/09, 23/6/12, wordpress.com 1,19,21,22,28/6/12, seekingalpha.com 23/5/12, worldcarfans.com 25/5/12, 'Bernie's Game', (Terry Lovell, 2003), The Economist, 22/1/05, CVC Press Release 25/11/05.

August 2012 SAP Newsletter:

Bernie's last gasp?

Last March, Bernie Ecclestone was offering to release Victoria from its grand prix contract. He said that the Melbourne race was the least viable of all the races in the F1 series, and implied that its only hope of survival lay in staging it at night.

How things have changed! Now Ecclestone needs the Melbourne race. He needs a signed contract for another five years and the race licence fee of 30-40 million dollars a year which comes with it.

The reason? Ecclestone's personal reputation is in tatters because of the Gribkowsky bribery scandal. The only thing he has left is his skill and experience in negotiating race contracts, and these contracts (in 'a couple of filing cabinets') represent the only real assets of the Formula One business. Because of the downturn in the world economy a number of privately operated European race circuits are in deep financial trouble. Ecclestone needs the certainty of the contract for the state-subsidised Melbourne race in order to bolster his now shaky standing as CEO of Formula One, and to help maintain the claimed value of the business prior to the Singapore float.

A sure sign of Ecclestone's anxiety over the Melbourne grand prix contract is the recent, out-of-the-blue revelation from the British 'consultant', Formula Money, that the event creates enormously valuable publicity for Melbourne.

On July 27, the *Herald Sun* published an article by Peter Rolfe, headed '*Priceless publicity drives push for new grand prix contract*'. The article stated that 'independent research' by Formula Money showed that the race had generated publicity valued at \$816 million over the past four years (ie over \$200 million per race). The co-author of the report, Caroline Reid was quoted as telling 3AW radio: "*You can see the (city) skyline ... it's mentioned frequently in the broadcast, giving it a lot of publicity*". Apparently this was the most significant of her comments. The Formula Money claim was also reported by Channel 10 (which has the F1 race series TV contract), but not, it seems, by any other media outlet. No state government minister has commented on it.

There are some very strange aspects of this so-called research. No details have been released as to the data or methodology used, nor how it came to be conducted in the first place. The findings, in terms of publicity value, are vastly in excess of those reported by Comperio Research (another British consultant of dubious quality) after a study commissioned by Tourism Victoria on the 2008 and 2009 events. Comperio estimated an annual publicity value of \$35.6 million.

Last year, Formula Money estimated the publicity value of the 'MELBOURNE' signage at the Albert park circuit to be worth \$262,552. If Formula Money now thinks the shots of the city skyline generated an additional \$200 million worth of media exposure, **has this any connection to Bernie Ecclestone's attempt to drive up the value of Formula One? SAP understands Formula Money operates in close collaboration with Bernie Ecclestone.**

In Germany, the Nürburgring circuit has been declared bankrupt, and the Hockenheim circuit can now only afford to stage a race once every two years. In Spain, there is grave doubt that the races at Valencia and Barcelona can both continue. A French grand prix has been mooted but the current government is not willing to subsidise it. It seems that if it ever gets

off the ground, it will share a race with Belgium. Also, there is now doubt that the proposed 'Grand Prix of America' in New Jersey will take place in 2013, or at all.

(2014 update: Since this article was written, it was reported Mr Ecclestone, facing the bribery charge in a German court, waived his fee for the German GP at Nurburgring, and, as predicted, the New Jersey US GP did not happen.

Mr Ecclestone and his publicists have been talking about a grand prix in New York for 20 years but, as with many of his claims and that of our own grand prix, we advise everyone to look at the evidence to determine if they have any credibility).

September 2014 SAP Newsletter

Ecclestone bribes his way out of the bribery charge

Over the past two years this newsletter has reported the story of F1 boss Bernie Ecclestone and Gerhard Gribkowsky, the German bank official who, in 2006, negotiated the sale of his bank's 47% stake in F1 to CVC Capital Partners.

In April 2014 Ecclestone went on trial in Munich, accused of bribing Gribkowsky with a payment of \$44m to facilitate the sale to CVC in order that he could remain as head of F1. He faced a prison term of ten years.

In 2012, Gribkowsky was sentenced to eight and a half years prison for accepting the payment. Ecclestone claimed that he paid Gribkowsky in response to a threat to expose him to the British tax authorities..

On August 5, 2014 the German court agreed to end the trial in exchange for a \$100m payment from Ecclestone. Under German law, in some circumstances an accused can 'buy' the termination of a trial. The trial judge stated that \$99m would go to the Bavarian state, and 1m would be donated to a children's hospital. Ecclestone was able to walk free, being found neither guilty nor innocent.

The court's decision is being widely criticised. A former German justice minister commented that the decision is "**not just bad taste, it's really insolent**". Joe Seward, the British journalist who is an independent and reliable reporter on F1, stated on his website on August 19: "**Personally, I think it is a disaster for German justice because it sends out all the wrong signals about the way Germany does business. What value is preaching anti-corruption to the world and signing treaties if you then take money to settle cases. It screams injustice when a man facing charges of bribery pays and is deemed to be free without any decision as to whether he was in the right or in the wrong.**"

Post script, December 20th 2014:

Formula One journalist Joe Seward reports, "German bank BayernLB is reported to be seeking €345 million in a lawsuit against Bernie Ecclestone, relating to the controversial 2006 sale of the sport's rights. The state bank of Bavaria is accusing Ecclestone of bribery."