



**11 Goodwin Street, London N4 3HQ**  
**020-7281 0297 telephone**  
**020-7281 4369 fax**  
**email: [ann@caat.demon.co.uk](mailto:ann@caat.demon.co.uk)**  
**web: [www.caat.org.uk](http://www.caat.org.uk)**

## **Supplementary submission from the Campaign Against Arms Trade to the Trade & Industry Committee's Inquiry into the Export Credits Guarantee Department**

1. The Campaign Against Arms Trade (CAAT) is working for the reduction and ultimate abolition of the international arms trade, together with progressive demilitarisation within arms-producing countries.
2. Military exports account for between a third and a half of the export credits issued annually by the Export Credits Guarantee Department (ECGD). This being the case, CAAT is pleased that your Committee is to question the Minister responsible for the ECGD, Douglas Alexander MP, about the attempt to water down the ECGD's anti-corruption procedures and its support for projects where corrupt practice has been alleged.

### **DTI support for companies rather than ending corruption**

3. CAAT was pleased when the ECGD brought in new anti-bribery laws in May 2004. In particular, it was good that commissions paid to agents had to be disclosed and that both the applying company and any affiliates or joint venture partners had to show that they had robust anti-corruption procedures in place. No less should be the case when the ECGD is underwriting deals with taxpayers' money.
4. It was, therefore, especially disquieting to learn in autumn 2004 that the Trade and Industry Secretary, Patricia Hewitt MP, had overruled ECGD officials to water down the controls following pressure from the Confederation of British Industry, BAE Systems, Rolls Royce and Airbus. The message sent by this relaxation of the rules is that the UK is not serious about combating corruption.
5. It is interesting, but not in the least surprising, that military exporters feature prominently amongst those lobbying for the anti-bribery rules to be relaxed. Such exports are the subject of many allegations of corrupt practice. Many of the deals are supported by Export Credit Guarantees and it must be seriously asked whether the attempts by the companies to dilute the ECGD's anti-bribery procedures mean they need to pay political and military figures and members of their families in order to secure deals.

6. CAAT is pleased that, following the application by Corner House for a Judicial Review of the relaxation of the rules, a public consultation will now be held on the ECGD's anti-corruption procedures.
7. CAAT believes that the ECGD must protect public money by:
  - a) making companies liable for the actions of their subsidiaries and agents;
  - b) requiring details of agents and agents' expenses in all cases;
  - c) not underwriting commissions as part of the contracts covered;
  - d) immediately terminating cover for any project if a bribe has been paid and making the companies reimburse any claim payment that has been made;
  - e) not giving companies which make illegal payments in connection with ECGD backed projects any further export credits or guarantees for a period of five years. The companies should also be asked to demonstrate that they have adopted robust anti-corruption procedures.

## Indonesia

8. One current example of bribery allegations surrounding a military deal is that of armoured vehicle manufacturer Alvis (now part of BAE Systems) and the controversial sale of Scorpion tanks and Stormer Armoured Personnel Carriers to Indonesia in the mid-1990's.
9. Recently released Court papers show that Alvis employed a company called PTSK, run by the daughter and two sons of a Brigadier General in the Indonesian Army, to secure the sale of armoured vehicles to Indonesia. By the daughter, Rini Soewondho's, account, it was her link with another company, Global Select, owned by then Indonesian President Suharto's daughter "Tutut", which enabled the Indonesian Army to gain the funds it needed to purchase the Alvis vehicles.
10. According to the *Guardian*, Global Select collected around 10% (£16.5 million) of the sale price. Nick Prest (former Chairman and Chief Executive of Alvis and also a former Defence Export Services Organisation employee) said that Alvis had only secured the deal after hiring PTSK and Global Select.
11. A company owned by Tutut had been linked in 2002 to the Hawk deals which the then British Aerospace negotiated with the Suharto regime in the mid-1990's (*Associated Press*, 15.7.02).
12. Both the Hawk and Scorpion deals were underwritten by the ECGD. Indonesia has never paid for the aircraft and vehicles, as the payments were rescheduled in 1998 following the Asian financial crisis. After 1998, the ECGD paid out £645 million for bad debts relating to arms sales to Suharto – about £400 million to BAE Systems for the Hawks, £93 million to Alvis for the Scorpions, and £150 million to other UK arms companies (*Guardian*, 20.12.04). Currently, Indonesia owes the UK £551 million in military-related debt (*Hansard*, 10.1.05). Of this, £80.7 million is for the Scorpion and Stormer vehicles and £382.7 million for the Hawks (*Hansard*, 13.1.05). Payment of the debt by

Indonesia to the ECGD is not expected to finish until 2021, and there is every likelihood the money will never be recovered.

13. The Indonesian weekly *Tempo* (21-27.12.04) reported that investigations in Indonesia had shown PTSK was written into the contracts for the 1995 and 1996 Scorpion deals. Questioned about this, the Department for Trade and Industry said "details of contractual arrangements (including agent's commission) are provided to ECGD by exporters in confidence" (*Hansard*, 10.1.05). It is completely possible, therefore, that the ECGD knew of Alvis's arrangements, but decided to commit UK taxpayers' money anyway.
14. CAAT believes it is of the utmost importance to establish what officials in the ECGD and the Department of Trade and Industry knew about the structure of the deal(s) at the time UK taxpayers' money was used to underwrite them. CAAT has urged the National Audit Office to use its powers to inquire into the specifics of the Scorpion and Hawks deals to confirm if the Government had reason to know at the time of the possibility of corrupt practices. Given that the public is at present out of pocket by half a billion pounds, with no chance of recovering the money in the immediate future, an investigation is needed to see whether the ECGD's actions represented a good use of the UK's financial resources.
15. The implications of the witness statements go much wider and the following points need also to be considered:
  - a) Both Rini Soewondho and Nick Prest refer to the 1996 contract being secured despite the competition from Daewoo of South Korea "who were offering a competitive vehicle on generous credit terms" (Prest). Was the ECGD cover offered to Alvis on particularly generous terms with the purpose of enabling Alvis to secure the deal and, if so, was this a reasonable use of taxpayers' money?
  - b) From Nick Prest's statement we know Royal Ordnance employed PTSK. Royal Ordnance was state-owned up until April 1987. How far, therefore, was the UK government directly involved in making payments to agents or to Suharto's "inner circle"?
16. CAAT hopes that your Committee will encourage the National Audit Office to undertake such an investigation and, since the allegations about the Alvis deal have been the subject of extensive media coverage, to make its report public.

## **Saudi Arabia**

17. On 14th December 2004, the *Guardian* revealed that should the Saudi regime collapse (not the remotest of possibilities) the UK taxpayer, through the ECGD, will pay BAE Systems £1 billion in respect of the Al Yamamah deal. This highlights a major inadequacy in the ECGD's Annual Review. Although this now lists details of guarantees issued, details of insurance cover provided by the ECGD, which accounts for a rather greater proportion of its business, are not given. This should be remedied forthwith.
18. Since so much taxpayers' money is at risk, CAAT would urge your Committee to ask the ECGD to rethink its insurance cover for the Al Yamamah deal.

19. In mid-November 2004, BAE Systems was told by the Serious Fraud Office that it was widening its investigation into possible false accounting in its contracts with two marketing and travel companies involved with the Al Yamamah deal. Former employees of the companies were alleged to have lavished gifts on Saudi officials. CAAT hopes that your Committee will urge the Government to give the SFO every assistance in its investigations so that, if warranted, charges may be pressed.
20. In 1992 the National Audit Office had investigated allegations of corruption surrounding the Al Yamamah project, but the report has never been published. In view, not least, of the vast amount of taxpayers' money at risk through the £1 billion insurance, CAAT would urge your Committee to press for the immediate publication of the NAO report.

## **February 2005**