

Presentation by

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to the

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- TI's anti-corruption work in defence transfers
- Corruption and export control
- Discussion

# Agenda for today's talk

- The official arms trade is arguably the most corrupt legal international trade in the world
- This is despite complex regulations and processes
- Making defence transfers more secure must take explicit account of the corruption risk
- Export control processes need to be designed/ updated with corruption in mind
- Many governments and defence companies **do** have an appetite to address corruption in defence transfers

# Defence \$ – the big picture

Global military expenditure (2004)	\$1 trillion
US military expenditure (2004)	\$465 billion
Value of all arms transfer agreements worldwide (2003)	> \$25billion
Transfers to developing nations as % of the value of all international arms deliveries (2003)	59%
USA Russia France UK Germany	Supplied 80% of global transfers of major conventional weapons 2000-2004

**Corruption: 50% of all bribery related complaints relate to defence transfers (US State Dept)**

# Transparency International

A not-for-profit organisation dedicated to reducing corruption

- Based in 100 countries, secretariat in Berlin
- Co-operates with government and companies
- Funding: Gov'ts, ODAs, charities, trusts, companies
- Global priorities are:
  - Reducing corruption in politics
  - [Curbing corruption in public contracting](#)
  - Enhancing private sector anti-corruption standards
  - Advancing international conventions

# Public contracting

## TI's multi-country sector activities

- **Oil:** 'Extractive industries transparency initiative', working with oil companies and oil governments. Now being implemented, first with Nigeria, Peru, Azerbaijan
- International **Construction** anti-corruption initiative with World Economic Forum. Working with global construction companies to strengthen their anti-corruption practices and commitments
- **Defence: Reducing corruption in international defence transfers**

# Working together

“...11 of the world’s biggest banks have joined with *Transparency International*. The innovative anti-corruption group, to issue a set of ‘know your client’ guidelines..it was no small feat for TI to get two major Swiss banks, JP Morgan, Citigroup and others to agree to common procedures” **New York Times**

“We reiterate our commitments to the ideals that inspired the work of *Transparency International*, and express our full confidence and willingness to work together to combat corruption in Mexico and throughout the world” **Vincente Fox, President of Mexico**

# History of the TI defence initiative

Stockholm 2000



Cambridge 2001



- Exploratory meetings between defence companies, governments, NGOs. Requested TI to establish a global project
- Jan 2004: TI received funding to work on three themes
  - Apply Defence Integrity Pacts to defence procurements
  - Work with international defence companies to encourage a common anti-corruption consortium
  - Contribute to strengthening anti-corruption in arms control regulations and practices

# How is TI assisting?

A three way approach:

1. Working with **arms purchasing countries**: the 'Integrity Pact' is a powerful tool
2. *And* working with **international defence companies** to strengthen their compliance and tendering practices
3. *and* engaging with **arms exporting governments** so they understand and support both the above

# Governments engaging to date

## Exporting

- UK
- USA
- France
- Sweden
- Italy
- Germany

## Importing

- Colombia
- Latvia
- Turkey
- India
- Pakistan
- South Africa
- South Korea

# Defence Companies engaged to date

## USA

- Lockheed Martin
- Raytheon
- Northrop Grumman
- Boeing
- UTC
- General Dynamics
- GE Transportation
- Honeywell
- ITT
- US defence industry: DII, AIA

## Europe

- Thales
- BAE Systems
- Rolls Royce
- EADS
- Saab, Ericsson
- Finmeccanica
- Cobham
- MBDA
- VT Group
- UK defence industry: DESO

# Strengthening defence procurement against corruption - 1

**Proposal for a Consortium of  
international defence companies  
against corruption**

# A global Consortium for international defence companies against corruption

**Why?**



- **DII exists in the USA**
- **No counterpart in Europe**
- **No structure globally**

1. Purchasing countries want it
2. More level playing field across global players; integration of new players
3. US defence market and US DoD are very focused on good global behaviour by firms
4. Intense focus on global security sector reform
5. Regulatory profusion: chance for some integration?

# 1. *Purchasing countries want it*



Latvia

- Reformist Ministers are asking for it
- Governments are a mix of good and bad practices
- The Minister/ Ministry needs tools and levers to assist anti-corruption reform
- Companies acting collectively are a powerful force
- Benefits both the companies and government reform

## *2. More level playing field across global players*

- Level of commitment on entry
- Opportunity to raise standards across the industry
- Opportunity for mutual understanding among companies that don't otherwise talk
- Able to present a common minimum set of standards to purchaser
- Opportunity to integrate new players
- Opportunities to develop professionalism among compliance officers in all companies

### *3. US Defense Market and US Dept of Defense*

- US DoD takes great interest in probity of its suppliers, worldwide
- US perception of European companies and governments as passive on bribery
- Perceptions, unfair or otherwise, impact on US political process, eg 'Buy American'
- US DoD would welcome a global Consortium as a forum for feedback

# Consortium of international defence companies against corruption

## Possible entry requirements

- Clear statement against corruption
- Minimum standards for compliance programme, due diligence, venture partners, training, etc
- Annual CEO sign off
- Sharing of incidents/ possible loss events with other members
- Support of assurance mechanism

*Lockheed Martin has made proposals  
(DII conference June 2005, [www.dii.org](http://www.dii.org))*

# Consortium - Next step

- Major defence companies and TI come together to brainstorm the idea at industry meeting in Paris in November 2005.
- Meeting to be chaired by Lord Robertson, formerly Secretary General of NATO.
- Industry working group develops Consortium principles and framework. Framework document circulated early 2006.
- Industry and TI work the proposal to become a detailed proposal for adoption by CEOs

# Strengthening defence procurement against corruption - 2

## The application of Defence Integrity Pacts

# Integrity Pacts (IP)

- Contract between all bidders and procuring gov't
- Applies to that procurement only
- All commit to anti-bribery pledges
- Bidders commit to enhanced disclosure and to an Independent Monitor
- Independent Monitor is there to review the Statement of Requirements and the bidding documentation, and to assure compliance with the pact, including responding to questions and complaints
- Sanction: exclusion from the bid, if reasonable evidence of non compliance with the pact

# IPs - feedback summary

- Stimulates companies to be much more active in ensuring their compliance mechanisms work, through the threat of forced withdrawal from the bid
- Useful to supplement the legal process, eg by requiring greater disclosure of information
- Attracts more bidders by increasing confidence that the government is fully serious about transparency and anti-corruption
- Reduces the cost of contracts
- Increases the visibility and exposure of agents
- Increases the risk to dishonest elements in government by increasing independent scrutiny
- Strengthens public confidence in state procurement

# IPs: non-defence usage

- Used in some 14 countries since the mid 1990's: Colombia, South Korea, Chile, Argentina, Italy, Germany, Ecuador, Peru, Mexico, etc
- Mexico: Government initiative to use IPs: IPs being applied to major procurements in social, health areas
- Colombia: Key part of President Uribe's anti-corruption drive. Over 75 applications of large IPs
- Germany: IP being applied to the new Berlin airport

# IPs: defence usage

- Early applications in South Korea, Colombia
- Now being more extensively applied in these countries. 'Ombudsman' mechanism now active in South Korea to function as Independent Monitor
- Indian defence procurement agency is officially planning the use of IPs for major defence procurement
- TI(UK) in dialogue with several other interested countries: e.g. Latvia, South Africa, Pakistan, Colombia, Uganda

# Export control and corruption

- **Thoughts arising from TIs work**
- **Anne Charlotte Wetterwik: export control context**

# Export control and corruption risk

## Lessons from Integrity Pacts

- Administrative sanctions are powerful, and quicker to implement than legal process

Could be developed from US practice and applied to export control: e.g. six month, twelve month bans on export/import of products by companies or agents if irregularities found

- An international industry body that can align industry response with UN 1540?

# Export control and corruption risk

## Other thoughts

- Involve your national anti-corruption agencies: ask them to do sample checks of transactions and companies
- Raise/lower requirement level for end user certificate according to perceived probity of the destination
- Review anti-corruption requirements on customs officers and others involved
- Certification route for ‘quality companies’, on both exporting and importing sides. Lower regulatory requirements for the 80% of companies that are doing legitimate trade. Audits/ inspections by national authorities: report/publish findings annually

# TI's Defence project team Contacts

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# End of presentation

Background slides

# TI's defence team



Admiral Hugh Edleston



Mark Pyman



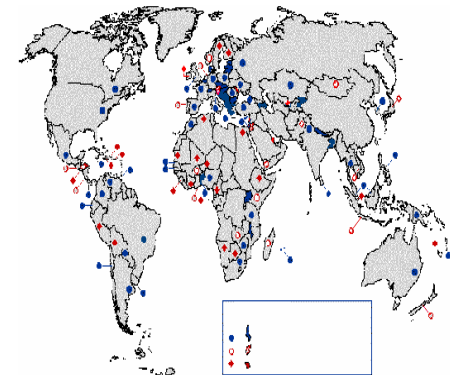
Dominic Scott



Commander  
Patrick Brown



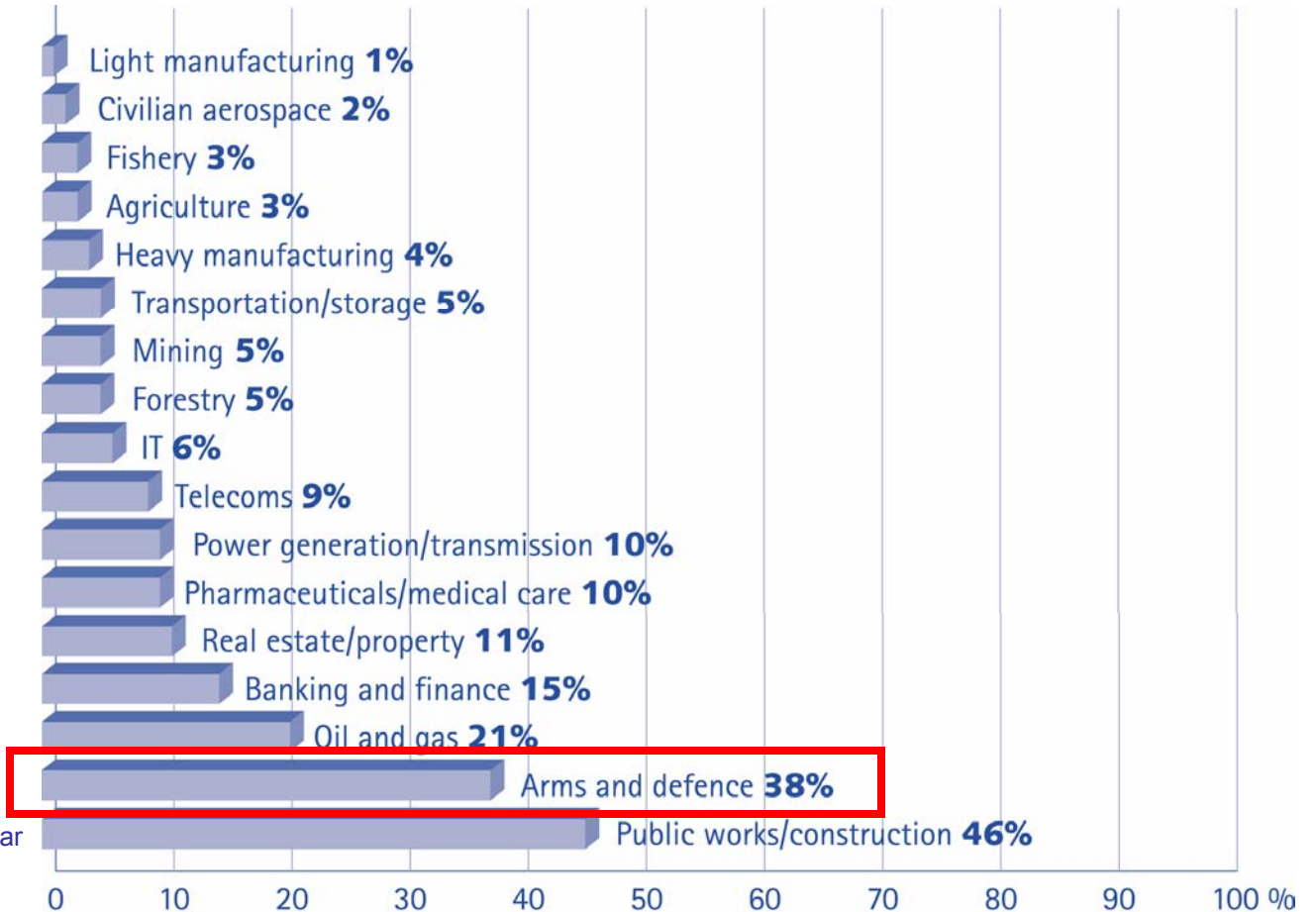
Air Commodore  
Alan Waldron



TI global expertise



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



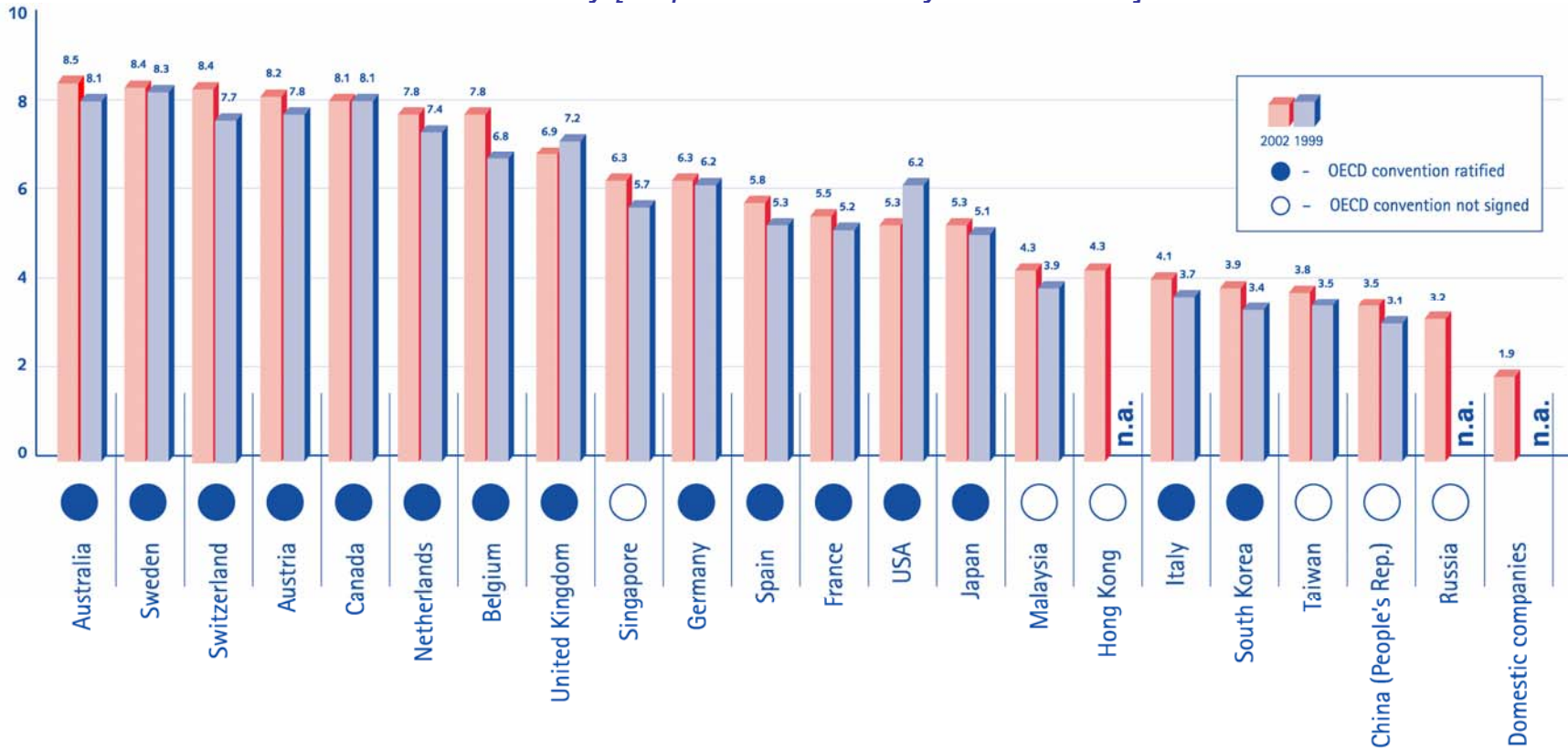
The results reflect the percentage of respondents who mentioned the particular sector.

This question was not posed in the BPI 1999.



### Bribe Payers Index 2002

*In the business sectors with which you are most familiar, please indicate how likely companies from the following countries are to pay or offer bribes to win or retain business in this country [respondent's country of residence]?*



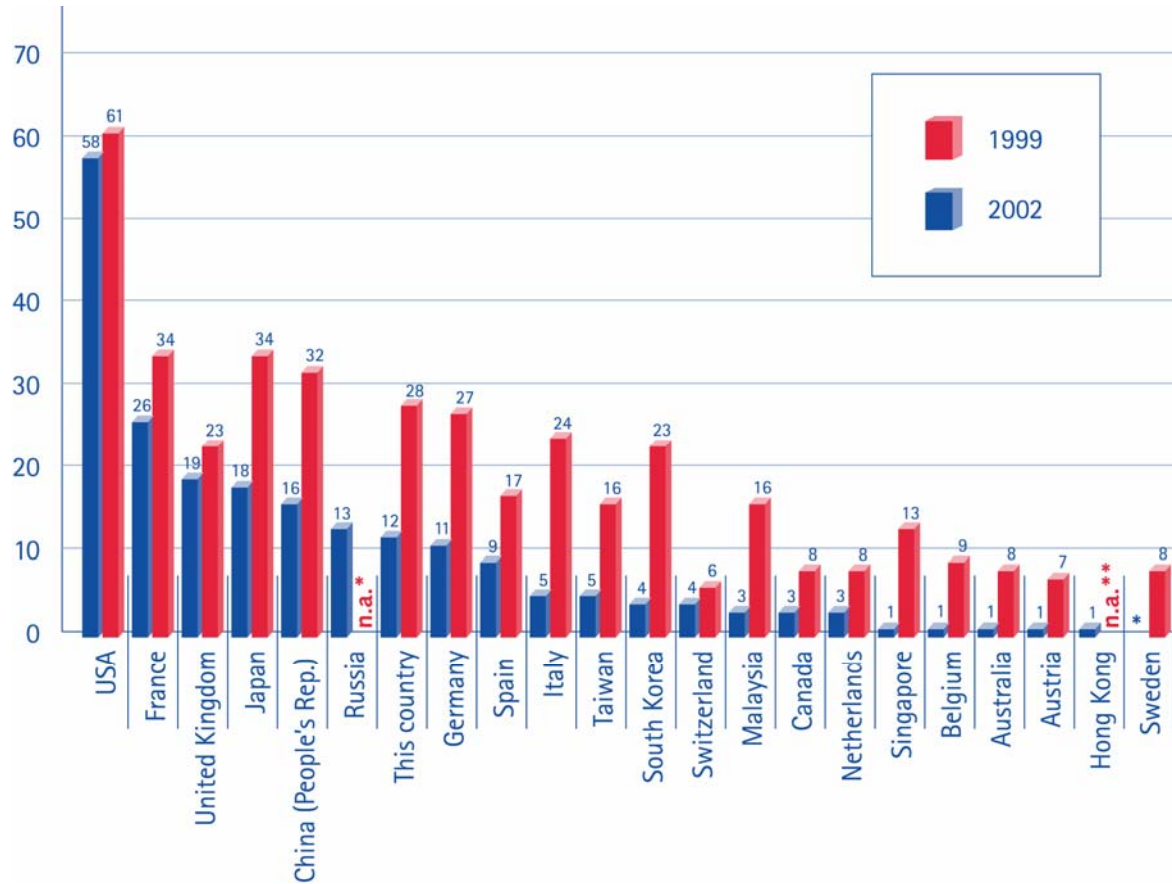
The question related to the propensity of companies from leading exporting countries to pay bribes to senior public officials in the surveyed emerging market countries.

A perfect score, indicating zero perceived propensity to pay bribes, is 10.0, and thus the ranking starts with companies from countries that are seen to have a low propensity for foreign bribe paying. In the 2002 survey, all the data indicated that domestically owned companies in the 15 countries surveyed have a very high propensity to pay bribes – higher than that of foreign firms.



Countries using other unfair means to gain or retain business

Which three governments do you principally associate with practices such as those mentioned above [other means – besides bribery - used to gain unfair advantage in international trade and investment]?



The score reflects the percentage of responses where the country featured among the three countries cited as principally associated with other unfair practices.

\* not included in 1999. \*\* included as part of China in 1999.



## If corruption is decreasing, then why?

*Have changes and developments in any of the following factors contributed significantly to [a decrease in the level of corruption by foreign companies of senior public officials in the past 5 years]?*

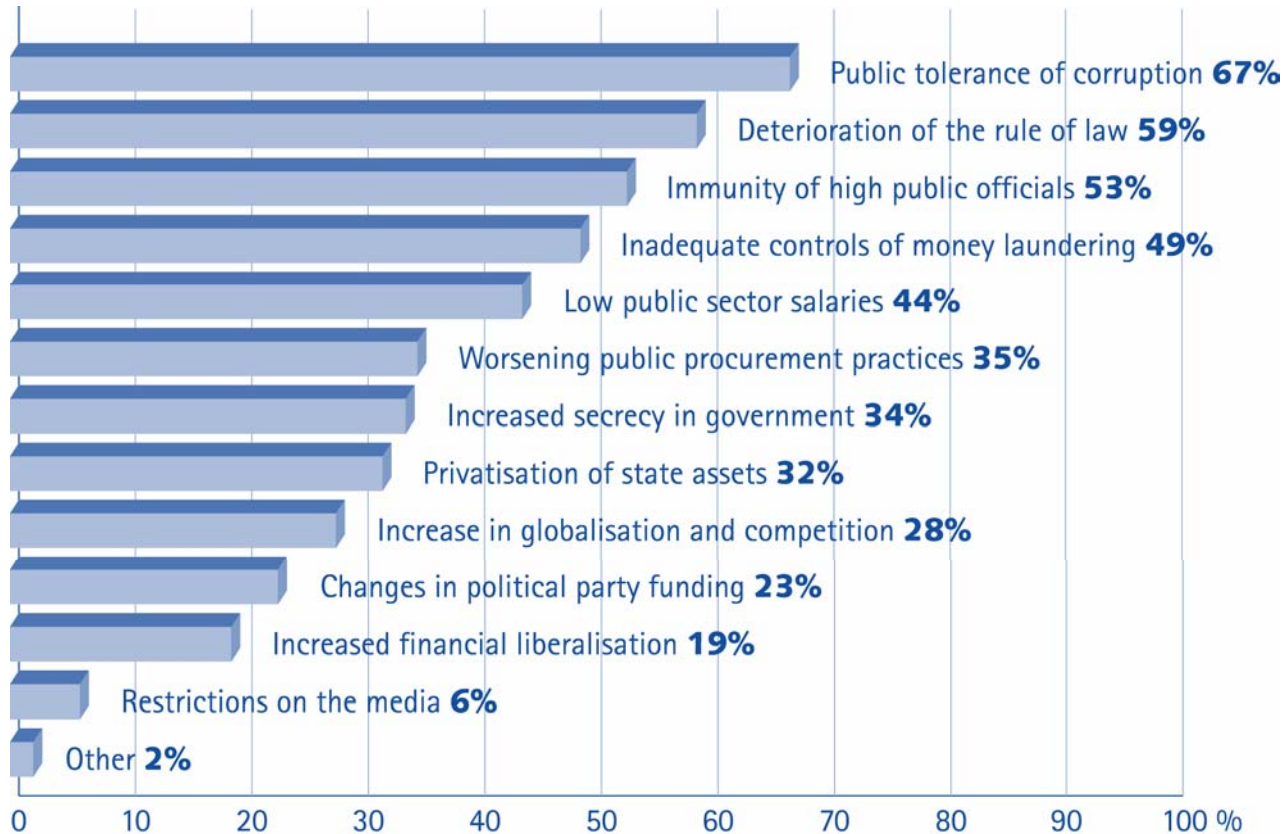


This question was asked to all those saying that the level of corruption by foreign companies of senior public officials had decreased somewhat or decreased significantly in the past five years.



## If corruption is increasing, then why?

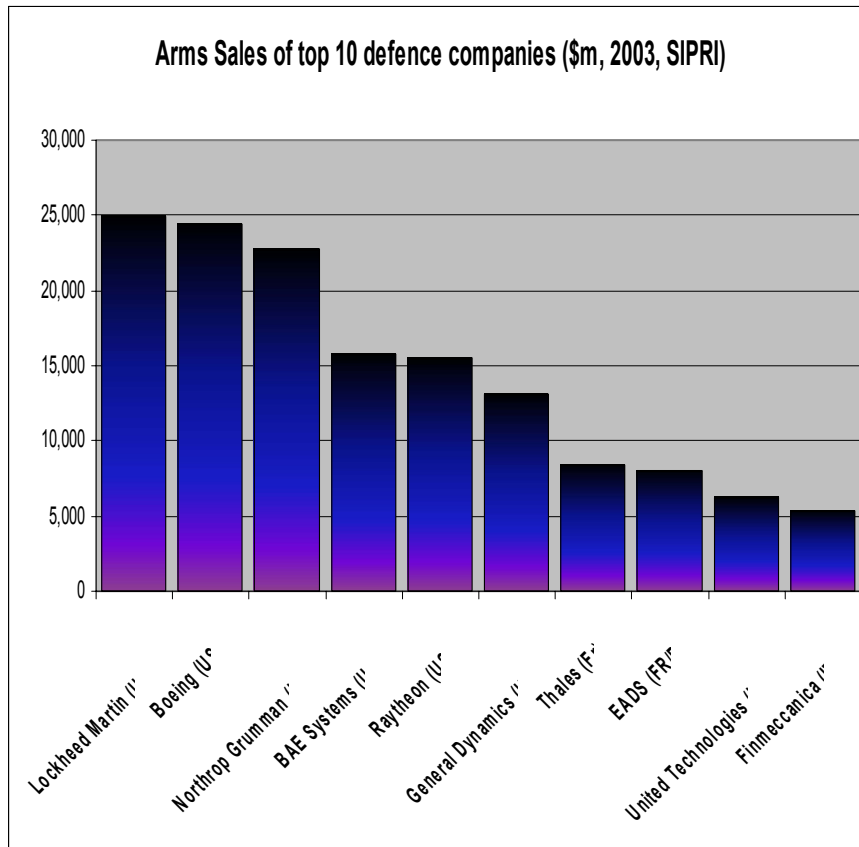
*Have changes and developments in any of the following factors contributed significantly to [an increase in the level of corruption by foreign companies of senior public officials in the past 5 years]?*



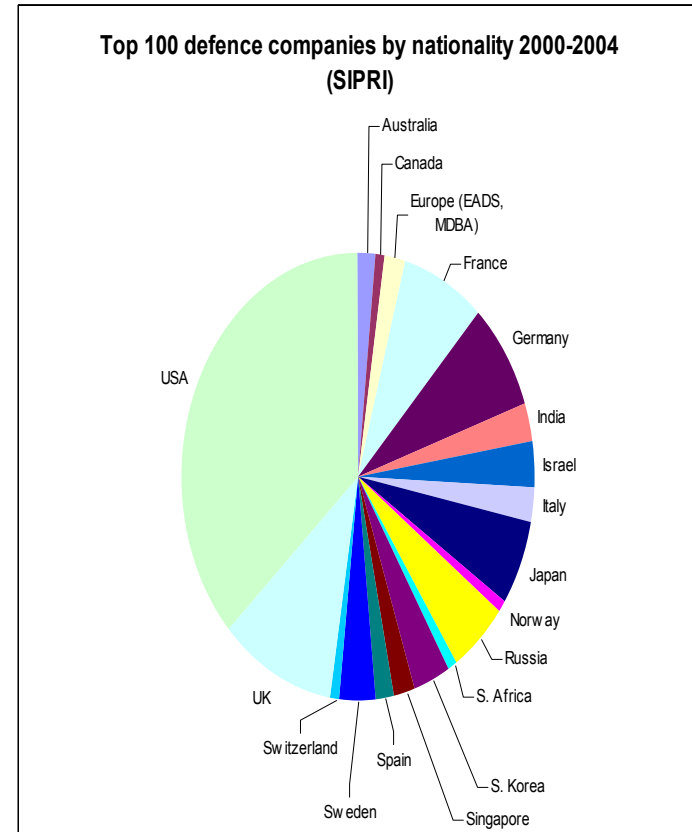
This question was posed to all those saying that the level of corruption by foreign companies of senior public officials had increased somewhat or increased significantly in the past five years.

# Companies

## Arms sales of the top 10 defence companies



## Nationality of the top 100 companies



# Recipients

Largest recipients of major  
conventional weapons 2000-2004



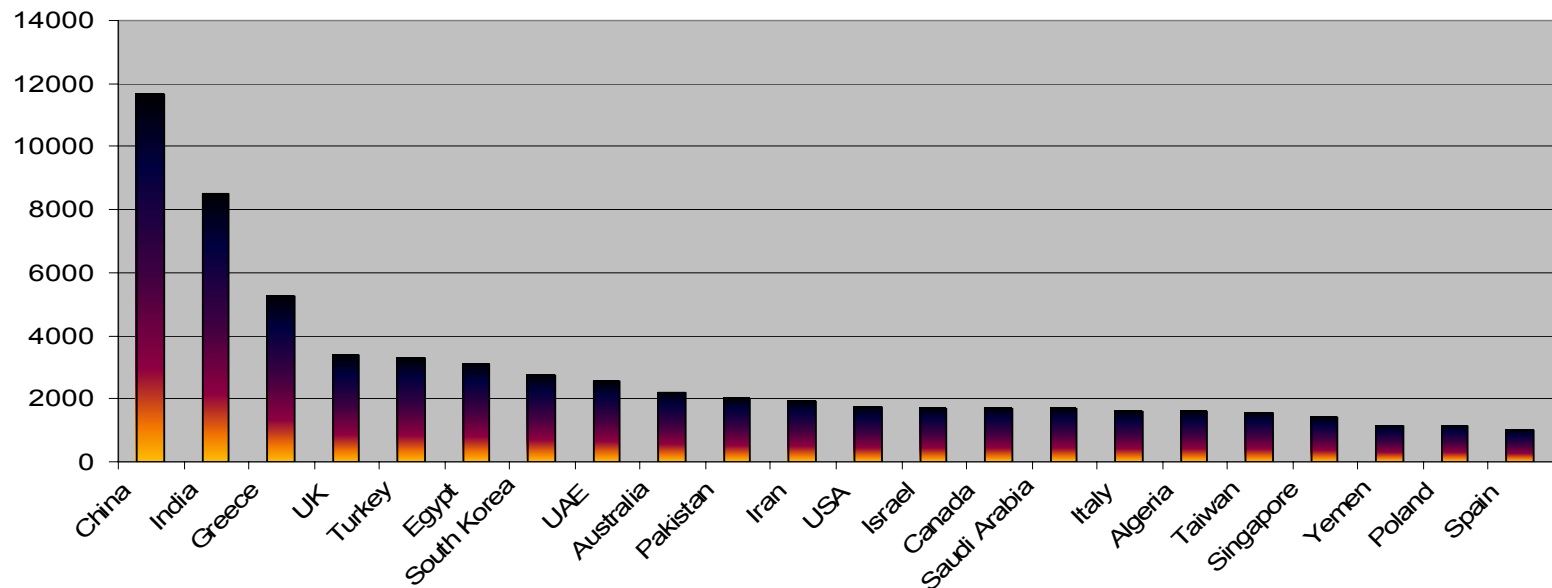
China and India

Other significant importers  
during the period 2000 - 2004



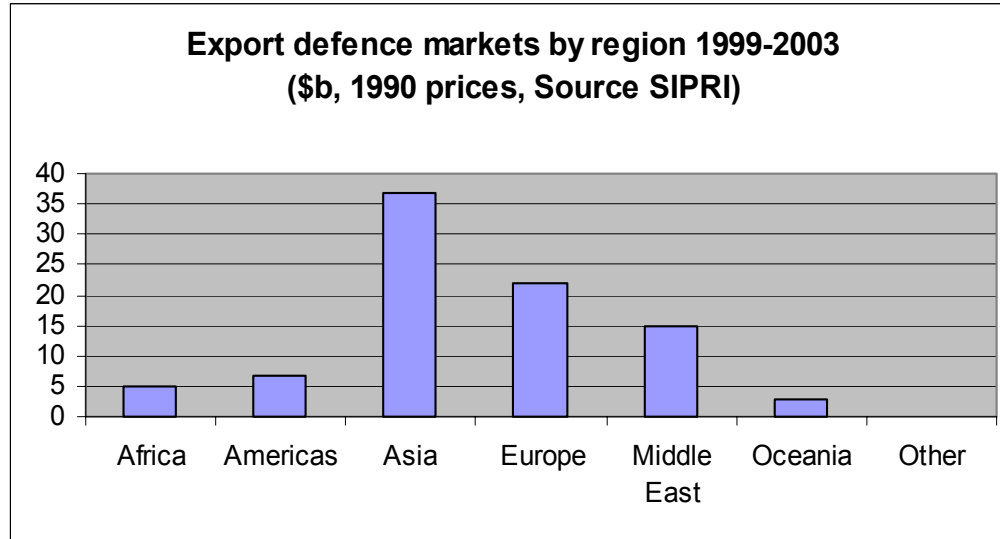
Greece, UK  
Turkey, Egypt  
South Korea

**Top 22 recipients of major conventional weapons 2000-2004  
(US \$m, 1990 prices, SIPRI)**

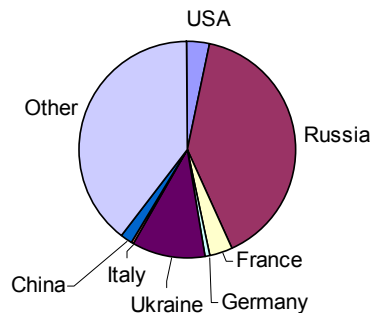


# International Defence Contracting

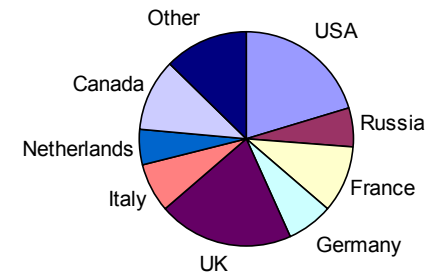
## – who sells to who



**Suppliers of defence transfers to Africa 1999-2003**  
(Source SIPRI)



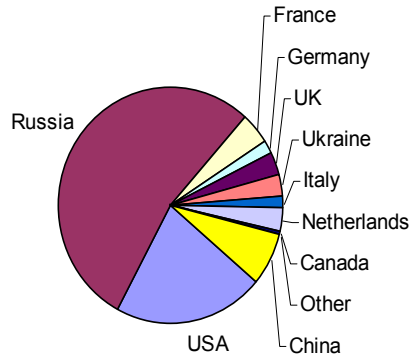
**Suppliers of defence transfers to the Americas 1999-2003**  
(Source SIPRI)



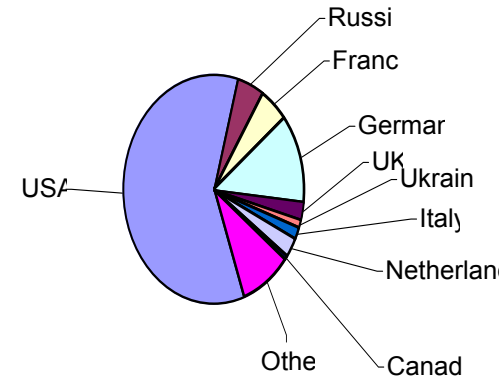
# International Defence Contracting

## – who sells to who

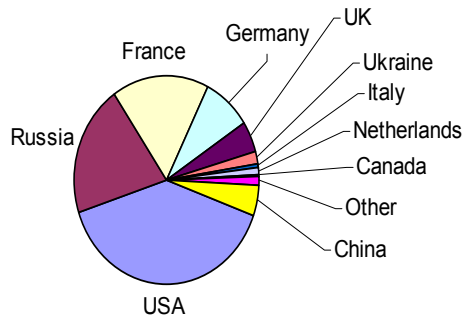
**Suppliers of defence transfers to Asia 1999-2003**  
(Source SIPRI)



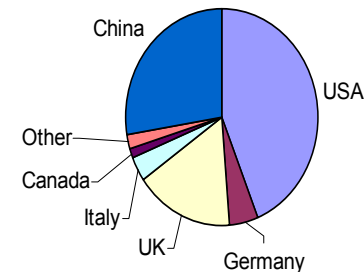
**Suppliers of defence transfers to Europe 2003**  
(Source SIPRI)



**Suppliers of defence transfers to Middle East 1999-2003**  
(Source SIPRI)



**Suppliers of defence transfers to Oceania 1999-2003**  
(Source SIPRI)



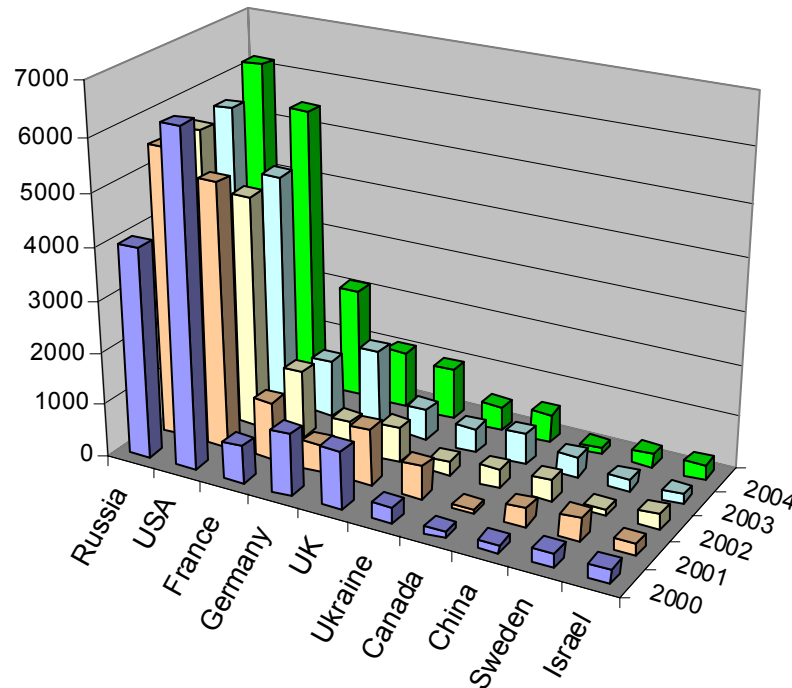
# Suppliers

Russia, USA  
France, UK  
Germany



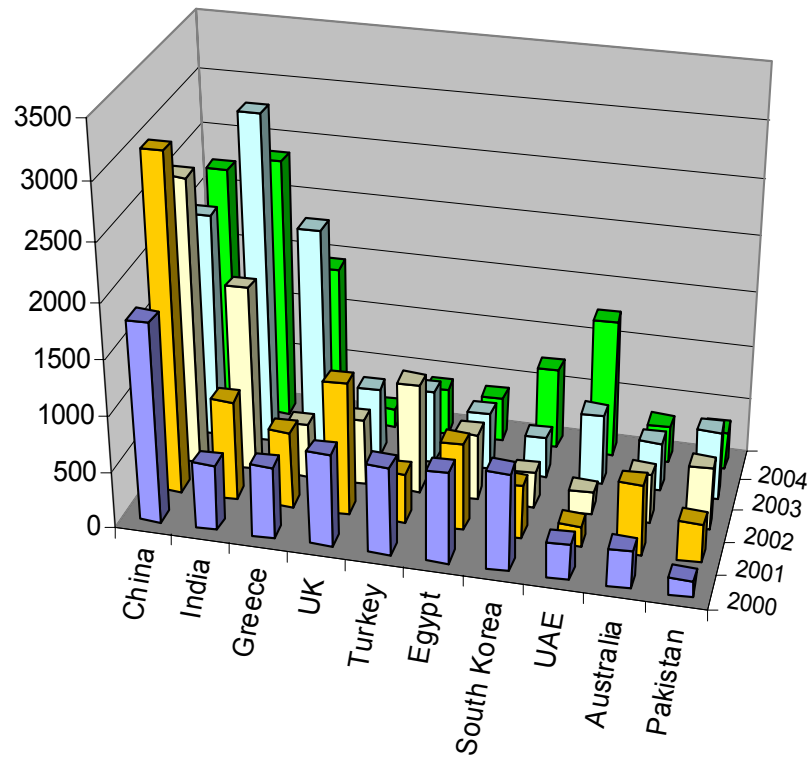
supplied 80% of global transfers of major conventional weapons 2000-2004

**Volume of major conventional weapons by top 10 suppliers, 2000-2004 (US \$m, 1990 prices, SIPRI)**



# Recipients

**Volume of transfers of major conventional weapons by top 10 recipients, 2000-2004 (US \$m, 1990 prices, SIPRI)**



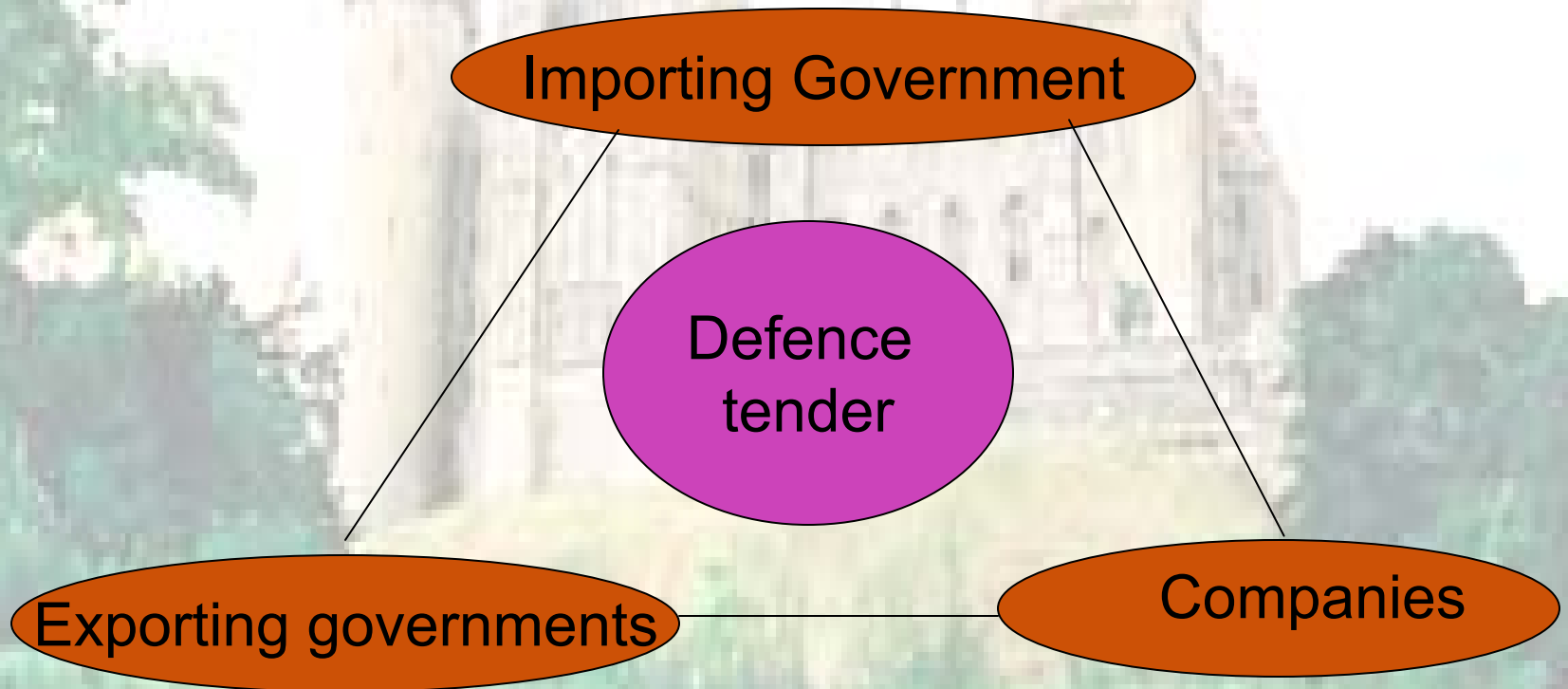
# Phase 1 - outcome

Arundel, England June 2004

## *Defence companies, exporting and importing governments, NGOs present*

- Defence companies **do** have an appetite for an industry wide approach to anti corruption measures
- Anti-bribery contracts among bidders and the government for each major bid should be a powerful tool in improving international defence contracting
- Enthusiasm among exporting governments is critical, and is already partly there (e.g. UK, USA, Sweden)
- A neutral group like TI was needed to aid a common approach across countries

# Reducing corruption in procurement needs action by three groups



# Defence procurement - vulnerability to corruption

- Secrecy and national security issues
- Technical requirements open to manipulation
- Multiple layers of subcontractors
- Contract and product complexity
- Deeply embedded agents
- Urgent needs
- Military hierarchy
- Revolving doors
- Government pressure
- Post contract support
- Off budget funding
- Offsets