

TRANSPARENCY INTERNATIONAL (UK)



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Ethics and corruption relating to arms exports

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Why fight corruption?

“Corruption is like a deadly virus. Left unchecked it weakens economies, creates huge inequalities and undermines the very foundation of democratic government.”

Rt. Hon. Jack Straw MP

June 2000



What is TI?

- Founded in 1993
- International, non-profit NGO
- More than 90 national chapters
- International secretariat in Berlin
- Funded by aid agencies, foundations and the private sector



How does TI work?

- Does not name and shame
- Emphasises systemic reforms
- Non politically partisan
- Works in coalition with governments, civil society and business



What does TI do?

- Raises awareness
- Builds coalition
- Develops tools to fight corruption
- Builds the case for reforms



TI(UK)'s work

- Input into the draft corruption bill
- National Integrity Study
- Corruption in the Official Arms Industry
- Money Laundering in the UK
- Corruption in Construction & Engineering
- Members' meetings
- Corporate Supporters' Forum



Preventing corruption in the official arms trade (PCOAT)

- TI global initiative
- Funded by UK Government
- Grew from Stockholm and Cambridge conferences 2000 and 2001



Arms anti-corruption strategy

1. Working with defence companies to progress an anti corruption code
2. Extending the use of **Integrity Pacts** to the defence sector
3. Assisting with measures to strengthen national defence procurement processes



Defence procurement process

1. Government policy
2. Capability gap definition
3. Requirements definition
4. Support requirements
5. Outline costing
6. Tender
7. Bid assessment and contract award
8. Manufacture, delivery
9. In-service
10. Disposal



Defence procurement is very vulnerable to corruption

- Secrecy and national security
- Technical requirements open to manipulation
- Multiple layers of subcontractors
- Contract and product complexity
- Use of agents
- Military hierarchy
- Revolving doors
- National manufacturers
- Government pressure
- Post contract support
- Off budget funding
- Offsets



Addressing the vulnerabilities

- Appropriate laws and by introducing robust procurement processes.
- Increasing the transparency of the process.
- Developing and applying **Integrity Pacts** (IPs) that complement these measures and significantly strengthen the process against many of these vulnerabilities.



Integrity Pacts - main elements

- A pact between government and all the bidders
- Undertaking by the government that none of its officials will demand or accept bribes
- A statement by each bidder that it has not paid any bribes to get the contract
- An undertaking by each bidder to disclose regularly all payments made to all intermediaries before, during and after the tender
- Independent monitor
- Use of arbitration for conflict resolution
- Sanctions for any violations



Integrity Pacts - history

- **Some 14 countries:** Colombia, South Korea, Chile, Argentina, Paraguay, Italy, etc
- **Over 100 applications:** Central government, Local government, agencies, etc
- **Most industry sectors:** Water, energy, privatisation, infrastructure, telecommunications, etc

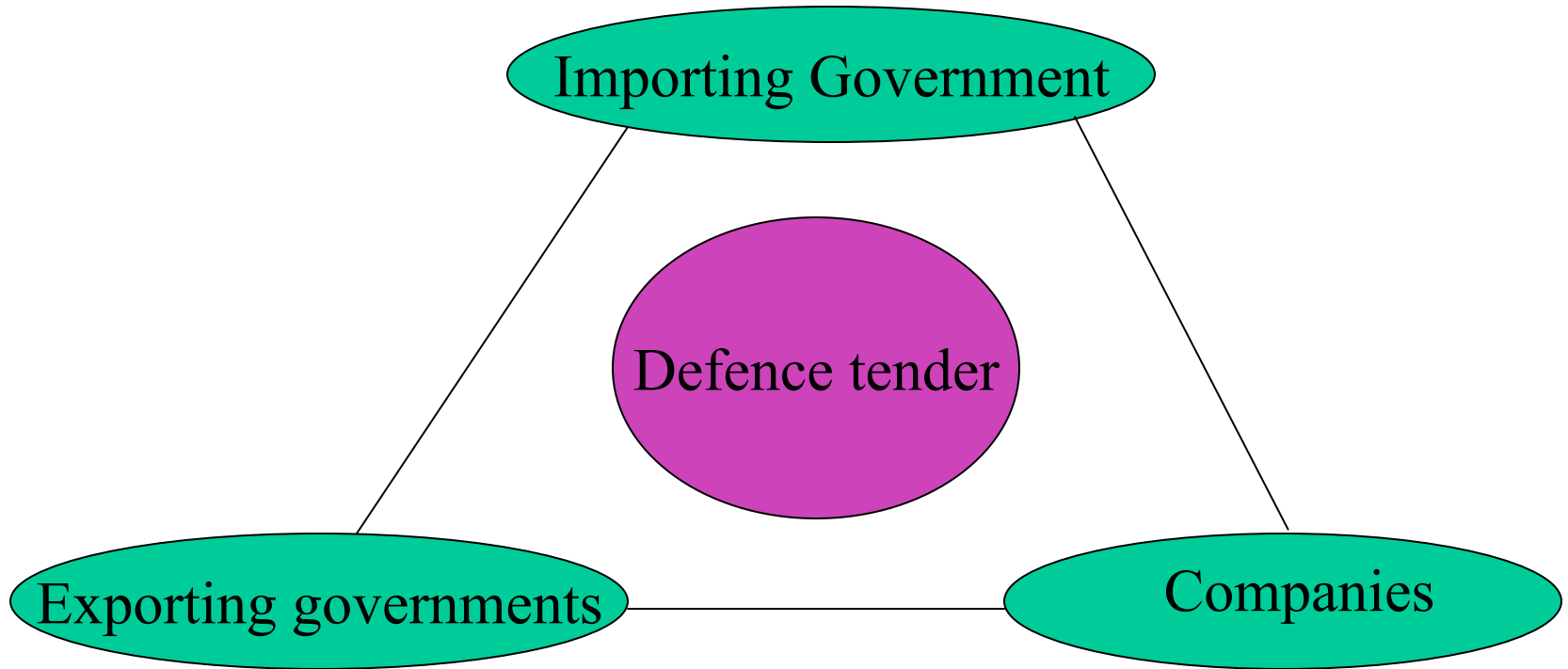


Key issues for Defence Integrity Pacts (DIPs)

- Importing and exporting governments
- The technical complexity of bids
- The selection and competence of the independent monitor team
- Independent consultants
- Disclosure of agents and their payment
- Defence company codes
- Layers of sub-contractors
- Confidentiality and national security
- Offsets
- Bid evaluation mechanisms



Clean Defence procurement is a three way effort



Independent monitor

- Transparency and public accountability
- Corruption risk and technical review
- Confidentiality
- Individual or team
- Funding and contract



Agents

- Central role in much defence procurement
- Disclosure of identities and service contracts
- Disclosure of payments to agents
- Disclosure of payments by agents
- At bidding, at contract and later phases



Defence company codes

- Opportunity to reference them in the IP
- Offsets are visibly absent in today's codes
- A European standard? A global standard?

An integrity pact for the sector?



Confidentiality and national security

- Legitimate concerns

But:

- Easy argument to close off transparency
- Good experience of greater openness
- Use Independent Monitor as adviser on what really needs to be confidential



Offsets

- Heavily used despite WTO
- Direct and indirect
- Major corruption risks
 - Promises at tender time
 - Opportunities for later reward
 - Opportunities to negotiate them away
- Not in the codes



Implementation

- Produce a DIP document:
 - » aligned with national laws,
 - » to be directly taken up by the Defence Procurement Agency or Ministry of Defence
- Formulate plan for DIP adoption within government procurement agency
- Monitor: identify independent groups or professionals



Issues in implementation of DIPs

- Lead government department nominated by importing government
- Funding of independent monitor
- Adoption by defence contractors
- Adoption by the defence sector as a whole?
- Apply to large contracts only ?
- Execution phase and Tender phase



PCOAT Phase 1 activities

1. Consultation:

- three arms importing countries
- three arms exporting countries
- defence contracting companies

2. Evaluation:

- defence procurement vulnerabilities to corruption
- IP operation in Korea & Colombia
- company defence codes comparison with the DII and the BPCB

3. Conference to review phase 1 and to direct phase 2 with representatives from

- Importing and exporting governments
- Industry
- Pressure groups



Phase 1 conclusions

1. DIPs should be a part of defence contracting
2. Appetite exists for industry-wide approach to anti-corruption
3. Coordination role of TI(UK)
4. More transparent and better procurement processes in importing countries => reduced corruption



Phase 1 recommendations

1. DIPs should now be trialled
2. Encouraging a Code of Conduct for the global defence industry:
Secure support of major exporting companies for a global industry framework
3. Strengthening anti-corruption measures in regulatory requirements
4. Assisting in reform of national defence organisations and processes



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