Preventing Corruption in the Official Arms Trade

Working with the Defence Industry

IACC November 2006, Guatemala City
Session 7.1

Mark Pyman
Transparency International UK
Defence Spending - the Big Picture

- Global military expenditure 2004
  - $1000 billion

- US military expenditure 2004
  - $465 billion

- Arms transfers worldwide 2003
  - $25 billion

- Percentage of transfers to developing nations
  - 59%

- CORRUPTION: 50% of all bribery complaints relate to defence transfers
Suppliers of Arms Transfers 2002-2005

Source: CRS

Millions of constant 2005 US dollars

- United States
- Russia
- Other European
- France
- United Kingdom
- All Others
- Germany
- China
- Italy

[Bar chart showing arms transfer data by country, with United States having the largest share, followed by Russia and other European countries.]
Developing Nations Top Arms Transfer Recipients

1998-2005

Source: CRS

[Bar chart showing the top arms transfer recipients with millions of current US dollars on the y-axis and country names on the x-axis, including India, U.A.E, China, Saudi Arabia, Egypt, Israel, Taiwan, South Korea, South Africa, and Pakistan.]
Vulnerability for companies

Many deterred from bidding in ‘difficult’ countries

Reasons for Companies Not to Bid

- Corruption: 35%
- Human Rights: 15%
- Labour: 10%
- Environment: 5%

Percent
Bribery in business sectors - by size of bribe

Among the business sectors mentioned previously, which are the two sectors where the biggest bribes are likely to be paid?

- Light manufacturing 1%
- Civilian aerospace 2%
- Fishery 3%
- Agriculture 3%
- Heavy manufacturing 4%
- Transportation/storage 5%
- Mining 5%
- Forestry 5%
- IT 6%
- Telecoms 9%
- Power generation/transmission 10%
- Pharmaceuticals/medical care 10%
- Real estate/property 11%
- Banking and finance 15%
- Oil and gas 21%
- Arms and defence 38%
- Public works/construction 46%

The results reflect the percentage of respondents who mentioned the particular sector.

This question was not posed in the BPI 1999.
Headlines on Defence Corruption
from Past 6 months of TI (UK)’s Defence Anti-Corruption Digest

“Taiwan military strongly denies bribery charges”

“American accused of taking a bribe for work in Iraq”

“FRENCH ARMS COMPANY CHARGES WITH CORRUPTION ALLEGES TOP-LEVEL BETRAYAL”

“UK defence industry makes commitments to anti-corruption objectives”

“Zuma’s corruption trial collapses”

“Government issues blacklist of 118 defence suppliers”

“Many in government helped Cunningham or yielded”

“SFO raids four offices in BAE contracts probe”

“Corrupt arms deal cost Iraq over $800 million”

“ROMANIA AND BRITAIN INVESTIGATE SHIPS DEAL”

“We bribed Saudis to buy arms”: former British defence secretary

“China targets bribery in military spending”
Exporting Governments

*have a major part in preventing corruption*

- Exporting government must signal that corrupt behaviour by national companies will not be tolerated
- Company leadership must signal the same
- Accept the tender outcome; avoid the ‘phone call from George Bush’
- Investigate where tendering nations present evidence
- Low credibility: lack of prosecutions under OECD Convention
Outcomes so far

• We have engaged large EU, US defence companies and their Defence Ministries

• Lord Robertson, former NATO, chairs the industry meetings

• European defence industry has announced a formal ‘Task Force’ on anti-corruption, having consulted all defence associations across Europe

• Driven by the European big four: Thales, EADS, BAE, Finmeccanica. Professed intent is to globalise this forum

• Publish the Defence Anti-Corruption Digest - a listing of reported incidents or allegations in the last month
TI(UK) Defence Project

Communication

Case studies
- Colombia
- Latvia
- Poland
- Others

Defence Industry a-c Cooperation
Defence Ministry a-c reform
Exporting Government support
Monitoring

 Defence ministries
Exporting governments
NATO
EU
World Bank

Tools: Defence Integrity Pacts, Procurement Reviews, Digest, Guidebook

Research: Indexes, Single source, Codes of conduct, etc

Capabilities across TI: Finding experts, disseminating info
Going Further: Phase 3

- We continue to engage companies and encourage the international forum, so they meet and raise standards
- Engage non-EU/US companies - Brazil, China, Russia, Ukraine
- Engage through countries with Defence Integrity Pacts, NATO
- More country-wide anti-corruption workshops, with industry and Defence Ministries
- Develop an index of per-country anti-corruption performance?
Your views

• How do we judge the success of industry collaboration?

• How do we judge the impact TI is having?

• What else would help arms importing countries

• What else should we be doing?
Thank you!