Business

Consultants stick with the Saudis

Companies remain close, though investors distance themselves after killing

BY MICHAEL FORSYTHE, MARK MAZZETTI, BEN HUBBARD AND WALT BOGDANICH

As Crown Prince Mohammed bin Salman of Saudi Arabia charmed Goldman Sachs bankers and Silicon Valley executives on an American tour this spring, some of his most trusted lieutenants were taking care of business in Washington.

In a low-key ceremony two blocks from the White House, Saudi officials signed an agreement with Booz Allen Hamilton, the American consulting company, to help train the kingdom's growing ranks of cyberfighters.

The agreement would "open great horizons" by improving the skills of the kingdom's cybersecurity experts, Saud al-Qahtani, a top adviser to the crown prince overseeing the deal, said in Saudi Arabia in a statement to the official press. It did not mention his continuing campaign to silence critics both inside the kingdom and online.

Mr. Qahtani was fired last month after Saudi officials linked him to the murder of the journalist Jamal Khashoggi, saying he had contributed to an aggressive environment that helped lead to the killing. But while Mr. Khashoggi's death prompted investors from around the globe to distance themselves from the Saudi government, Booz Allen and its competitors McKinsey & Company and Boston Consulting Group have stayed close after playing critical roles in Prince Mohammed's drive to consolidate power.

In addition to standard consulting work like doling out economic advice and helping burnish Prince Mohammed's image, they have taken on more unconventional assignments. Booz Allen trains the Saudi Navy as it runs a blockade in the war in Yemen, a disaster that has threatened millions with starvation. McKinsey produced a report that may have aided Mr. Qahtani's crackdown on dissidents. BCG advises Prince Mohammed's foundation.

The work is lucrative — the three firms have earned hundreds of millions of dollars altogether on projects in Saudi Arabia. McKinsey's work in the kingdom grew from two Saudi projects in 2010 to almost 50 the next year and kept accelerating, to almost 600 projects from 2011 to 2016.

McKinsey consultants spread across the kingdom in recent years to advise government agencies such as the planning ministry, nicknamed the "Ministry of McKinsey" by some Saudis; the royal court; and a coterie of companies in industries such as banking, media, telecommunications, real estate and energy, internal McKinsey documents viewed by The New York Times showed.

Last year, McKinsey bought a politically connected Saudi consultancy, adding that firm's 140 employees to more than 300 already in the region.

Its report singling out the kingdom's prominent online critics drew widespread condemnation when The Times revealed it last month. The dissidents — including Khalid al-Alkami, a writer critical of Saudi policies, and Omar Abdulaziz, a Saudi now living in Canada — were described in detail, alongside photos of them.

"Omar has a multitude of negative tweets on topics such as austerity and the royal decrees," the author, who McKinsey says is a researcher based in Saudi Arabia, wrote in bullet points. Mr. Alkami "wrote multiple negative tweets regarding austerity."

Though McKinsey said the report was prepared for an internal audience, Mr. Alkami was subsequently arrested, and Mr. Abdulaziz said two of his brothers were imprisoned. A third, pseudonymous account was shut down, and it remains unclear what happened to the person behind it.

The crackdown was an early sign of the Saudi government's extreme measures to quash criticism, which culminated in Mr. Khashoggi's murder.

McKinsey said it was "horrified" at the possibility that its information could have been misused. In a note to former employees, McKinsey said the researcher had published the analysis in January 2017 on an internal system and that it was intended only to "showcase techniques to gauge social media usage and reaction."

Even before Prince Mohammed rose up the royal hierarchy, McKinsey and BCG nurtured ties to him. BCG's top Middle East executive, Joerg Hildebrandt, cultivated a relationship with Prince Mohammed in recent years, according to two consultants who have worked in the region. Mr. Hildebrandt, through a spokesman, declined to comment.

After Prince Mohammed was installed as defense minister in 2015, BCG landed a contract to help overhaul the ministry's procurement systems and improve its handling of finances and personnel, two people familiar with the contract said.

Press officers for the Saudi Embassy in Washington did not respond to emails seeking comment.

In February 2016, consultants for McKinsey and BCG escorted five emissaries from the Saudi royal court to make the rounds of think tanks in Washington. They informed Gulf experts about Mohammed bin Salman's grand goals to remake Saudi life while the consultants, who outnumbered the Saudis, quietly took notes.

BCG has been deeply enmeshed in laying out the economic blueprint of the country, called Vision 2030, which aims to wean Saudi Arabia from its oil dependency. A McKinsey report in 2015 laid out the broad strokes of that plan.

Asked by The Economist in 2016 about a $4 trillion estimate of needed investment to transform the kingdom's economy, the prince immediately recognized the figure. "This is a report from McKinsey, not from the Saudi government," he replied, adding that McKinsey "participates with us in many studies."

Last month's Future Investment Initiative conference in Riyadh, the Saudi capital, a conclave championed by Prince Mohammed, underscored Saudi Arabia's importance to the consulting firms. While executives, companies and journalists pulled out amid the global furor over Mr. Khashoggi's murder, they stayed on.

McKinsey led panels on money and energy, the event program showed. Boston Consulting Group focused on unspecified "intelligence."

In a statement, BCG said it focused in Saudi Arabia on work that could "positively contribute to economic and societal transformation" and that the company has turned down work that goes against that principle. The firm declines projects that involve military or intelligence strategy, a spokesman said.

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Crown Prince Mohammed bin Salman of Saudi Arabia. Major consultants have earned hundreds of millions advising the Saudis.

For years, Booz Allen has trained the Saudi Navy, part of an American government program to help allied militaries. The company has worked with the navy on operations, intelligence and electronic warfare, as well as logistics and financial management, it said in 2012. The contract ended last year, a spokesman said.

Dozens of American military veterans work for Booz Allen in Saudi Arabia. One retired rear admiral with combat experience in the region advises top Saudi officers on military planning. Others have extensive shipboard experience that could be used to train Saudis on how to carry out blockades and how to operate equipment like electronic warfare gear that can detect and interfere with enemy radars and missiles.

A spokesman for Booz Allen said the firm's work with the Saudis did not include training on blockades or electronic warfare equipment. The spokesman said such work was out of the parameters of its United States government license covering the company's work with the Saudis.

Booz Allen also advises the Saudi Army; it won a contract to help with logistics, including maintaining the Saudis' Abrams tanks.

In a statement, Booz Allen said that it had provided no support for Saudi Arabia's war in Yemen, and that the company coordinates with the American government to ensure that its work "is consistent with U.S. foreign policy and trade regulations." The firm did not address whether the troops and sailors it trains have participated in the Saudi blockade in Yemen.

The United States military has provided limited but significant aid to the Saudi-led campaign in Yemen, including refueling aircraft, sharing intelligence and sending Army commandos to the Saudi-Yemeni border to locate and destroy caches of ballistic missiles that Iran-backed Houthi rebels have used to attack Saudi cities.

Booz Allen did advise the Saudi government on a plan to provide humanitarian aid to Yemen. But the project, the Yemen Comprehensive Humanitarian Operations, is seen by aid groups as an ineffective effort that undercuts the United Nations' own program.

"We have had no control over how the plan or portions of it may have been used," the company said. Booz Allen's role was first reported by IRIN, a humanitarian news agency.

After signing the agreement in March to help shore up Saudi cybersecurity, Booz Allen began working directly to protect the systems of government ministries, citing "damaging cyberattacks in companies in the kingdom." It also ran a so-called hack-a-thon — the kind of event the company has done in the United States to teach people how to penetrate computer systems to discover their vulnerabilities.

Booz Allen denied that its work with the Saudis involved hacks "or the use of cyber for offensive purposes." But cyberexperts say the same defensive maneuvers used to discover vulnerabilities or otherwise protect computer networks can be redirected to target other governments or dissidents as well.

As for McKinsey, its work with Saudi Arabia is controversial even within the firm. Amid the Arab Spring, its consultants in the region argued that the firm should consider curtailing business in Saudi Arabia, said one former McKinsey consultant who worked in the Middle East.

But more senior consultants, including partners, said McKinsey was not in the business of passing judgment on its clients' cultures and values. The best way to improve the kingdom, they argued, was to modernize the economy and make government and companies work better.

Rather than scaling back in Saudi Arabia, McKinsey doubled down.

Many foreign consultants fail to understand the Saudi culture or how an authoritarian government could exploit their work, said one consultant who has worked with the higher reaches of the Saudi government. He qualified that by saying that his colleagues take care to try not to cause harm.

In a statement, a McKinsey spokesman said, "We are proud of our record in Saudi Arabia," citing job creation and improved health outcomes.

Consultants who aim to help authoritarian governments from the inside often give in to a desire to preserve their lucrative assignments, said Calvert W. Jones, a professor at the University of Maryland who studies the role of consultants in the Middle East.

"They soft-pedal," she said. "Their fear is if they speak truth to power at this state of their interactions, they will be tossed out."

The surge in business for BCG, McKinsey and Booz Allen also stems from Prince Mohammed's need for expertise as he pushes his proposals to revamp the country. His dependence on consultants is so great that some of the companies have people embedded at the royal court to respond quickly to requests, according to three consultants who have done work for the kingdom.

Some reported being asked to turn around proposals in 24 hours, much faster than they often work. And the crown prince will sometimes ask different companies for proposals, then have their consultants pitch to each other as he looks on, the consultants said.

"It's like a beauty pageant," said one.

Many of the consultants, who spend five days a week in Riyadh before flying elsewhere to see their families on weekends, were annoyed last year when the government kicked them out of their preferred hotel, the Ritz-Carlton, to use it as a temporary lockup for those accused of corruption.

But not long after the government released those held, the consultants moved back in.

Katie Benner contributed reporting.

A Russian oligarch tries to wriggle out of sanctions

BY ANDREW HIGGINS AND KENNETH P. VOGEL

This spring, a British lord with deep ties to the governing Conservative Party and a reputation as a do-gooder environmentalist arrived in Washington on an unlikely mission: to save the business empire of Oleg Deripaska, one of Russia's most notorious oligarchs.

Mr. Deripaska was in deep trouble. In April, the Trump administration had announced sanctions on oligarchs close to President Vladimir Putin and on their companies, as punishment for Russian interference in the 2016 presidential election and other hostile acts. A billionaire who controls Rusal, the world's second-largest aluminum company, Mr. Deripaska faced possible ruin.

Portrayed as little more than a thug by his critics and suspected by United States officials of having ties to Russian organized crime, Mr. Deripaska, 50, has spent two decades trying to buy respect in the West. London welcomed him; Washington still mostly has not. Successive administrations have limited his ability to travel to the United States.

Even Mr. Putin was unable to resolve the situation when he interceded personally with Presidents George W. Bush and Barack Obama on Mr. Deripaska's behalf.

But with so much on the line this time, Mr. Deripaska's allies are fighting back aggressively, mobilizing a vast influence machine on both sides of the Atlantic in an all-out effort to undo the sanctions against his companies before they take full effect.

The campaign to help Mr. Deripaska is playing out against an especially sensitive political backdrop. Any step by the administration that is seen as favorable to a powerful Russian is sure to draw scrutiny at a time when special counsel Robert S. Mueller III is continuing his investigation into Russian interference in the 2016 election.

Moreover, Mr. Deripaska has been a subsidiary character in that inquiry, not as a target but because he at one point employed Paul Manafort, President Donald Trump's former campaign chairman, as an adviser. Mr. Manafort was convicted on one set of fraud charges and pleaded guilty to other charges in cases brought by Mr. Mueller, and is now cooperating with the prosecution.

But the current lobbying effort on behalf of Mr. Deripaska's companies still appears to have made substantial headway. In recent months, Mr. Deripaska's firms have notched initial victories by winning multiple postponements from the Treasury Department of the sanctions on the oligarch's holding company, EN+, and the giant aluminum company it controls, Rusal.

Now, with the administration closing in on its latest self-imposed deadline to make a final decision by Dec. 12, there are signs that Mr. Deripaska's companies could escape the sanctions entirely.

Treasury Secretary Steven Mnuchin has signaled that he is open to a plan under which Mr. Deripaska would reduce his stake in his companies in return for the sanctions being lifted.

But sidestepping the business sanctions is not Mr. Deripaska's only goal.

CHRIS RATCLIFFE/BLOOMBERG NEWS, VIA GETTY IMAGES

Oleg Deripaska, the Russian billionaire who controls Rusal, the world's second-largest aluminum company, in 2011. A lobbying effort appears to have made headway.

His team is preparing an audacious campaign to remove the personal sanctions on him, too. Removing the personal sanctions would eliminate substantial barriers to his doing business in the United States and around the world.

"Oleg Deripaska understands better than most Russian oligarchs how money buys influence in Washington," said Michael R. Carpenter, a former National Security Council official during the Obama administration who is now senior director of the Penn Biden Center for Diplomacy and Global Engagement, at the University of Pennsylvania. "It seems like he's now using that knowledge to try to save his skin."

The elaborate influence operation highlights one of the fastest-growing elements of the lobbying business: helping deep-pocketed foreign interests massage the sanctions, tariffs and other tools deployed by Mr. Trump against foreign governments, individuals and industries.

The British emissary for Mr. Deripaska's companies, Lord Gregory Barker, a protégé of former Prime Minister David Cameron, was appointed chairman of EN+ last year. Some saw Mr. Barker's appointment as proof of a phenomenon known as "Lords on Boards," a long line of eminent Britons willing to lend their names and connections to Russia's scandal-singed elite.

Friends say Mr. Barker is not in it for the money but for an opportunity to promote renewable energy, of which Mr. Deripaska has vast amounts, thanks to his hydroelectric plants in Siberia and his investments in solar power.

Mr. Barker and the team trying to fight off the sanctions say that enacting them against EN+ and Rusal would create turmoil in global metals markets, would damage United States manufacturers and would potentially play into China's hands. Their proposal, the "Barker Plan," would see Mr. Deripaska reduce his ownership stake in EN+, his holding company, to below 50 percent and step away from management of EN+ and Rusal.

The prospect that it would soon become illegal under United States law to do business with the world's biggest aluminum producer outside of China made it dangerous to sign long-term contracts with any entity connected to Mr. Deripaska. Manufacturers feared grave disruptions in their supplies.

Mr. Barker began hiring lobbyists and lawyers in Washington to promote the Barker Plan. He turned to Mercury Public Affairs. Only a few weeks after the sanctions were announced, Bryan Lanza, a former Trump campaign and transition aide who is now a Mercury lobbyist, contacted top officials at the Treasury and State Departments and at the White House.

At that point, Mercury was in the final stages of signing a $108,500-a-month contract to represent the board of directors of EN+. Mercury registered with the Justice Department as a "foreign agent" working on behalf of "Lord Gregory Barker of Battle," not for Mr. Deripaska or his companies, which might have been prohibited under the sanctions.

Since then, according to lobbying filings, Mr. Lanza has been busy texting, emailing, calling and sometimes meeting with influential White House appointees, including Justin Clark, director of the Office of Public Liaison, and Mercedes Schlapp, director of strategic communications.

At the State and Treasury Departments, Mr. Lanza and his associates at Mercury corresponded with or met with officials involved in sanctions policy, such as David Meale, acting deputy assistant secretary of state overseeing sanctions, and Seth Bridge, a top Treasury sanctions policy adviser. Mr. Lanza shared talking points with some administration officials about how Mr. Trump could claim a victory if the sanctions forced Mr. Deripaska to relinquish control of his companies but allowed the companies — which are hugely important to the global aluminum market — to stay in business, according to people familiar with the effort.

Coincidentally or not, Mr. Mnuchin made statements that sounded similar themes, signaling that the United States might be open to a deal that would spare Mr. Deripaska's companies from the

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