Submission from the Campaign Against Arms Trade to the Quadripartite Committee on Strategic Export Controls on the Government's Reports and the UK's system and policy for licensing arms exports

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. CAAT would like to draw the Committee's attention to issues with regard to the closure of the Defence Exports Services Organisation; bribery and the Government's arms sales unit; and the recommendations on corruption contained in your last report.

Defence Export Services Organisation closure

3. On 25th July 2007 the Prime Minister announced that the Defence Export Services Organisation (DESO) was to close (Hansard, col 23WS), with its responsibility for the promotion of military exports moving to UK Trade and Investment (UKTI). Further details were announced on 11th December 2007 (Hansard, col16/17WS), by the Secretary of State for Business, Enterprise and Regulatory Reform, John Hutton, who said the change would take place on 1st April 2008.

4. CAAT recognises that, unfortunately, the Government does not see the closure of DESO as a move towards the end of the arms industry. Indeed, Ministers have stressed the UK's success in selling arms and their wish maintain this. For example, in a UKTI press release dated 11th December 2007, John Hutton said: “The UK has a world class defence sector, generating exports of around £5 billion a year and amounting to some 20 per cent of the world market. I am determined to ensure this success continues.”

5. Nonetheless, CAAT welcomes DESO's closure and the move of military export promotion to UKTI, as it will put the Government's relationship with military industry on a more normal footing, comparable to that it has with other industries. This means that the arms industry may no longer be a special case with a unique and privileged place in Government..

6. In this regard, CAAT is pleased that what is initially to be called the UKTI Defence and Security Group, will, like all the other industry sector groups, be operating to UKTI...
strategic objectives, be answerable to the UKTI Board and have a head who will report to the UKTI Chief Executive.

7. The UKTI Defence and Security Group will initially have 240 staff. However, since military equipment accounts for less than 2% of the UK’s visible exports and UK Defence Statistics show that 65,000 jobs (just 0.2% of the national labour force) are sustained by military exports, CAAT thinks staff numbers, including those on secondment from the Ministry of Defence, should be reduced so that the military equipment sector’s exports are given no greater share of UKTI resources than is proportional to the size of the sector’s contribution to the economy. Unless this happens, the arms industry will continue to be an undeserved special case.

8. Export licensing implications CAAT is pleased with emphasis put in the 11th December announcements on the separation between the export licensing functions of Government and trade promotion and support. However, at the time of writing, CAAT has not seen any discussion of the implications of the change for the F680 process and feels this is an area your Committee might usefully probe.

9. Business conduct CAAT also welcomes the commitment made in the announcements, especially that by UKTI, to the promotion of good business practice as well as to transparency. Our comments, below, show just how vital this is.

Corruption and the Ministry of Defence

10. CAAT wrote to your Committee in February 2006 arguing that “your Committee was seriously misled by the Ministry of Defence (MoD) in its memorandum to you of July 2003 (Strategic Export Controls: Annual Report for 2002, Licensing Policy and Parliamentary Scrutiny, 18th May 2004, HC390, Ev34)”. In its letter, reproduced at Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny, 19th July 2006, HC873, Ev158, CAAT stated that the MoD memorandum “was designed to leave the reader with the impression that DESO had never condoned bribery in arms sales, and in fact had procedures in place designed to ‘ensure legality and propriety in the handling of Government-to-Government contracts’”.

11. Your Committee's latest report, "Strategic Export Controls: 2007 Review" (HC117), states, in paragraph 341, that the Committee “attached weight” to the MoD’s responses when asked about this. In particular, you rely on a statement made in July 2003 by Geoff Hoon, then Secretary of State for Defence. However, as Nicholas Gilby, who undertakes research for CAAT, said in a letter to your Chair on 17th September 2007, evidence placed in the National Archives by the MoD contradicts that statement. A summary of this evidence follows.

12. Mr Hoon had quoted guidelines issued in 1976 by Sir Frank Cooper, then Permanent Secretary at the MoD, which said that “public money should not be used for illegal or improper purposes” and “officials should not engage in, or encourage, illegal or improper actions whether in their relations with UK or overseas firms”. These guidelines were used by the MoD to claim that allegations by The Guardian that “the government’s own arms sales department [DESO] is directly implicated in bribery abroad”, substantiated by documents detailing that “special commissions . . . are even
written by civil servants into the secret contracts on government-to-government arms deals”, were “irresponsible” and “totally without foundation”.

13. The Cooper guidelines were issued to Lester Suffield, then Head of Defence Sales, on 9th June 1976. Two weeks later Sir Frank approved the “agency fees” Mr Suffield had requested on two Government-to-Government contracts with Saudi Arabia, one for the Royal Saudi Air Force and one for the Saudi Arabian National Guard.

14. A draft of the note Mr Suffield wrote to Sir Frank was placed in the National Archives on 25th July 2007 (file DEFE 68/319). This shows that the guidelines, contrary to what the MoD has been telling your Committee, were not “to ensure legality and propriety in the handling of Government-to-Government contracts”. Paragraph 8 of this draft says that the “agency fees”, “although described as ‘technical consultancy’, amount in practice to the exertion of influence to sway decisions in favour of the client”.

15. In paragraph 10 it explains that senior Saudis “would certainly not officially approve the payment of fees, although they undoubtedly expect appropriately discreet arrangements to be made. Statements to this effect are made by senior Saudis to visiting major businessmen in somewhat elliptical language whenever a suitable opportunity occurs, for example by HRH Crown Prince Fahd ibn Abdul Aziz during a recent audience granted to Mr. Greenwood, Chairman of BAC, in the presence of D.Sales 1 [a DESO official] and our Defence Attaché”. Paragraph 4 refers to contractors needing to “conceal agency fees” in the overall price quoted.

16. It would seem that, at the very least, these payments, made via the MoD accounts under a Government-to-Government deal, were improper. They were in direct breach of the Cooper guidelines, which the MoD relied on to defend itself to your Committee against the allegations made by The Guardian.

17. This is, of course, just one instance of the growing body of evidence of official condoning of bribes made to attain arms sales to Saudi Arabia. There are also numerous allegations, not least of “commissions” paid to Prince Bandar bin Sultan, via the MoD, as part of the Al Yamamah arms contract. CAAT believes proper parliamentary scrutiny of the evidence is essential. Although some of this is historical, other payments are said to continue. In any event, a clear understanding and acknowledgement of the past is a prerequisite for better future practice.

18. Since this would go beyond the scrutiny of export licensing part of the arms sales process, CAAT suggests it may be appropriate for your Committee to formally ask the Public Accounts Committee to commission the National Audit Office to investigate the whole Saudi Armed Forces Project, in particular, the extremely disturbing allegations around Prince Bandar made in June 2007, and how the issue of “consultancy” payments is currently dealt with in the context of Government-to-Government arms contracts. Any such inquiry should take evidence from officials who have served with DESO, and its predecessor the Defence Sales Organisation. Finally, it is essential that the report of any investigation carried out be made public.

Corruption and your Committee's last report
19. Your Committee's last report, "Strategic Export Controls: 2007 Review" (HC117), recommended that the Department for International Development, when considering licence applications under Criterion 8, include an assessment to test whether the contract behind an application for an export licence is free from bribery and corruption.

20. However, corruption is not confined to those countries which qualify for consideration under Criterion 8. The Serious Fraud Office (SFO) is currently investigating allegations of corruption with regards to BAE Systems' deals with Chile, Czech Republic, Qatar, Romania, South Africa and Tanzania - countries with widely differing economic circumstances and political backgrounds. In addition, CAAT, together with The Corner House, has been granted permission for a Judicial Review of the Government's December 2006 decision to end the SFO's inquiry into BAE's Al Yamamah deal with Saudi Arabia. The hearing is scheduled to take place on 14th and 15th February 2008.

21. Against this background, CAAT is disappointed that your report did not recommend that all export licence applications be subject to an anti-corruption assessment. It is also strange, to say the least, that the section of your report which deals with Saudi Arabia makes no recommendations. These omissions, surely, only serve to reinforce the idea that the UK's anti-corruption efforts are selective and not being applied consistently.

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