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Submission from the Campaign Against Arms Trade to the International Development Committee's Inquiry into corruption

1. The Campaign Against Arms Trade (CAAT) is opposed to all military exports, but recognises that, despite its negative effects on human rights, security and the economy, the arms trade will not end overnight. As an interim measure, therefore, CAAT is seeking an export licensing policy with an emphasis on restraint, especially on exports to governments which violate human rights or to countries in areas of conflict and regions of tension.
2. Military exports are frequently very high value financially, and always shrouded in secrecy. This combination of factors renders such exports liable to corruption. Indeed, it would be most surprising if there were none.
3. The biggest arms sales are not to the poorest of countries, but many are to middle income ones where the military purchases can distort government spending, potentially diverting resources from social needs, including health and development. Also, countries currently poor and receiving development assistance could potentially be affected as their economies grow and they attract the attentions of the arms companies.
4. Although military equipment accounts for less than 3% of the UK's total visible exports, an average of 25% of the underwriting of the Export Credits Guarantee Department is for military sales. Most arms exports to middle income countries are supported by Export Credit Guarantees.
5. This paper outlines military deals with South Africa, Jordan and Saudi Arabia, where there have been allegations of corruption. The ECGD has been involved in all these cases. It then makes recommendations for change.

South Africa

6. Despite reductions from the originally announced order, in September 1999 the South African government confirmed major arms purchases from European companies. These include 8 British Aerospace / SAAB fighter aircraft, and 12 British Aerospace Hawk 100 fighter trainers.
7. A number of organisations within South Africa, including church, human rights and gun control groups, have formed the Coalition for Defence Alternatives (CDA). They believe their Government's massive weapons procurement programme will further aggravate the poverty of most South Africans. The South African organisations say the purchase will severely undermine their country's economy, and most especially its economic and social development.
8. On 5th September 1999, CAAT wrote to the Secretary of State for Trade and Industry, Stephen Byers MP, at the request of the CDA to ask that the UK government investigate allegations of corruption being made in respect of the contracts for military equipment. The CDA had received a report that British Aerospace has paid R40 million, via two Swedish trade unions, to shop stewards of the National Union of Metalworkers of South Africa (NUMSA). It is also reported that the shop stewards have been given holiday trips to England and Sweden. It is alleged that the purpose of this has been to secure NUMSA support for the acquisition of BAe/SAAB Gripen fighter aircraft. Mr Byers passed the information to the MoD police who contacted the CDA.
9. In South Africa, according to Patricia de Lille MP of the Pan Africanist Congress, the Heath Special Investigating Unit, the Auditor General, the Office for Serious Economic Offences and the Department of Defence are all investigating allegations of corruption relating to the weapons' acquisition programme as a whole. The Auditor-General, in his report dated 15th September 2000, said there were "material deviations from generally accepted procurement practice" with regard to the purchase of the Hawk aircraft. These cost significantly more than aircraft offered by an alternative supplier. Further investigations were recommended by the Auditor-General.

Jordan

10. In a series of articles in the spring of 1989 regarding a £800million order for Tornados from Jordan, *The Observer* alleged that huge commissions, of up to 30 per cent, were paid to rulers and middlemen, and that bribes were paid to "British citizens with close contacts to the government". (Observer, 19.3.89, 30.4.89)
11. The deal was eventually cancelled after Germany refused to finance the deal in proportion to its share in the planes' manufacture, at least

partly because of doubts over corrupt payments. These doubts were prompted by an anonymous letter from London to the German Foreign Office, alleging that Tornados, which cost the RAF £26million and the Luftwaffe £26.5million each, were being sold to Jordan for at least £40million. The then head of the Defence Export Services Organisation, Sir Colin Chandler, maintained that the discrepancy was a matter of more expensive support services. (Observer, 19.3.89)

Saudi Arabia

12. The £20 billion Al Yamamah deals with Saudi Arabia were signed by Margaret Thatcher in 1985 and 1988, and included the sale of Tornado and Hawk aircraft. Claims that vast commissions were paid to intermediaries began almost as soon as the deals were signed.
13. Although Saudi Arabia is a middle-income country, nonetheless the allegations may be of interest to your Committee as an example of what can happen when large contracts are being negotiated.
14. Rumour suggests that the motivation behind Al Yamamah may have come from those few individuals who directly benefited from 'commission' payments. The Dooley court case in the US in 1991, the 1994 *Granada TV* 'World In Action' programme, the allegations concerning Mark Thatcher in 1994, the 1996 Westland memo on the Saudi dissident Mohammed al Mas'ari, the Rolls Royce court case in 1997 and the Jonathan Aitken affair, all support suggestions that "commissions are an essential part of the system". (Times, 12.10.94)
15. Only weeks after the first Al Yamamah agreement was officially concluded in 1985, *The Guardian* led with an article headlined "Bribes of £600m in jets deal". (Guardian, 21.10.85) In 1989, Alan Roberts, the then Labour Defence Spokesman, said that he was "quite confident that commissions have been paid in the Saudi deal" and demanded an official investigation. (Independent, 27.4.89)
16. In 1991, the Black Hawk helicopter scandal seemed to confirm Roberts' suspicions. In 1985 the US helicopter firm Sikorsky, or rather its parent United Technologies, managed to acquire a controlling interest in the UK company Westland, which it allowed to build its Black Hawks under licence. In October 1991, Thomas Dooley, a retired US Army lieutenant-colonel and former military attaché in Saudi Arabia, filed a suit against his current employers, the Sikorsky company, as well as United Technologies and Westland, complaining that he had been unjustly demoted for threatening to blow the whistle on corrupt and illegal dealings. He alleged first that, though Black Hawks were normally unarmed and had been approved by Congress for export to the Middle East on that basis, those to be built by Westland for sale to Saudi Arabia were to be equipped with TOW anti-tank missiles. (Flight International,

16-22.10.91) His other allegation, reported in *The Independent*, was that to secure an order for as many as 90 helicopters (both Black Hawks and Westland's own EH101s) bribes had been paid to two Saudi Arabian princes. (*Independent*, 8.8.92)

17. Westland argued that the case had no substance, being "founded largely on events which never actually occurred". It stated that there had been "no Westland helicopter sales to Saudi Arabia, no Westland arming of any helicopters and no Westland bribes", and that, accordingly, "Dooley's action against Westland plc and Westland helicopters is almost entirely hypothetical". (*Independent*, 8.8.92) Although 80 Westland helicopters were included in the Al Yamamah shopping list, none were actually ordered. It has since been reported by *The Guardian* that, since the Dooley case in May 1995, Westland agreed to pay a Saudi agent 9.5 per cent commission on a deal potentially worth \$50million. (*Guardian*, 5.3.99) Again, however, the deal fell through.
18. Allegations of corruption persisted and it became clear in 1994 that it was not just Saudi intermediaries who profited from the commissions system, as accusations of bribery were now directed against employees of UK companies. *The Guardian* published an article in which Sir Colin Southgate, Chairman of Thorn EMI, "admitted to paying huge commissions" of 25 per cent on a £40million Saudi arms deal in which more than 40,000 fuse assemblies for Tornado bombers were ordered by the Royal Saudi Air Force in 1990 and delivered through BAe in 1991. (*Guardian*, 14.11.94)
19. Granada TV broadcast a 'World In Action' programme on 14th November 1994 which identified UK and Saudi businessmen who were paid over £10million for helping to organise the fuse assembly deal, and who claimed that the Ministry of Defence not only gave its approval to this, but also claimed £2million of the profits as payment for helping to design the fuses. (*Guardian*, 14.11.94) *The Guardian* quoted John Hoakes, former managing director of Thorn's defence systems division, as saying that "Commissions make the world go round. There's nothing illegal about them. I don't know of a [Saudi] royal who'll get out of bed for less than 5 per cent". *The Guardian* reported that when Hoakes was told that Saudi law prohibited commission on defence contracts, he replied "Then they got a big problem with Al Yamamah". (*Guardian*, 14.11.94)
20. It was also in 1994 that scandal erupted around the former Prime Minister's son, Mark Thatcher, much of it based on allegations made by the Saudi dissident, Mohammed Khilewi. (*Independent*, 10.10.94; *Guardian*, 14.10.94; *Sunday Telegraph*, 16.10.94) As Anthony Sampson commented at the time, "with the huge sums at stake, it would be surprising if some money did not find its way to the British side... To reward the son of the British Prime Minister - even if he gave no help -

would be as natural as rewarding the King's son" (Times, 12.10.94). In October 1994 Tam Dalyell MP submitted a US intelligence report and an internal British Aircraft Corporation memo to officials in the House of Commons. He claimed these proved that Mark Thatcher was involved in Al Yamamah (Financial Times, 19.10.94). The Public Accounts Committee, however, decided not to investigate the allegations that Mark Thatcher received commission payments of £12million from Al Yamamah as this was outside their remit of issues concerning taxpayers' money. (Financial Times, 20.10.94)

21. The allegations continued. In December 1996, *Sunday Business* suggested that one of the reasons behind the Saudi company Aramco's replacement of BP and Shell as oil exporters in Al Yamamah was an attempt by the Saudi government to save money on commission payments to the companies, which were estimated at \$30million/£18million a year. (*Sunday Business*, 1.12.96)
22. In 1997, the Panamanian company, Aerospace Engineering Design Corporation, whose ultimate ownership is unclear but which, according to *The Financial Times*, is understood to have links with the Al Saud, served a writ against Rolls Royce, alleging that the company had paid only £23million of an agreed £100million commission on part of Al Yamamah. Aerospace Engineering Design Corporation claimed that it had acted as Rolls Royce's agent throughout the Al Yamamah negotiations and that Rolls Royce had agreed to pay it 8-15 per cent commission on the sale of engines for Al Yamamah planes. Rolls Royce declined to give details of exports value or commissions policy, saying only that it intended to "vigorously" defend itself. The action was subsequently withdrawn pending a settlement. (*Financial Times*, 20.12.97; *Private Eye*, 9.1.98)
23. More information emerged as a by-product of the libel action brought by Jonathan Aitken MP, against *The Guardian* newspaper and *Granada TV* in 1997. When the Conservatives came to power in 1979, Aitken had been a high-flying and well-connected young politician. While Margaret Thatcher was Prime Minister, his political career made no headway, but his business career prospered greatly.
24. Jonathan Aitken had made friends with a Lebanese-Saudi businessman, Mohammed Said Ayas, who was the factotum of a powerful Saudi prince, Mohammed bin Fahd, son of the future King Fahd and governor of the Eastern Province. The prince put him in charge of the London arm of his trading company Al-Bilad, and when Aitken joined TV-AM, helped him by investing in the station. Aitken was forced to resign as a director of TV-AM when it was discovered he had broken regulations by concealing the £2.1million illegal Saudi investment. (*Sunday Business*, 1.6.97)

25. *The Sunday Business* reported that when John Major, as Prime Minister, appointed Jonathan Aitken Minister for Defence Procurement in 1992, he would have known that Jonathan Aitken had been forced to resign and also "ministerial vetting would have told him that the MP enjoyed good business relations with Saudi princes". (*Sunday Business*, 1.6.97) *The Guardian* and *World in Action* alleged that Aitken's business relationship with Said Ayas and Prince Mohammed continued after this appointment, and even later when Jonathan Aitken became Chief Secretary to the Treasury.

26. In particular it was claimed that in September 1993 he had a secret meeting in Paris with Ayas and Prince Mohammed, who had paid his bill at the Ritz hotel. Since this would have been a clear breach of the rules of ministerial conduct, Aitken brought an action for libel. The case collapsed when detective work by *The Guardian* proved that he had lied on oath about the bill, and he was subsequently imprisoned for perjury. (Harding, Leigh and Pallister 1997)

National Audit Office

27. By 1989 the persistent allegations of corruption over the Al Yamamah deal, coupled with rumours surrounding the sale to Jordan, had prompted an investigation by the National Audit Office (NAO).
28. The NAO investigation took three years, and in March 1992 the House of Commons Public Accounts Committee (PAC) agreed not to publish its findings. The Chairman, Robert Sheldon MP, refusing to disclose the report even to the Committee members, simply assured them that there was "no evidence of fraud or corruption". It seems clear that the inquiry had proceeded within narrow limits: Sheldon acquitted the MoD alone of having made improper payments, finding that "the deal complied with Treasury approval and the rules of government accounting" and that "there was no misuse of public money" (Independent, 12.3.92, 24.6.97). However, the NAO only investigated the MoD; as Sheldon states, "We were not able to follow money outside the department once it is paid to the contractors, so we do not know what was done with it" (Independent, 24.6.97). Sheldon made it quite clear that the reason the report was not published was the "highly sensitive situation regarding jobs in the defence industry". (Independent, 12.3.92) Later he was even more specific: "The Saudis would have been upset". (Independent, 23.6.97)
29. The PAC decided not to publish the NAO report, despite the fact that most of its members were not even allowed to read it. Sheldon invited a Conservative member, Sir Michael Shaw, to read the report and to join him in interviewing Sir Michael Quinlan, Permanent Secretary at the MoD, and Sir John Bourn, head of the NAO.
30. The non-publication of the NAO report meant that it was impossible to dismiss charges that commissions had been paid. Members of the PAC were not happy. As Alan Williams MP said, "quite a few of us [on the Committee] had misgivings about the suppression". (Observer, 10.5.92) Dr Kim Howells MP said that the situation was "most unsatisfactory. If we can't see the report, and it goes right to the heart of the problem, what does the PAC exist for?". (Observer, 10.5.92) A former member of the PAC, Jeff Rooker MP, who had pressed for the investigation in 1989, said that he was "astonished" by the decision; "the committee is supposed to be independent of political considerations such as jobs". His colleague Dale Campbell-Savours MP, who had served on the committee for eleven years, was "convinced that payments had been made". (Independent, 12.3.92)
31. Martin O'Neill MP, the then Labour Defence Spokesman, pledged at the time that a Labour government would re-open the inquiry (Independent, 12.3.93), and even Robert Sheldon himself has now agreed that the

report should be published and the PAC given wider powers. (Independent, 23.6.97) Despite these statements, the present government has maintained its predecessor's refusal to release the NAO report, despite pressure from CAAT and other organisations. The then Defence Minister Lord Gilbert told the House of Lords that publication was not possible because the report "refers to matters which are confidential between the Governments of the United Kingdom and Saudi Arabia". (Hansard, 7.4.98, WA124) In a letter to Gisela Stuart MP, dated 20th April 1998, he elaborated slightly: "information... which would harm the conduct of international relations ... is exempt from disclosure".

The position of the Governments

32. The official position has been restated by successive governments. In May 1992 the then Minister for Defence Procurement, Jonathan Aitken MP, assured the Commons: "My Department has not employed business agents in connection with Al Yamamah contracts". (Hansard, 19.7.92, col 84) In 1994, the then Minister for Defence Procurement, Roger Freeman, reaffirmed this: "No commissions were paid, and no agents or middle men were involved". (Financial Times, 19.10.94)
33. In 1998 the then Labour Minister for Defence Procurement, John Spellar MP, again stated that the government had paid no commissions, but acknowledged that he could not speak for the Al Yamamah contractors as, "any use of agents by companies associated with Al Yamamah is a matter for those companies". (Hansard, 16.3.98, col 446)
34. There is, however, no proof available to substantiate any of these official statements. Such blanket denials of any irregularity are hard to believe considering the persistent rumours of corruption that surround Al Yamamah, and the Government's refusal to publish the findings of its own NAO investigation.

Recommendations

35. Corruption thrives in conditions of secrecy; conversely, transparency is the best antidote to it, allowing parliamentarians, the media and the public to monitor the situation and raise any concerns. To achieve transparency:
 - a) the UK government should make details of military equipment export licences available for public inspection ten working days in advance of the licence application being considered, in order to allow adequate time for comment and, if necessary, debate. Politicians and the public have the right to have their representations taken into account when applications are considered;

- b) the UK government's Annual Reports on Strategic Export Controls, the content of which is under review, should give details of the type of equipment licensed, the manufacturer, and the number of items. Full information is a prerequisite for informed debate, and its release should take precedence over commercial confidentiality or the military security interests of overseas governments.
36. The publication of the NAO Report would signal an intention to greater transparency. A new inquiry with a wider remit, covering the companies and individuals as well as government, would shed even greater light on the matter.
 37. The Government should refuse an export licence to any companies which have been proved to have been involved in bribery or corrupt practices and disbar them from being granted export licences for a minimum period of 10 years.
 38. The ECGD should help prevent corruption by:
 - a) cancelling all cover for companies which have been proved to have been involved in bribery or corrupt practices and disbarring them from future support for a minimum period of 10 years;
 - b) requiring the ECGD to ensure that the contracts which it supports have been awarded through an open tendering processes.
 39. The Government should introduce new legislation criminalising the bribery of foreign officials and establishing clear and regularly-monitored anti-corruption rules for UK business.

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