

Imperialist interests over-ride the “rule of law”

Blair government cancels British Aerospace-Saudi arms inquiry

Part two

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30 December 2006

This is the conclusion of a two-part article. Part one can be found here.

For years there have been claims that British Aerospace (BAe) and some of its subcontractors, such as Rolls Royce, Thorn EMI and Royal Ordnance, paid commissions or bribes that inflated the cost to Saudi taxpayers of the Al Yamamah contract for Tornado fighter jets.

According to the *Guardian*, Sir Colin Southgate, then-chairman of Thorn EMI, “‘admitted to paying huge commissions’ of 25 percent on a £40 million Saudi arms deal, delivered via BAe in 1991.” On another occasion, it quoted John Hoakes, former managing director of Thorn’s defence systems divisions, as saying, “Commissions make the world go round. There is nothing illegal about them. I don’t know of a [Saudi] royal who’ll get out of bed for less than 5 percent.”

Mark Thatcher, the son of former Prime Minister Margaret Thatcher, was widely believed to have profited from “commissions” through his friendship with one of the intermediaries. But the House of Commons’ Public Accounts Committee (PAC) refused to investigate the allegations that he had made £12 million out of the deal, saying that it lay outside their remit.

Pressure on the Conservative government grew so great that it led in 1989 to an investigation by the National Audit Office (NAO), the parliamentary watchdog. But its terms of reference were very narrow: the NAO and the PAC could examine only public expenditure, as they did not have the power to investigate the Ministry of Defence’s contractors. Nevertheless, after three years, the PAC agreed in an unprecedented move not to publish the NAO’s findings.

The PAC chairman, Labour MP Robert Sheldon, refused to let even PAC members see the report, claiming there was no evidence of “fraud or corruption” on the part of the Ministry of Defence, that “the deal complied with Treasury approval and the rules of government accounting,” and that “there was no misuse of public money.”

Sheldon justified the suppression of the report on the grounds of “the highly sensitive situation regarding jobs in the defence industry.” Later, he was rather more honest, saying that “the Saudis would have been upset.”

This only fuelled speculation that massive bribes had been paid. Martin O’Neill, a Labour defence spokesman, pledged at the time that a Labour government would reopen the inquiry. Nevertheless, the Labour government has refused to release the report.

The then-defence minister, Lord Gilbert, told the House of Lords in 1998 that this was because the report “refers to matters which are confidential between the governments of the United Kingdom and Saudi Arabia.” As he explained in a letter to a member of Parliament, “information . . . which would harm the conduct of international relations

. . . is exempt from disclosure.”

The culture of secrecy surrounding the British government, before the passage of the Freedom of Information Act, suited the Saudis. (Only two years after the passage of the Freedom of Information Act, the government is moving to tighten restrictions on requests for information under its terms). The contractors working on Al Yamamah were apparently governed by the Official Secrets Act.

The contract was, in part, an “offset” deal, whereby the vendor invests in Saudi Arabia. This was, however, always problematic, since there were few suitable investment opportunities in Saudi Arabia, despite the Defence Ministry having set up an “offset” office to encourage potential investors, and BAe having provided loan guarantees as an inducement. The company itself was able to provide such guarantees courtesy of the government’s underwriting of the contract.

It was therefore largely a barter deal, with the Saudis paying almost wholly in oil. Since oil prices were falling at the time, this benefited BAe at the expense of British tax payers. It served to make Britain ever more dependent upon Saudi Arabia for its oil, and therefore committed to the defence of the corrupt ruling family against both internal and external opposition. It also enabled the Saudis to manoeuvre between the imperialist powers.

Al Yamamah I was Britain’s largest ever arms export deal and dwarfed earlier sales to the country. But it was by no means Saudi Arabia’s largest: deals with the US and France were worth \$31 billion and \$10 billion respectively.

When the news emerged in 1987 that the Saudis had played a role in aiding the White House in illegally funding the Contras in Nicaragua—part of a wider agreement by which they financed opposition groups favoured by the US in Angola and Afghanistan—Congress refused to sanction the sale of F15s.

After a fierce contest with France to replace the US, the UK signed Yamamah II in 1988, an even bigger contract than the first. It was, in effect, a 20-year armaments programme that called for the UK to meet the Saudis’ needs in creating a modern air force and aerial defence system.

Described in the press as the “arms sale of the century,” the initial part of the deal involved the supply of a further 40-50 Tornados, 60 Hawks, 80 Westland helicopters, arms and other supporting equipment from BAe and other military suppliers.

Amidst the ballyhoo about the “triumph for British industry,” only a few commentators raised the obvious question about the purpose of such a deal from the perspective of Saudi Arabia’s defence needs, when it already had more arms than it could use or master. As journalist and writer Said Aburish explained, the Saudis had more equipment and

installations than people to operate them: most of it was senseless and a complete waste of money.

When the Saudis had trouble paying as a result of falling oil prices, the British government stepped in to provide £2 billion in export credit guarantees to BAe and the other arms companies, instead of a sovereign loan that would have caused the Saudis to lose face.

Nevertheless, the Saudis took up few of their options with Britain's arms suppliers and increasingly sourced their requirements from the US. This was despite the 1991 Middle East Arms Control Initiative arranged after the Gulf War, whereby the major powers agreed to curb their arms sales to the region. The turn to the US was in large measure the price to be paid for Washington's support after Iraq's invasion of Kuwait and Saddam Hussein's threats against Saudi Arabia in 1990-91.

But falling oil prices meant that the country could not keep up its payments to its suppliers. BAe only staved off bankruptcy and takeover by its rival GEC when the Saudis falteringly began to take up its orders for Tornados, just in time to prevent production lines closing, in 1992.

Then-British Prime Minister John Major appointed Jonathan Aitkin as defence procurement minister, specifically to get Yamamah II up and running. Aitkin's connections—he was a close friend and former employee of one of the King's sons, and was known to have close links with arms intermediaries—should have disqualified him from office.

Instead, his background stood him in good stead; he was largely successful, and between 1993 and 1998, when oil prices fell precipitously, BAe's sales to the country averaged £1-2 billion a year. By 1998, the Saudi Air Force had 110 Tornados.

Aitkin was later sent to prison for 18 months on a perjury charge. This arose out of his attempt, after he had become chief secretary to the Treasury, to cover up a secret business meeting in Paris with a Saudi arms dealer and a prince, who had picked up the tab for his expenses at the Ritz Hotel in Paris.

Without the trained manpower to use the sophisticated equipment, the Saudis were unable to utilise their expensively acquired weaponry to their advantage, as their disastrous performance and reliance on overseas powers in the Gulf War demonstrated.

Yet from the early 1980s, military spending had typically consumed a massive 30-33 percent of the country's annual government budget, or some 10-15 percent of GDP, one of the highest per capita military expenditures in the world. Meanwhile, the per capita income of the average Saudi fell from \$14,600 in 1982 to \$6,400 in 1992, and social inequality and tensions rose. The vast military outlays came close to bankrupting the country in the late 1990s.

According to Campaign Against the Arms Trade (CAAT), this led some critics of the arms deals to say they were dictated not by military need, but by the commissions paid to the ruling family and their wider circle of business representatives.

Within Britain's arms industry, BAe has been by far the largest beneficiary, with the Yamamah contracts underpinning most of its profits. But even during the boom years, arms and aerospace exports never exceeded 4.5 percent of the UK's total export of goods, and since 1996 they have not exceeded 2 percent.

According to the Ministry of Defence's own statistics, those workers directly dependent on military exports account for less than 0.3 percent of total employment. While it has been argued that these exports reduce the ministry's research and development costs by £40 million and procurement overheads by £163 million, this is more than offset by the £431 million a year spent on the promotion of arms sales.

This includes the Defence Exports Services Organisation (DESO) and the Export Credits Guarantee Department (ECGD), which cost £228 million a year. One ministerial source was quoted in the *Guardian* as saying that the ECGD "is where the real filth in the arms trade is to be found." But this in turn means, as CAAT explains, that the industry is

rather less important to the economy than the public has been led to believe.

The Al Yamamah deals remain the UK's main source of arms contracts and BAe's main source of profits, while the Gulf kingdom is the world's largest oil exporter and chief rival in the region to Iran, to which London has become increasingly hostile. It is these factors that lie behind the UK's willingness to engage in bribery and corruption and tolerate Saudi Arabia's well-documented and atrocious human rights record.

Bribery, theft and fraud are entwined in the fabric of British corporate and political life.

Irrespective of which party is in power, big business is protected by a system of class justice unwilling to prosecute corporate crimes. And politics and business are inextricably linked.

In the context of the arms industry, contracts are run by DESO, an arm of the Ministry of Defence, which is controlled by the defence corporations themselves and, according to *Guardian* columnist David Leigh, "with a history of actively conniving at bribery to get arms deals." The head of DESO is Alan Garwood, on secondment from BAe, where he was an arms salesman.

Under conditions where the Ministry of Defence functions to a large degree as the industry's marketing arm, it is impossible to subject it to democratic control. Rather, government functions to protect corporate interests and insulate them from public accountability. That is why the prime minister took "full responsibility" for the decision to drop the inquiry and why the attorney general, the highest law officer in the land, says that political considerations outweigh the law.

Under the cover of the "national interest," the inquiry was abandoned by political fiat in the interests of big business. This is not an isolated incident, as Lord Bingham, the most senior Law Lord has observed.

Only a few months ago, he warned that some of the most sensitive decisions made by government are incompatible with his definition of the rule of law, including international law. He pointed out that under the rule of law, written into the Constitutional Reform Act, there is above all the "fundamental" requirement on government not to exceed its legal powers. He reminded his audience of John Locke's famous dictum: "Wherever law ends, tyranny begins."

That is precisely the danger signified by the declaration that the "need to maintain rule of law" must be weighed against the "wider public interest." The government is serving notice that it is prepared to rule by executive fiat whenever this is dictated by the interests of the financial elite.



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