

# 11<sup>th</sup> International Anti-Corruption Conference: Workshop 1.5

## Presentation Abstract

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1. Panelist Name: David Murray	2. Workshop Title: Corporate governance and the fight against corruption –emerging practices
3. Title of case-study or paper: Corruption in the Official Arms Trade	

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Corruption in the official arms trade is rife. The effect of this corruption is to distort markets and expand the volume and value of arms sales beyond the level justified by self-defense. There is little doubt that the sale of arms by European and US exporters to Iran in the 1970s and to Iraq in the 1980s and early 1990s was facilitated by corruption. In the case of very low-income countries the consequences can combine military insecurity with a major diversion of budgetary resources away from development and the provision of basic services. Given this context the objective of the COAT program is: ‘to reverse the prevalence of corruption in the official arms trade in order to create a corruption free defense sector.’

The initiative to counter Corruption in the Official Arms Trade, which has adopted the acronym COAT, has developed over the period 2000-2003 and has been driven principally by an association between Transparency International-UK and the Swedish Ministry of Foreign Affairs and Trade. In this case TI-UK has been acting on behalf of the global movement of Transparency International. Two large plenary meetings involving representatives from the defense industry, NGOs, government, research institutes and academia were convened in Stockholm and Cambridge in 2000 and 2001 respectively, followed by a meeting of a smaller working group in Stockholm in February 2002. The last meeting identified a set of eleven interlinked steps which collectively were likely to lead to a significant reduction in the level of corruption in the international market for large-scale arms.

Following the Stockholm meeting in 2002 TI-UK wrote and published a 45-page paper on Corruption in the Official Arms Trade (available on [www.transparency.org.uk](http://www.transparency.org.uk)) which contained fourteen specific recommendations. Although these focused primarily on decision making and policy in the UK the majority were of international relevance. The document was launched at a press conference in May where the lead speaker was the Secretary of State for International Development, Hon Clare Short MP. During this time significant interest has been expressed in two key countries – India and Colombia – in the ‘Integrity Pact’ one of the vehicles recommended by COAT for controlling corruption. In both countries the concept remains alive although the discussion has been set back by the military situation between India and Pakistan and by the change of Government in Colombia. An important part of the Recommendations focus on the question of developing an anti-corruption dimension in export control. The TI-UK working group of February 2002 identified the means of achieving this objective as having the following components in relation to exporting countries, importing<sup>1</sup> countries and international institutions respectively:

### A. Exporting countries

- Inclusion of corruption dimension within export licensing criteria;
- Parliamentary oversight of major export orders;
- Reporting of transfers: Wassenaar agreement to be strengthened so that there is a reliable international data base related to value rather than volume;
- Financial tracking devices for major contracts enabling Government Financial Investigation Units to follow payments;
- Corporate ethics ‘meta code’ containing strong anti-corruption provisions and related to the TI Business Principles for Countering Bribery, and drawing on the experience of the US-Defense Industry Ethical Initiative, to be developed within the industry.

### B. Importing countries

- TI Integrity Pact: to be adopted in dialogue with exporting companies and financing agencies
- Parliamentary oversight : bid evaluation to be scrutinized by Parliamentary committees;
- Security sector budgetary reform to remain a top priority and a part of the conditionality, where necessary, exercised by major lending and grant making institutions

### C. International

- Offset agreements: governments should make a commitment to banning these in the arms sector and in particular to changing Article XXIII of the WTO Plurilateral Agreement on Government Procurement which exempts national security and defense from the whole Agreement.
- OECD/UN Conventions: no exemption on grounds of National security

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<sup>1</sup> The distinction between importing and exporting countries can never be complete but with some exceptions is valid in the case of large-scale high-tech equipment even if some subcontracting is carried out within ‘importing’ countries.

