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THE ATTACHED TRANSCRIPT WAS TYPED FROM A RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT. BECAUSE OF THE RISK OF MISHEARING AND THE DIFFICULTY IN SOME CASES OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS COMPLETE ACCURACY.

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## ACTUALITY OF BOMBING

URRY: The battle to overthrow Saddam means a war dividend for defence companies hoping to arm a Middle East shaken by conflict. Britain says it's cleaned up its act when it trades weapons with other nations, introducing new laws last year to try to stop the bribing of foreign officials who can influence such deals. Yet a court on the other side of the world is being asked to scrap major defence contracts involving Britain's biggest arms manufacturer. If legal action is successful, it could cost taxpayers in the UK millions of pounds, because the British government has underwritten the deal. File on 4 asks how far it's possible to enforce the new ethical regulations when weapons trading is shrouded in secrecy. We've examined two cases involving BAE Systems, formerly British Aerospace, which raise concerns about the lack of transparency in deals worth billions of pounds.

## SIGNATURE TUNE

## ACTUALITY IN PRAGUE

URRY: Prague in the spring, and tourists arriving in horse-drawn carriages around the cobbled streets of this historic city. Two years ago visitors from some of the world's top defence industries were here, hoping to secure contracts worth about \$2.5 billion, selling combat jet fighters. Among them were representatives of BAE Systems and its Swedish partner SAAB, which shook off the opposition, becoming the only bidder. And then came controversy.

NECHAS: I have had strong feeling that something is wrong. I have had strong feeling that something is very strange. This tender wasn't transparent, and even two years ago we said to government and we tried to push them to cancel this tender as an untransparent one.

URRY: You felt it was all proceeding with undue haste?

NECHAS: Yes, yes, I must agree.

URRY: Petr Nechas, a leading opposition MP in the Czech Parliament. He believes the specifications asked for by the Czech government, as they invited formal offers from companies, favoured one competitor.

NECHAS: When you take into account the condition of this tender, it looked like to be tailored for one concrete competitor. The second reason, and now I'm going to be very honest, was that the representatives of BAE and SAAB were so self confident, even when I compare it with US companies, and it was quite strange to see their self confidence before the tender and during the tender – 'We are going to win.' They said it very very openly and correctly so.

URRY: You don't think that was a sort of clever diplomatic game that they were playing?

NECHAS: So you can call it a clever diplomatic game, but even I would say that their self confidence was counter productive.

URRY: Mr Nechas was relying on his political instincts. But he wasn't alone. BAE's competitors were uncomfortable as well. There were four other big defence contractors in the running to provide combat fighters to replace the Republic's ageing warplanes. When they saw the specifications and were asked to formally bid for the contract, they all withdrew. One, Dassault Aviation from France, suggested it was obvious to them that the British-led offer was being favoured. The company's head of military sales, Yves Robins, says after that they didn't even try.

ROBINS: We decided that this tender was too narrowly tailored in the direction of one of the competitors and we decided we didn't want to lose our money, our human resources and our time in participating to it because we thought it was clearly in the direction of one of the competitors. Another element which was odd for us was the obligation to have an already established Czech company in the country who would take care of the implementation of the contract. This was probably the case for one or two other competitors – I'm sure for one – but it was certainly not the case for us. These were additional elements leading to our decision not to participate.

URRY: American challengers, Boeing and Lockheed Martin, had similar concerns. US regulations require contracts to be written in English and paid for in dollars. More disturbingly, a source at Lockheed Martin told File on 4 that they had been warned off by the US State Department because of concerns over the lack of transparency in the process. We wanted to interview BAE Systems about their bid to sell Gripen warplanes to the Czechs, but they told us no one was available. However, in a statement, they said the procurement tender was fully transparent, and its requirements were in line with international defence purchasing practice. The Czech Republic is a member of NATO, joining in 1999. It's bordered by friendly countries. NATO's General Secretary, George Robertson, let it be known that sorting out land defences and dealing with a weak economy should be the Republic's priority, rather than buying warplanes it couldn't afford. According to Jiri Kominek, a Czech who writes for the publication Jane's Defence Weekly, the Gripens offered by BAE were a curious choice.

KOMINEK: All the other bidders, including Dassault, Eads, Lockheed Martin and Boeing were marketing aircraft that were NATO compatible, and the only non NATO compatible aircraft being marketed was the Gripen being pitched by BAE Systems and SAAB Aerospace.

URRY: In what way is it not NATO compatible?

KOMINEK: Well at the time – this has changed since – but one of the key factors was its air to air refuelling capability, it didn't have one, which all NATO aircraft have to have. Essentially the aircraft was designed to defend Swedish airspace against external aggression. If that's the role it was supposed to fulfil for the Czech Republic it would have been a fine choice. However the Czechs, as NATO members, would have to participate in missions that are outside of NATO territory. The aircraft would be incapable of doing that.

URRY: It wasn't just the choice of plane causing concern. Pavel Kahout, an economist based in Prague, was suspicious about the amount of secrecy from the government, including the costings for the Gripen. Did the Gripen consortium represent, in your view, the best value for money for your country?

KAHOUT: I do not know, because there was no study to summarise the available options. They said that it would be the best cost-effective solution, but they didn't provide any facts for their statements.

URRY: Did that surprise you?

KAHOUT: Yes. I thought it was highly suspicious. If somebody says, 'This is the best choice, this is the most cost effective way to protect our airspace,' okay, it might be true, but it should be supported by facts.

URRY: BAE and SAAB say that it is. I've read quotes from BAE saying it's one of the most transparent processes they've been through.

KAHOUT: Perhaps from their point of view it is transparent, but I, as an independent economist, as a taxpayer, would like to see some precisely written study which would evaluate product choices, such as Gripens or F60s or F80s or whatever.

URRY: A crucial vote on the financing of the deal was taken by the Czech Parliament last June. The plan put forward by the government was rejected by a single vote. It's alleged that in the run up to that vote, a bribe was offered. The police were called in to investigate.

## ACTUALITY OF TRAM

URRY: File on 4 has been told by a Czech police spokesperson the allegation centred on a phone call made two days before Parliament was to decide to the leader of one of the smaller opposition parties. Up to 50 million Czech Crowns – that's about £1 million – were offered to secure the absence of the party's senators during that vote. Officers traced the call to a public phone box in the city centre of Prague, close to where I'm standing. Other senators were interviewed, but they couldn't give further information and the trail went cold. It seems someone had been so determined to ensure the purchase plans for the planes were approved that they were prepared to break the law. Whoever made the call, BAE say it was nothing to do with them. In a statement they told us:

READER IN STUDIO: In all markets, the company conducts its business in a professional and transparent manner, and in line with both local and international law.

URRY: Last August, two months after the finance to buy Gripens was halted by one vote, the Czech Republic was devastated by floods. The government needed to be seen to be spending on rebuilding its country, not its air force. But rivalry on fulfilling Czech air defence requirements continues, and BAE will still be hoping for contracts. It's likely they'll continue to be helped in their efforts by the British government. During negotiations over the Gripens, Tony Blair was in Prague, urging his opposite number to sign up to the deal. And for the MP Vince Cable, who speaks for the Liberal Democrats on trade, the efforts to sell Gripens to the Czechs is cause for concern.

CABLE: These are only the latest major arms contracts involving BAE Systems and overseas governments which have raised all kind of question, we had previously contracts in Tanzania, deals in India. British politicians get heavily involved in these contracts in ways that are very worrying. The Foreign Secretary went

CABLE cont:                               off to try and promote Hawk sales in India at a time when India and Pakistan were close to war. Given the Czech Republic is an applicant member of the European Union, will be joining soon, one can imagine all kind of trade-offs being made, and the interplay between politics and arms dealing is worrying.

URRY: What specifically do you object to in the role of the UK government supporting a company like BAE Systems?

CABLE: There is a proper role for the British government in supporting all British exporters overseas, but the involvement with the arms exporters has been particularly pressing, and the recently retiring head of procurement in the Ministry of Defence was highly critical about the way some of these companies have performed in the past, and just assume that they have a monopoly of government business and have some kind of inside track to ministers, and I think that the government should be going out of its way to keep a distance from these companies. There are a lot of secondments into the Ministry of Defence and the Foreign Office from BAE Systems and others, and I find it difficult to believe that when they are seconded to the civil service that they are not exercising influence on the companies' behalf, and this cannot be right.

URRY: Vince Cable's concerns are reflected in a new study written by Campaign Against the Arms Trade, which highlights the wide range of dedicated government services in support of arms deals. The research speaks of a web of advisory bodies to the government on which sit members of BAE Systems or other companies in which they have a stake. The researchers point out that the web is so complex and information so well hidden that a complete picture is not available. We wanted to interview a government minister about the issue, but our request was declined. Instead the Department of Trade and Industry offered a statement which didn't directly address the links between BAE and government. It said:

READER IN STUDIO: The Minister for Defence Procurement has the responsibility for promoting defence exports in support of our own national and international defence interests, as well as being in support of UK industry.

URRY: For Transparency International, which campaigns for more openness in the arms trade, the help given to UK defence contractors amounts to hidden subsidies. The organisation's Joe Roeber argues that distorts the true costs of weapons systems.

ROEBER: The role of the host governments of exporting companies is very complex. They invest in research, which they don't claim back from the exports. They have representatives in their embassies, which is a fairly expensive business. They allow the military to go and demonstrate the aircraft and other equipment, which is also quite expensive and not paid for by the industry. The most expensive single part is research, and that is of course the most questionable. But there is a great deal of money spent by the government supporting exports.

URRY: That's a good thing though, isn't it? It's a good thing to have British exports?

ROEBER: You have to ask what you're exporting and who to. It's not just the money involved, it's also the nature of the equipment being sold and the destabilising effect. There is a vast need for investment in social services, education, health, roads, houses, you know. The government knows this perfectly well. When you choose to spend your money on defence instead of such urgent needs as that, you know, you have to question why it's being done.

URRY: Those are the questions being asked in a country on the other side of the world, with pressing social needs – South Africa.

## ACTUALITY OF CHANTING

URRY: War veterans from the ruling ANC Party's military wing, the MKMVA. Once warriors in exile, these men now need new skills and new jobs. After the ANC took power in South Africa, the MKMVA's Commander in Chief, Joe Modise, became the Association's honorary president. He also became South Africa's Minister of Defence. So when it emerged that a donation had been made by BAE Systems to a charity which offers help to his former comrades, it aroused suspicions. The timing



URRY cont:

was also questioned. The donation of 5 million Rand – that’s about half a million pounds – was made during bidding from BAE and others to supply South Africa with warplanes. A few months later BAE won the order, worth £1.5 billion. The key to the decision was Defence Minister Joe Modise. According to Raenette Taljaard, a Member of Parliament and an opposition party spokesperson on finance, the money for war vets was aimed at buying influence.

TALJAARD: A donation was made quite early on, before the formal procurement decisions were even taken, to the MK War Veterans Association through what subsequently was revealed a trust called the Airborne Trust, and a number of questions remain as to the Airborne Trust, and there was never any clarity as to what this money would be used for, what this money may or may not have been expended or ready for, other than the argument that was given by BAE, that this trust fund is there to oversee the reintegration of war veterans and military personnel of Umkhonto we Sizwe into civil society ...

URRY: Well what's wrong with that?

TALJAARD: Well, other than it has a very clear political flavour and obviously has a clear emotional flavour to the former Minister of Defence, who was the Commander in Chief of Umkhonto we Sizwe in exile.

URRY: Does this amount to an irregular payment, do you think?

TALJAARD: Well I certainly have not come across anything this strange before.

URRY: BAE strongly deny they were attempting to buy political influence. They said the contribution to an aerospace industry trust to equip former soldiers with new life skills was part of their corporate social responsibility initiative. Joe Modise's role became apparent in a report into the arms procurement affair published after contracts were signed. South Africa wanted to buy warships, warplanes and other defence equipment and was prepared to pay 30 billion Rand – that's roughly

URRY cont: £3 billion. A number of European defence groups were in the running. BAE got the lion's share – more than 50% - for Hawk trainer aircraft and Gripen fighters. Other contracts were secured by French and German based companies. Some questioned the rationale, arguing South Africa was a nation threatened by poverty and AIDS, not invasion or attack. But the government had decided based on a lengthy evaluation process. During that process, under set criteria, an Italian manufacturer, AeroMacci, emerged as the frontrunner to supply planes. According to Andrew Feinstein, then an ANC MP who sat on South Africa's Public Accounts Committee, AeroMacci planes were the choice of the military.

FEINSTEIN: The South African Air Force made it clear in a number of technical documents that the AeroMacci trainer plane was in fact the equipment that they desired. It was significantly cheaper than the Hawk Gripen equivalent, but the tender procedure was changed as the decision was being made to ensure that the Hawk Gripen option came out on top, to the extent that the cabinet committee looking at the matter took the extraordinary decision of deciding to take the not insignificant matter of cost out of the equation for deciding on the winning bidder for that particular contract.

URRY: You're saying the bid criteria was changed partway through the process?

FEINSTEIN: The bid criteria was changed on two occasions during the process, including almost at the conclusion of the process.

URRY: According to minutes of the meeting at which that key change was made, it was Joe Modise, the Defence Minister, who instructed evaluators to overlook choices based on best price. He told them:

READER IN STUDIO: A visionary approach should not be excluded. The most inexpensive option might not be the best.

URRY: The same minutes reveal the concern of a senior civil servant about the BAE Hawk. He reflected that:

READER IN STUDIO: The cost of the Hawk would be twice that of its rival for an increase in performance of approximately 15%.

URRY: But once cost was removed as a factor in evaluation, AeroMacci fell behind, despite being the first choice of the South African Air Force. A ministers committee, which included Joe Modise, recommended the Hawk along with the Gripen fighter as a package, and Cabinet approved the deal. BAE Systems had won its contract, despite being behind in the running until the criteria were changed. But it hasn't gone down well with the Italians. AeroMacci have told File on 4 they are considering taking legal action against the South African government for changing the tender criteria late in the process. It would be highly unusual for a defence company to take such a step. Joe Modise didn't stay on as Minister of Defence, he soon resigned and went into business. There were concerns that the companies in which he was involved were set to profit by spin-offs arising from the arms deal.

#### ACTUALITY IN CAPETOWN

URRY: Here in Capetown, Parliament's Public Accounts Committee became involved in trying to find out more about the allegations surrounding the procurement team's role in the arms deal. It decided there was a case to answer and called for other investigating bodies with wider powers to be brought in – most notably the Special Investigations Unit set up by President Mandela in 1997 and headed by a judge, Willem Heath. He began to uncover more, but he was stopped from going further.

HEATH: There were clear signs that members of the procurement team were involved in irregularities, that the full facts were not disclosed either to the committee or for that matter eventually to the Cabinet. I don't have all the evidence because I wasn't allowed to investigate the matter. The clear inference is, taking into account their conduct, that they had been receiving money or that relatives of theirs have been on the receiving end of money or other contracts.

URRY: Why were you stopped from investigating?

HEATH: Well, in terms of the legislation of the time, a proclamation was required from the President in order to refer the matter to us, which of course was a serious problem, because it was then for a politician to decide whether matters should be referred to us, and it was actually the very party which was allegedly involved who was supposed to refer the matter to us for investigation. Because of the widespread allegations of irregularities and corruption, it was highly unlikely that they would have allowed me to investigate the matter, because by that time everybody in South Africa had had the experience, the knowledge that the units investigated matters very professionally and therefore I'm sure that they were scared that we might just come across evidence which would be detrimental to them.

URRY: You were blocked, you're saying?

HEATH: We were blocked from that point of view, that we certainly didn't get the proclamation.

URRY: Mr Heath's unit enjoyed wide powers, including the right to apply to a special court to have procurement contracts set aside. But instead an investigation went ahead without him. It was conducted jointly by the offices of the Public Protector, the Auditor General and the National Director of Public Prosecutions - all members of government departments and potentially susceptible to political pressure. Although its report highlighted irregularities, it concluded ministers had not acted illegally or improperly. Despite those conclusions, the Auditor General has told File on 4 it would be premature to say all allegations of corruption are unfounded. The ANC's former chief whip, Tony Yengeni, pleaded guilty to fraud involving accepting discounts from a German company on a luxury vehicle in return for being acquitted on corruption charges. The country's deputy president, Jacob Zuma, is under suspicion of attempting to secure a bribe from a French contractor. Both he and the company, Thales, deny any wrongdoing. Joe Modise has since died. There's other legal action which threatens the entire arms deal. An organisation called Economists Allied for Arms Reduction has applied to the South African court to have the purchase of warships and warplanes cancelled. It's led by Terry Crawford Browne, a close friend of the former South African archbishop and Nobel Peace Prize winner, Desmond Tutu. It's a development which could have big implications for British taxpayers, because of the way loans have been guaranteed.

CRAWFORD BROWNE: Initially the intention was that the warships and warplanes would cost 30 billion Rand. They've already gone to 67 billion Rand, we're only in year three of a twenty year programme, so we don't know what the final costs of the deal may be. But with the continued escalation it means there is less and less government funding available for socio-economic priorities, such as education, health, welfare etc, and one of the commitments of government is social upliftment. We're attacking the loan agreements signed by the Ministry of Finance that give effect to the arms deal. In particular we've got a copy of the loan agreements between the British and the South African governments through the ECGD, guaranteeing Barclays Bank, who are funding British Aerospace, and we want those loan agreements to be set aside, which would then collapse the deal.

URRY: There's not much chance of that realistically though, is there?

CRAWFORD BROWNE: We think there's a very good chance. We are quite confident that we'll convince a court that this thing is unconstitutional, and therefore that the underlying contracts are null and void, which would then collapse the deal. The onus would then fall to the European taxpayers rather than the South African taxpayers to carry the consequences.

URRY: Although British, German and French taxpayers could end up footing the bill, the behaviour and conduct of their countries' arms companies were not examined by the joint investigation team in South Africa. BAE and the other big defence contractors promised economic benefits in addition to any arms they supplied. These benefits have been a key feature of both the Czech bid and the South African contracts. They're known as offsets, and they're supposed to provide a nation with extra investment and export opportunities. However, offsets are frowned upon by groups like the World Trade Organisation. Paul Dunne, an economist who has studied them, agrees that they complicate matters.

DUNNE: Well offset is basically the idea that if you buy weapons systems, rather than simply buy them you can ask the people who are selling it to you to give you some sort of what's called offsets, which would be things like counter

DUNNE cont: -trade, where instead of you paying money you might pay through goods, or you might try to get them to invest in your country or find non price ways of actually changing the contract.

URRY: These are only available for the arms trade, aren't they?

DUNNE: Yes, they're pretty much outlawed for other things, and there are a number of countries now who no longer use them as well, and most of the advanced economies I think now they have agreements where they don't do it between themselves, the NATO countries in general won't use offsets.

URRY: How come the defence industries then are still able to use it in countries like South Africa?

DUNNE: Well, it is from both sides, because people actually often think they are getting a very good deal, because they're getting what seems to be a lot of value of offsets, often greater than the value of the contract. The problem is that in practical terms, when it all comes down to it, it's not clear that they get as much as they're expecting.

URRY: Despite their lack of clarity, offsets were a big selling point to the South African people. According to Andrew Feinstein, the former ANC politician, doubters in the government were also won round.

FEINSTEIN: The offset programmes were extremely important for two reasons. One, they were absolutely critical in the process of persuading Parliament and the South African public that this deal was worth doing. Secondly, they were crucial in persuading various ministers, particularly the Ministers of Finance and Trade and Industry in South Africa that the deal was worth doing, because they initially were opposed to the deal for cost and other reasons in Cabinet, and the presentation of the offset proposals was instrumental in changing their minds. Now my own feeling as a Cambridge trained economist on the offsets is that they are something of a nonsense.

URRY: At first it was said that for paying 30 billion Rand for arms South Africa would enjoy more than 100 billion in investment and exports, creating more than 60,000 jobs. Much of that was aimed at business and industry. Now, three years later, the government appears to be denying those figures. Professor Rob Davies of the ANC chairs a parliamentary committee which oversees the offset programme, known as Industrial Participation.

DAVIES: If anybody really seriously thought that you were going to spend about 30 billion Rand on arms and you would only get 100 billion of investment, I think somebody was not actually thinking very clearly.

URRY: Of course the critics say that the deal was effectively sold to the nation on these figures and that now the government has started to massage the figures downwards to manage people's expectations.

DAVIES: If the critics understood it that way, I don't think they understood it correctly. We found that indeed there would be about 15,000 jobs created along the entire length of the contract period. But I think in the sort of public discourse and in the media and so on they have become added up into this notion that there were going to be 62,000 jobs and 100 billion of benefits.

URRY: Where do they get their figures from then? Where does the press get their figures from in this country?

DAVIES: Well I think that what happened was categories which are not normally added together were added together.

URRY: By whom?

DAVIES: I mean, you know, whoever made presentations.

URRY: That would be the defence contractors then?

DAVIES: Well, it may have been.

URRY: Well did anyone official contradict those figures at the time they were being bandied around, it seems, by the defence contractors?

DAVIES: I don't know about that.

URRY: Can't remember or are simply not aware?

DAVIES: I'm not aware of any contradiction of that sort. I don't know whether there was any contradiction of those kind of figures by anybody in public office. I can't remember, I haven't got sufficient recollection of those debates.

URRY: However, a report by the Auditor General into the arms deal confirms the official position was the more optimistic one.

READER IN STUDIO: Offsets in contracted Industrial Participation commitments were estimated at about 110 billion Rand, which would create more than 65,000 job opportunities.

URRY: Given that BAE Systems won contracts partly on the proposed value of their offset offers, Raenette Taljaard, the opposition spokesperson on finance, was expecting to see investment rolling in.  
What are the sorts of projects that BAE said they would deliver?

TALJAARD: Well, quite frankly, some of them ranged from the sublime to the ridiculous. One of the offset projects included tourist packages for employees of BAE and SAAB, which I thought was a pretty soft offset project, given that the arguments offered by our Minister of Trade and Industry was that this would contribute to our industrial base, would generate new investment, but I certainly haven't seen any substantive projects boosting the industrial base or bringing in substantive new investment or generating substantive new jobs.

URRY: Perhaps they've just got off to a bit of a shaky start?



TALJAARD: Well I think there are also problems in the manner in which the industrial agreements are struck, because it allows them great flexibility in terms of chopping and changing projects. One could make the argument that it's a slow start, but one can also make the argument that there was such lack of clarity when the projects were being floated and being pushed into the process for the tenders to be awarded that some of those projects are not viable and could not have been viable at the time that they were being proposed, and now we're seeing a great degree of chopping and changing as we see the lack of viability going forward.

URRY: We wanted to see offsets in action during our time in Capetown. A factory run by the Electrolux company is listed in official government documents as an approved BAE project. But we were told by Electrolux that their vacuum cleaner plant is not part of the programme. BAE said we were looking at out of date government information. It was a similar story with another firm around Capetown, Swedish Match. Although an official government document shows the company as standing to receive US\$120 million of investment, a spokesman told us neither BAE nor SAAB had invested anything in their South African businesses. The words on a government list from last year are "investment provided".

## ACTUALITY IN CAR

URRY: We're driving around the township of Guguletu, near Capetown. It's an area of extreme poverty, where families live in makeshift huts, ekeing out a living. Any work here for local people is welcome. Now BAE have told us they've invested in a Swedish owned company using new methods to remove tree stumps, but we can't get to talk to employees because BAE in South Africa won't give permission, and they wouldn't tell us either what investment they'd made. The Swedish owner did, however, confirm that he would have brought his business to this country anyway, with or without offsets.

We wanted to interview BAE Systems about offsets and the other issues raised during this programme, but they told us no one was available. In their statement they said they were on course to meet offset delivery milestones agreed with the South African government's Department of Trade and Industry.

READER IN STUDIO: We have implemented 27 such projects in the broader South African economy. We've not announced all of them as we have to respect confidentiality demands of our partners. We are delivering US\$7.2 billion into a variety of industrial sectors. Our projects are transparent, monitored and audited by the Department of Trade and Industry.

URRY: The parliamentary committee which is supposed to oversee the DTI's monitoring and auditing is chaired by the ANC's Professor Rob Davies. How rigorous is your monitoring?

DAVIES: We rely on information that is presented to us, and we are also open ...

URRY: Presented by whom?

DAVIES: Presented by the Department and also we have public hearings, and we heard from a number of the critics of the arms deal in the public hearings which we have, and we follow that up with regular monitoring.

URRY: But you're essentially relying on what the government is telling you, aren't you?

DAVIES: Well, we are ...

URRY: It's not in the government's interest, is it, to admit that these things are going wrong?

DAVIES: Well we don't have an independent capacity. We are a developing country. Our Parliament doesn't have huge resources in terms of research capacity and so on and so forth. We do depend on those reports. We have said as a committee that we do believe that the realisation of the industrial participation component is an important part of the value for money.

- URRY: When did you last monitor the process?
- DAVIES: We meet about annually on this, and we have ...
- URRY: That's not continual monitoring, is it?
- DAVIES: No it isn't.
- URRY: Do you get straight answers in your negotiations with the defence contractors?
- DAVIES: Well we don't directly relate to the defence contractors. We have not met with them as a committee. I think this is something which would be very unprecedented.
- URRY: You must have had questions to ask them, surely?
- DAVIES: No ...
- URRY: When you're scrutinising their investment?
- DAVIES: We have many questions to ask, but particularly our reports are concerned with the overall evolution of the programme and the fulfilment of the milestones.
- URRY: For Paul Dunne, a British economist studying offsets, the more modest targets now being spoken of by the government come as no surprise. He says what's happening in South Africa fits in with problems other countries have experienced.
- DUNNE: The problem is that all the evidence internationally suggests that it's just not a good way to do things, that you end up with expensive weapons systems, you end up buying them often for the wrong reasons, for the fact that you get offsets rather than that you actually need them as weapons systems, and then we don't

DUNNE cont:                                have the transparency to see this, but the evidence suggests that people generally do not get all of the offsets that they're promised anyway.

URRY: That's the suspicion in this country. Have you seen evidence to back up that suspicion?

DUNNE: I would like to see the evidence to back up the other position. It's not up to us to prove that the offsets have not been met. It's up to them to prove that they have. If we had all of the information in our hands we would then have the opportunity to question whether this was the case.

URRY: But for the campaign organisation, Transparency International, there's a bigger difficulty than non delivery. Joe Roeber, who speaks for the Transparency group, argues offsets have the potential to disguise corruption by concealing hefty commissions.

ROEBER: This is one of the crucial problems with any analysis of the arms trade. There is no real price transparency, because every deal is different, every deal is packaged differently, every deal contains different elements and they're structured in different ways. As a result, it is quite difficult to make comparisons between different deals, even for the same goods. The problem with offsets is that they are intrinsically opaque. You are trading goods of different descriptions at prices which have no very clear world market reference. This means you can squeak the price up a bit or down a bit and nobody really knows. You can generate cash to flow through the gaps without any difficulty. It is literally impossible to keep track of what's going on. It is therefore possible to squeeze them and manipulate them to bribe the buyer, which is of course the objective of the whole process.

URRY: What specifically should be done then to make arms deals, like the two we've been looking at, more transparent?

ROEBER: Ban offsets for a start, and make the companies exporting answerable to the government for guarantees of corruption-free dealing.

ROEBER cont: And if the government made the awarding of export licenses subject to that requirement, I think there might be quite a significant change.

URRY: We would have liked to have interviewed a British minister about the problems caused by offsets, but instead we were offered a statement by the Department of Trade and Industry, merely acknowledging that offsets were part of the global defence trade. We were unable to find out whether the government actually has a policy on the matter. From the evidence we've looked at, offsets add further to the climate of secrecy surrounding the defence industry. New laws passed last year to prevent the bribing of foreign officials won't be enough to change that climate. Joe Roeber of Transparency International argues the British government must go further by making the international trade in weapons more straightforward and more open.

ROEBER: Governments allow the industry to cloak all of its activities in secrecy, and this is really the most important single feature of the industry that makes it the most corrupt industry that there is in the world, that everything it does is cloaked in secrecy. And the first rule of secrecy is that it will always be abused.

SIGNATURE TUNE