

ADMINISTERING BRITAIN'S ARMS TRADE

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This article examines the administration of Britain's overseas arms trade through a consideration of the role of the main government departments concerned with its control and regulation – the Department of Trade and Industry, the Foreign and Commonwealth Office and the Ministry of Defence. Additionally it examines the activities of 'arms-length' public agencies such as the Defence Export Services Organisation and International Military Services whose job it is to promote arms sales. It concludes that while the promotion function may (but does not have to) run counter to that of control, the latter is comprehensively and competently administered. If it fails – and it has done so recently – it is because of political intervention and not administrative shortcomings.

INTRODUCTION

Over the last year or two the question of British arms exports has acquired considerable sensitivity. The Al Yamamah deal with Saudi Arabia and the Iraqi supergun affair in particular have led to suspicions about abuse of the regulatory system and the possible involvement in this of highly placed individuals. These are political matters and we propose to deal with them in detail in a separate article.

Our concern here is with the administrative process. Our aims are modest: to outline the basic principles governing arms sales and to describe how the bureaucratic process actually works. We have avoided discussion of the implications of this process for administrative theory as well as the question of how the system might be improved or rendered more transparent. However, given the extremely high levels of confidentiality which attach to even the most mundane of items in the area of arms sales, we feel that an overview of how the system works is of value in itself.

However, even a relatively narrow focus on the administrative dimension points to the sheer complexity of the arms sales process as a whole. Though we conclude that civil servants have little with which to reproach themselves, our analysis also suggests that the administrative process reflects contradictions inherent in overall policy. Thus, for example, civil servants find themselves simultaneously promoting and restricting the export of weapons. To avoid an impossible situation these two

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functions are allocated to different groups within the administrative machine. On occasion this has led to controversial sales, but when this has occurred it has been a reflection of broader governmental policy.

BASIC PRINCIPLES

The fundamental principles governing the administration of British arms sales are both written and unwritten. To a significant degree they contradict each other.

Formal guidelines covering political and geopolitical matters are laid down by the Cabinet Defence and Overseas Policy Committee (DOPC) and by British membership of multilateral control regimes (Endnote 1). These establish restrictions on military technology and identify countries to whom arms will not normally be sold. DOPC guidelines also note embargoes which Britain is obliged to uphold (such as those on Israel and South Africa). Finally it lists considerations – such as human rights, the repressive potential of the arms concerned, and threats to regional peace which may (but do not *have* to) be taken into account.

However, there is also an economic rationale behind arms exports which is not formally codified but is clearly influential. For the last thirty years successive governments have taken the view that arms exports help the balance of payments, maintain jobs, and help Britain's industrial skill base. By subsidizing research and development costs and lengthening production runs they also, it is said, assist home defence. Government, then, is in the business of promoting as well as restricting sales. However, we have found no evidence to support the speculation that governments give preferential support to industries located in marginal constituencies.

As a result of these contradictory demands for control and promotion of arms sales (evident in all of the major departments of state involved) a complex and overlapping administrative system has evolved. In general, the control function is exercised at the administrative centre whilst the promotional side is hived off to peripheral organizations. The more sensitive the item or purchaser involved, the more likely it is that peripheral organizations will be involved. This is a none too subtle effort to insulate the administrative centre and ministers from responsibility for actions which many voters would regard as immoral.

THE ADMINISTRATIVE PROCESS

For the civil servant who has to advise on particular sales the above political and economic considerations must be reconciled with the Export of Goods (Control) Order which is updated regularly (Endnote 2), and with the Co-ordinating Committee for Multilateral Export Control (COCOM) restrictions which define and list 'strategic materials' and require that an export licence be issued before these can be legally exported.

In the case of weapons and weapon-related products there are few problems. Armoured vehicles, ordnance, and missiles cannot easily be mistaken for anything else. However, the bulk of the order is given over to non-lethal products. For example under the category of metal-working equipment (i.e. machine tools) it lists a wide range of items from vane aerofoil scribing equipment to precision thermal

bonding dies. A similar degree of detail is evident in the robotic, electronic and computer categories of the order. The fact that this is so is clear evidence of government awareness of the security implications of high technology exports and of its determination to exercise control over the trade. Moreover, since the Gulf War there has been a further tightening of government control of dual-use and non-lethal products (Trade and Industry Committee, July 1991, pp. 61-2).

Moreover, manufacturing companies are alert to government interest in this area. Though they may not be in the arms business themselves they are well aware of the military implications of their products and have some idea of the political respectability or otherwise of the importing country. Since they do not wish to run the risks of incurring production costs only to have a licence refused, they generally err on the side of caution and, as the recent cases involving Sheffield Forgemasters and Walter Somers indicate, consult the authorities well in advance of agreeing to any sale. Thus the British government has complete formal authority as well as the active co-operation of the private sector. Its responsibility for the trade is therefore unconditional.

The Department of Trade and Industry (DTI) is charged with applying this export control legislation and issuing export licences. This it does through its Export Control Organisation (ECO). Before a licence can be granted for the export of military products or products considered dual-use, the ECO has to ensure the approval of the relevant government departments: the Ministry of Defence (MOD), the Foreign and Commonwealth Office (FCO), and with regard to material with a nuclear weapons potential, the former Department of Energy – now contained within the DTI. The MOD examines the proposed sale in the light of security considerations while the FCO advises on the potential political and geopolitical ramifications; it is also consulted about all military exports to destinations other than the NATO and COCOM countries.

With regard to rating requests, the acceptability of a proposal can be assessed prior to submission either through an informal approach to the DTI, or through submitting a Rating Request Form. The shortcomings of the flexibility which this system provides were exposed by the supergun affair. Since then, the DTI has tightened up its procedure with regard to rating requests, with the result that all must now be submitted in writing. Alternatively, the MOD operates a system of prior assessment, which involved the Defence Export Services Organization (DESO) liaising on the company's behalf with the MOD (MOD Form 680 procedure). However, this process is not intended to act as a guarantee that a licence will be issued, as ultimately only the DTI can issue them. Consequently, in practice, this function is more frequently performed through the DTI's rating request system.

Recent events, especially the supergun affair, strongly suggest that the intelligence services also play a role, albeit less formal, in the process. This is basically a monitoring and information gathering role, with information being relayed back to the MOD or to the Prime Minister's Office or Cabinet through the Joint Intelligence Committee.

Parliament plays no part in the decision-making process, and there is no statutory requirement for it to be either consulted or informed about current or future sales.

While both the Public Accounts Committee and Defence Committee monitor arms sales and related issues, their influence over this aspect of government policy is severely limited by their restricted access to information regarding ongoing deals, and the frequent refusal of officials to supply information to the relevant committees during the course of giving evidence to them (Dean 1979).

The arms sales process normally begins when a British company is approached by a potential client with an interest in purchasing a military product. Such approaches can be direct either as the result of the company's own marketing efforts or because of the reputation of the weapon concerned. But there is a strong possibility that the British government will have already become involved as a result of the efforts of its military attachés abroad or through the promotional work undertaken by the DESO. In many cases sales require a high degree of governmental co-operation, for instance through providing military personnel to undertake displays of British equipment.

Moreover, during her first term of office in particular, Mrs Thatcher became Britain's most important arms promoter – for example, on her 1981 tour of the Gulf states. Under Mrs Thatcher the choice of domestic projects has become increasingly influenced by overseas sales potential (as with the Challenger tank) and for such large projects the sales process could be said to have begun with the planning division of the MOD.

TABLE 1 Value of British arms exports to the Third World 1974–1989

1974	1975	1976	1977	1978	1979	1980	1981
1,070	1,193	833	1,652	1,214	766	725	1,101
1982	1983	1984	1985	1986	1987	1988	1989
1,594	676	1,083	903	1,020	1,530	1,165	993

(US \$ millions at constant 1985 prices)

Source: Sipri 1990, pp. 252–3

In the period between a deal being informally struck and a contract eventually being signed – which in the current buyers' market, tends to be a period marked by haggling over offset agreements, etc. – the company would be likely to informally consult the DTI over its forthcoming licence application. Where the equipment has been promoted by DESO and displayed with the aid of the British Armed Forces, there is no doubt that an application would be granted. Were there any political reasons for not so doing, the MOD would undoubtedly have prevented any such activity occurring in the first place.

Upon receipt of a formal order, the British company would apply for an export licence to the DTI's ECO. The ECO's Export Licensing Unit (ELU) then informs the MOD and the FCO. These, in turn, using their own departmental criteria, form a judgement on the security and political desirability of the sale. However, there have been a growing number of instances where a political intervention has sought to by-pass the procedure or political pressure has rendered it more formal than

substantive as in the recent case involving Alan Clark, Matrix Churchill, and sales to Iraq.

Where conflicting advice does emerge, the issue can be settled either at inter-departmental level or ultimately through Cabinet Committee and, more rarely, by the Cabinet itself. However, the thoroughness of the administrative procedure renders this relatively infrequent.

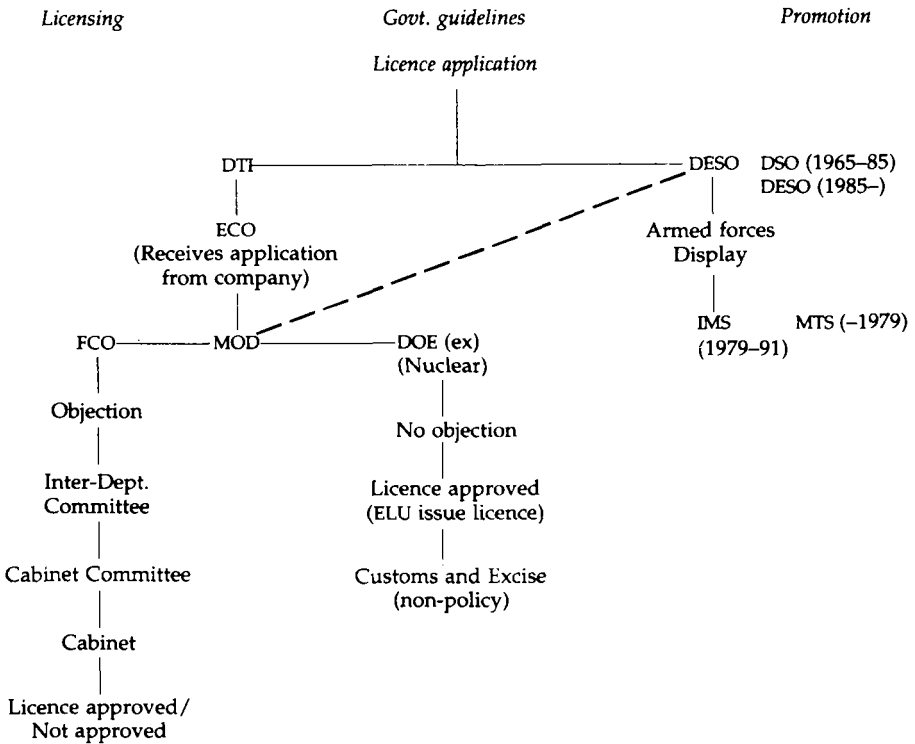
All information on licence applications for military equipment is passed from the DTI to the MOD and the FCO for consideration. The administrative burden is high. For example, in 1989 (a quiet year) some 14,601 military applications were received along with 1,238 nuclear ones (Dept. of Trade and Industry 1990, p.17).

THE ROLE OF THE DTI

All questions relating to the granting of export licences are handled within the DTI by the ECO. Within the ECO, the ELU ultimately grants or refuses to grant the application (figure 1).

Upon receipt of an application, the ECO checks that the equipment is licensable (i.e. that it is not subject to international treaty control etc.), and under what part of the EG(C)O – Munitions List, Atomic Energy List, etc. It is also their job to ensure that

FIGURE 1 Administrative structure of British arms exports



the application is accompanied by the necessary supporting documentation, a copy of the contract (in the case of purchase by a government agency) or an international import certificate or end-use certificate, to confirm that the goods are for their own use and will not be re-sold.

Once this has been done, applications are assessed on a case-by-case basis. If the product falls within the scope of the Atomic Energy List, former Department of Energy specialists will provide an assessment in addition to those provided by the MOD and FCO. If the product features on the Munitions List, information regarding the application would be sent to the MOD and FCO to assess whether export would be permissible and consistent with Britain's security and foreign policies. Dual-use equipment (featured on the Industrial List) can also be dealt with in this way, although here the DTI has a degree of discretion about which combination of product and destination merits referral of the application to these departments.

With regard to dual-use equipment, the ECO's stated position is that it would refuse applications on the following grounds: the consignee is not considered *bona fide*; the product is, in their opinion, intended for military use; the country of destination is of concern; or if the quantity of a particular product sought, or the level of sophistication is excessive in relation to the stated end-use (Dept. of Trade and Industry 1991).

The fact that in all cases involving the export of military and nuclear equipment, and in a large number of cases involving dual-use equipment, the ECO passes on information for assessment to specialist departments does not mean that the DTI is without the capacity to make its own independent judgement. Within the DTI there is a clearly defined structure that analyses various aspects of export licence applications. This has developed in sophistication and scope in recent years. In the aftermath of the August 1990 Iraqi invasion of Kuwait, the lessons learned are being applied through expanding this area of the DTI's operations. Within it there now even exists a Sanctions and Embargo Enforcement Unit, which was set up following the invasion, and whose task has been to ensure the implementation of UN Security Council Resolution 661. These developments tend to indicate that recent pronouncements regarding curbing the global arms trade are for once substantive as well as rhetorical.

However, with the exception of the Sensitive Technologies Section (STS), these units are all staffed by generalist civil servants. Hence, if an export request concerns arms or dual-use equipment (i.e., equipment featured in the EG(C)O Munitions List, Atomic Energy List, or certain products on the Industrial List) it would be passed on to the MOD and FCO for specialist consideration.

FIGURE 2 *The organization of export control within the DTI*

DTI				
Export Control Organization (ECO)				
Export Licensing Unit (ELU)	Sensitive Technologies Unit (STU)	Sensitive Destinations Section (SDS)	Policy Unit	Sanctions Unit

At the beginning of 1990, the ECO comprised just the ELU and STU (together with the Computer Unit, comprising three staff and providing IT support across the ECO). The STU comprises 28 staff, specialist engineers and scientists and administrators, whose role is to provide technical advice as to whether equipment or technology is subject to export controls. It provides this information to both industry and to other departments within the ECO upon request.

The other departments are all more recent creations. The Policy Unit is intended to ensure the adequacy of existing controls, and ensure that British controls are consistent with the aims of the multilateral control agencies of which Britain is a member. It is staffed by 12 generalist civil servants.

The Sensitive Destinations Section was established in May 1990 to process applications for licences to sensitive destinations in the Third World – i.e., outside of the COCOM-proscribed area. The countries within the Third World that it deals with change in line with international developments, although certain countries can be expected to be dealt with by this unit on a less transitory basis than others.

Hence, the first stage of the administrative procedure is characterized by the existence of comprehensive controls. All applications are checked to establish their veracity and to ensure that there is nothing suspicious about the quantity of a product ordered or the compatibility of product and stated end use. To aid in this process, all export licence requests for Third World destinations considered 'sensitive' are now channelled through a specialist section which pays closer attention to such questions in their cases. All arms export requests and known dual-use equipment requests are then passed on to the MOD and FCO for a ruling. However, despite the existence of this impressive formal network, some doubts regarding the efficacy of the procedure surfaced in the early 1990s.

Britain's contribution to the Iraqi military procurement and Project Babylon (supergun) programmes suggest that this process has been subject to errors of judgement in the early stages and possible manipulation by politicians. As early as 1988, Sheffield Forgemasters, who produced the barrel of the supergun, contacted the DTI and informed them that they had had an approach from Iraq concerning the export of petro-chemical pipes (the export of artillery gun barrels, no matter how unusual, would have been in direct contravention of the policy towards both Iraq and Iran outlined in the House of Commons by Foreign Secretary Sir Geoffrey Howe, and therefore a licence application would have been refused). The DTI informed the company that no licence was required. Full details of the tubes' specifications were forwarded, and still the DTI insisted that no licence was required.

Meanwhile, Walter Somers, the company that produced the barrel for the prototype supergun, Baby Babylon, approached the DTI, a metallurgist at the MOD who worked for military intelligence, and had an approach made on their behalf to the intelligence services, outlining their uncertainty about the Iraq contract. They too were informed that no export licence was required (Phythian 1992). The most extreme expression of this process occurred in January 1988 when Alan Clark, then a Minister at the DTI, met with representatives of British companies exporting dual-use machine tool equipment to Iraq who were advised by him as to how to avoid the rejection of export licence applications. Clark told the meeting; 'the intended use

of the machine should be couched in such a manner as to emphasise the peaceful aspect to which they will be put. Applications should stress the record of "general engineering" usage of machine tools' (*Sunday Times* 1990).

This points to the fact that export controls are only as effective as the government of the day intends them to be. While the lessons of Iraq have been absorbed into the regulatory structure, they also had to be absorbed at the political level. After all, the purpose of such controls is to ensure that no goods with a military application can be exported without the government's approval, not to prevent the export of such goods *per se*. Hence, the political will to enforce the controls has to exist for the controls to be effective.

Clearly, with regard to Iraq in the 1980s, this was not the case. Iraq represented an expanding 'civil' market for British companies, and for the Thatcher government committed to 'batting for Britain' and securing markets abroad. The fact that equipment may have had a use other than that stated in the export licence application was not as important as the fact that other European countries were equally heavily involved in a similar type of trade (West Germany, Switzerland, France, etc.) If Britain began to apply restrictions to this trade it would lose its share of the market to these countries. Indeed, fears about and a desire to imitate the French pragmatism regarding the export of arms and related products often seemed a central concern of government policy in this area.

Further doubts arose over the disclosure that the DTI did not, and did not have the capacity to, monitor the ultimate destination and actual end-use of British arms to ensure that end-use certificates were genuine. The exposure cited a British company, Ordtech, which exported sophisticated artillery technology to Iraq in 1989 with a Jordanian end-use certificate. However, countries such as Jordan, Saudi Arabia and Singapore (to name but three) were well-known conduits for Iraq during the Iran-Iraq War and accompanying arms embargo. Given the monitoring role of the intelligence services, a certain absence of political will with regard to enforcement must be suspected.

THE MINISTRY OF DEFENCE

In the case of a licence application being for military or dual-use equipment, the ECO refers the request to the MOD and FCO for advice as to the permissibility of the request. As the EG(C)O and COCOM lists only indicate which exports require a licence, and some potential exports have implications beyond trade matters, the MOD evaluates the strategic and security implications of making equipment available to third parties. Sales to potentially hostile states are normally (though not invariably as the Falklands Conflict showed) ruled out of order, but such states rarely approach British manufacturers in the first place.

It also evaluates the military implications of sales for Britain's allies, in particular the US. For instance, the MOD has ruled against sales to Cuba, Nicaragua and North Korea, none of which could be said to directly threaten British security interests. Conversely, it has persuaded the US to reciprocate where British interests are involved. However, in this area the US-UK relationship is an uneven one and the

UK has to exercise greater restraint than the USA. For example, the USA resumed arms sales to Argentina in 1989 despite the protests of the Thatcher government.

The MOD also assesses the regional balance of power and the extent to which the purchasing state truly 'needs' the arms for its own defence. The record of British sales suggests that this third consideration is of limited importance compared to the first two and has become of even less significance as a result of the Thatcher governments' approach to the question of arms sales. For instance, the continued sales to nations in South East Asia, such as Indonesia, have been out of all proportion to any potential threat they face. However, they have not been inconsistent with an internal policing/repression function. Open use of British arms in this capacity would bring the sales into conflict with the stated aims of British arms sales policy – to provide the means for national defence but not to contribute to internal repression.

The MOD also maintains a standing classification for both arms and potential customers to which it refers during any licence application procedure. Having separately classified arms and customers, during any negotiation it becomes necessary to merge the two sets of criteria – i.e., to enable a decision to be made regarding whether arms can be sold to nation X, and having decided this, to determine what level of sophistication of weaponry can be sold to nation X bearing in mind its international position and the advancement and effectiveness of the technology behind the weaponry.

Another of the MOD's security functions is to ensure that during the gradual process of sales negotiations, arms negotiators (whether DESO, attachés, or industrial) do not reveal too much information about a particular item at what the MOD considers to be too early a stage. Under the arms sales drive launched in the early years of the Thatcher governments, the pressure to sell British arms overseas led to previously classified details being released earlier and earlier. This trend predates Mrs Thatcher and can be traced back to the efforts of the 1964 Wilson government to commercialize British arms sales. However, the process did take a quantum leap during the Thatcher years, under which pressure was exerted for future specifications of British military equipment to take into account the requirements of potential customers (Defence Committee 1982).

THE DEFENCE EXPORT SERVICES ORGANISATION (DESO)

There also exists a department within the MOD whose role is to promote and secure rather than regulate British arms exports – DESO. Hence, here as within the DTI, government the regulator is also government the promoter, and this leads to the creation of contradictory pressures within the administrative process.

From 1945 to 1965, there was no single government organization responsible for overseeing arms exports. During this period, the three Services each had separate sales organizations. The Admiralty and Air Ministry directly controlled their organizations while the Army's sales were handled by the Munitions Sales Branch of the Ministry of Supply. However, these bodies offered British manufacturers essentially 'passive' assistance in securing orders – a direct contrast to the vigorous marketing function adopted by DESO and International Military Services (IMS) in later years.

From the mid-1950s, British arms exports entered into a relative decline. In effect, this opened the way for criticism of the limitations of the system through which the government supervised sales. This concern was highlighted by the 1958 Select Committee on Estimates enquiry into the mechanics of British arms exports. The 'inadequacy' of the government's involvement was underlined in 1961 with the creation in the US of a specialist governmental arms sales agency, International Logistics Negotiations (ILN). It was this latter development and its implications for the remainder of Britain's declining market share that persuaded the newly elected Wilson government to act in 1964.

Towards the end of the year, Wilson appointed a committee chaired by Lord Plowden to investigate the condition and prospects of the British aircraft industry. When the committee's report was finally published the following year, Plowden urged the government to become more closely involved in the sale of British military equipment, with military attachés openly acting as salesmen and the government providing loans with generous repayment terms to foreign countries (National Audit Organisation 1989). The report portrayed the active governmental support of British arms exports as an act of political pragmatism, and not as a political issue expected to galvanize sections of the Labour Party into opposing such moves. However, this is exactly what such close governmental involvement ultimately did.

Acting on these recommendations in July 1965 the Secretary of State for Defence, Denis Healey, appointed the head of Leyland Motors, Donald Stokes, as an adviser to the government on arms exports. Subsequently, neither his report nor any of his recommendations were ever made public, and without any public debate, nor any debate within the Labour Party outside of the Cabinet, in January 1966 Healey summarily announced to the House of Commons that the government was to establish its own arms promotion organization, the Defence Sales Organisation (DSO).

Four months later, Healey announced the creation of a new post within the MOD, Head of Defence Sales, to ensure that Britain would; 'gain the advantage of full participation in the [arms] market' (*Hansard* 1966). The first occupant of the post was Raymond Brown, (Racal) who successfully introduced the British Army Equipment Catalogue and who unsuccessfully suggested changing the name of the organization from the DSO to the more innocuous Export International Relations. This suggestion foresaw what came to be later recognized – that it was more prudent for the organization's name to reflect a vague range of services than to suggest the existence of a specialist government department that dealt solely with arms sales. Hence in 1985 its name was changed to the (more opaque) Defence Export Services Organisation.

DESO describes its objectives as being; 'to help friendly nations select the right British equipment for all types of defence requirements and to help British industry sell its products' (CAAT 1986, p. 2). The reality is somewhat different. DESO was not created to show customers what was available on request; rather, it is expected to identify potential customers and make a vigorous effort to sell British arms to them. Hence, the British arms industry sees one of DESO's tasks as being, 'to wave the flag *inside* the British Government in favour of sales and saleable designs' (Pearson 1983, p.215). DESO identifies these potential customers through the use of marketing assessments and surveys. The information that goes to make up these surveys and

assessments relies partly on information passed on from the military attachés based at British High Commissions or embassies overseas. Military attachés can also be responsible for initiating negotiations, and are often the first point of contact for foreign governments interested in British arms.

The arms promotion work undertaken by military attachés falls into two categories; opportunity-led and demand-led. The former involves seeking out opportunities for exports and then reporting these back to DESO. The latter involves responding to enquiries from British firms, either through DESO or directly (giving advice, involvement in promotional work etc.). The amount of time an attaché devotes to selling arms depends on two things; the scope for arms sales to that country, and the overall workload and priority of arms sales within that. An estimated one-third of an attaché's time is spent promoting arms sales (Public Accounts Committee 1988-9).

The majority of DESO's estimated 260 staff are based in London. Key senior posts have traditionally been filled by secondees from industry, while other staff are regularly posted to DESO from the MOD or the Services for a tour of duty of generally three years. It has seven overseas offices in Washington DC, New Delhi, Riyadh and Kuala Lumpur (responsible for the whole of South East Asia), Seoul, Ankara and Kuwait. In Europe, sales are co-ordinated through the embassies in Paris and Bonn. Within the organization, staff specialize in arms sales to particular areas – a set-up not dissimilar to the FCO's area desk network.

Indeed, the FCO, DESO and large companies like BAe have similar structures in this respect. A retired officer joining BAe, for example, is given a grade equivalent to his service grade. This is no accident and points to the symbiotic relationship which has developed between government and the industry.

Under the Head, DESO is divided into four divisions: Marketing; Sales Policy, Finance and Support; Military Support and Exhibitions; and Saudi Armed Forces Projects. The Marketing Division is headed by a Director General of Marketing beneath whom it is divided into five sections. The Directorate of Marketing Services is responsible for overall market intelligence and company liaison and is supported by four Regional Marketing Directorates. Each of these is responsible for a group of countries in much the same way as country specialists at the FCO, and provide what DESO describes as, "tactical" assistance and advice to firms on specific markets and projects.' The organization's Annual Strategic Review seeks to ensure that each of the regional directorates has a roughly comparable workload, and should international developments dictate that one begins to acquire more work, a re-organization would take place to correct this. In general however, the areas covered by each of the four desks remain fairly fixed.

The Sales Policy and Finance Support Division is headed by an Assistant Under-Secretary (Defence Export Services Administration), who co-ordinates general sales policy, administration and support. Support comes from the Head of the Defence Services Secretariat, whose responsibility covers export policy and the military and security aspects of individual exports, and the export of collaborative projects. Further support is provided by the Director of Sales Support and Disposals whose job it is to sell MOD equipment which is surplus to the requirements of the British Armed Forces. In terms of volume of exports, this function is a relatively minor

feature of DESO's work (National Audit Organization 1989, p.12). The division also houses two further important posts. Firstly, the International Finance Advisor, whose role is to provide advice on credit policy and finance for overseas sales, and secondly the Strategic Planning Officer who is responsible for long-term export advice to companies.

The Military Support and Exhibitions Division is responsible for the production of the British Defence Equipment Catalogue (B-DEC) which it publishes annually. It is circulated to all appropriate foreign embassies and representatives from foreign governments. The companies whose products are advertised in the catalogue pay for their entries. This is perhaps the section whose work the public knows best, as DESO is at its most visible as the co-ordinating force behind the military equipment exhibitions that Britain holds. There are several of these.

Firstly, there is the Defence Equipment Exhibition, which differs from all of the others in that it is a permanent exhibition based at the MOD main building in Whitehall. Its permanence makes it important in that it is frequently used throughout the year to show off arms to potential foreign buyers who would otherwise have no opportunity to view them. As with the B-DEC, space at this exhibition is paid for by the companies displaying equipment.

The most significant exhibitions organized by DESO are the British Army Equipment Exhibition (BAEE) and the Royal Navy Equipment Exhibition (RNEE), which have been held on alternate years at Aldershot and Portsmouth respectively. Attendance is by invitation only, invitations being extended to representatives of foreign governments to whom the British government is willing to allow military equipment to be sold. It has consistently been the policy of governments not to release the names of those countries whose representatives have been invited. In addition to these exhibitions, British military aircraft are also displayed at the Farnborough Airshow which is organized by the Society of British Aircraft Manufacturers (SBAL).

The same pragmatism that governs the operation of DESO prevails at the exhibitions. Involvement in a regional war or conflict does not preclude an invitation to the exhibition. Rather, given the logic that governs the arms market, these tend to be the countries most strenuously feted. For example, Iraq was represented at the 1986 BAEE by a five-strong delegation led by the Director of Armaments and Supplies despite having been at war with Iran for six years. The apparently principled stance of withholding invitations from Israeli representatives since the 1982 invasion of Lebanon was widely interpreted as a move designed to protect and prevent damaging potential Arab markets rather than an indication of a moral stand over the invasion.

With regard to South America, although DESO maintained a low profile during the Falklands Conflict, as Argentina employed equipment formerly displayed at the BAEE and RNEE against the forces of the country of manufacture, it used the performance of British equipment in the conflict as a selling point at the 1982 BAEE which, by coincidence, started just six days after the surrender of the Argentine troops at Port Stanley.

This division also arranges British Armed Forces support for arms exports, including the use of British military personnel to demonstrate equipment to potential customers. An Infantry Sales Team, comprising eleven 'hand-picked' soldiers was established in 1986, and is designed to be available to assist British arms manufacturers in the sale and promotion of British infantry equipment overseas. In

addition, the division oversees the training of military personnel from countries that have purchased British arms (CAAT 1989).

Finally, the existence of the Saudi Armed Forces Projects Division bears testimony to the importance to the British arms export industry of its single-biggest customer. It is responsible for providing advice on matters relating to the sale of arms – largely aircraft in the recent past – to the Royal Saudi Armed Forces.

INTERNATIONAL MILITARY SERVICES (IMS)

The evolution of the international arms market and the growing diversity of suppliers has meant that flexibility to meet various types of demand has had to be developed. The power to be more adaptable has had to be devolved to those negotiating arms sales to foreign nations through their being given greater flexibility with regard to the release of classified information. Similarly, the power to make decisions connected with a nation's creditworthiness has had to be delegated.

Governmental acceptance of the nature of this market evolution is evident in the establishment of International Military Services (IMS), an arms sales quango intended to operate at arms length from the MOD and directed to behave 'as commercially as it possibly could' (Merryfinch 1985). It is at the level of the operations of IMS that government involvement in the arms trade begins to come close to the fine line dividing respectable government-to-government dealings (as this involvement is always presented) from shady dealings, which the government accept as necessary but is nevertheless anxious to distance itself from.

The antecedents of IMS are to be found in the role of the Crown Agents – individual civil servants who provided British colonial governors with a variety of goods and services. Following the decolonization process and the creation of the Commonwealth, this role could no longer be fulfilled by individuals, who cannot form legal contracts with foreign governments. Hence, if it were to continue, it had to be taken over, in whatever form, by the British government.

This process produced Millbank Technical Services (MTS), the forerunner of IMS. MTS co-ordinated arms sales to Middle Eastern countries such as Iran, Saudi Arabia and Jordan. This operation came under ever closer governmental control and in January 1979 the MOD became the only shareholder in the company which changed its name to IMS. With the fall of the Shah, IMS gained control of Royal Ordnance Factory sales contracts outside of the NATO arena.

IMS had the authority to conclude multiple contracts with foreign customers and arrange ECGD credit for them. At the same time, the MOD indemnified IMS against any financial losses it incurred in the course of these activities. Hence IMS developed into the sales branch for British government arms exports, although it also acted on behalf of the private sector. Modelled on the French approach to promoting arms sales, it was given greater freedom to carry out tasks previously the domain of the more restrained DESO. Its basic function was to provide packages where more than one product or service was required.

At an early stage it could help customers in the definition of the requirement, and then in the selection of equipment for that requirement – possibly from a range of (British) manufacturers and suppliers. Having done this, it would see the package

through; inspecting and overseeing manufacture, transport and installation as well as the provision of credit and insurance facilities.

In providing financial packages, IMS developed close ties with the Midland Bank, which established a department to deal with financing arms sales within its Midland International Finance Department. The Defence Equipment Finance Department was established with the aim of challenging the position of banks like Morgan Grenfell in the arms financing field. It was staffed by a collection of former intelligence, SAS and military personnel (by way of contrast, Morgan Grenfell used career bankers, considering the employment of ex-military personnel 'naive') who were intended to target specific contracts. The section operated in a semi-clandestine manner from its inception until its closure in 1990. Its existence was kept secret from most employees, it did not figure in the company accounts and hence its estimated loss of £75 million was also hidden from its shareholders. Its history is illustrative of the nature of the arms sales process at this level.

Clearly then, IMS did not assume the role of DESO. Its role was to take on the field responsibilities of DESO, where the application of the arm's length principle is most important, thereby releasing DESO to perform marketing and support (demonstration) functions more effectively. However, IMS became a victim of the decline in government-to-government contracts and ceased trading on 31 July 1991. The remaining business has been taken over by Royal Ordnance, which created a separate commercial company, International Military Sales (IMS), to handle it.

THE FOREIGN AND COMMONWEALTH OFFICE

The FCO retains an independent capacity to evaluate the politics of arms sales. It has the task of assessing the political consequences of agreeing to supply or refusing to supply nations outside NATO and COCOM with British arms. The FCO's Non-Proliferation and Defence Department (NPDD) co-ordinates the activity of evaluating the impact of a proposed arms sale on the political situation within the purchasing nation and its likely effect on neighbouring countries and the prevailing balance of power. These evaluations are provided by the relevant area desks. Having received them, the NPDD makes a final assessment on the desirability of the likely geopolitical ramifications and the military relevance of the equipment for which the licence application has been made. Tim Renton, then a Foreign Office Minister, summarized the office's role thus:

Our policy on the sale of defence equipment is to support such sales, whenever this is compatible with the United Kingdom's political, strategic and security interests. Each case is considered carefully on its merits. We do not supply arms to countries against which there is a mandatory arms embargo, or where we believe the items are likely to be used to violate human rights or to attack British forces or our allies. We also consider the possible effect any proposed sale might have on the stability of the region in question (*Hansard* 1986).

Should there exist any uncertainty concerning the military relevance of equipment, the MOD would be consulted. Should a situation arise whereby an application has been made that is politically controversial or which involves the sale of restricted

technologies on which the MOD and FCO do not agree, the Restricted Enforcement Unit (REU), an interdepartmental committee (comprising representatives from ECO, FCO, MOD, and Customs and Excise) which meets fortnightly to discuss sensitive cases, would be consulted. This would be expected to agree on an outcome. However, should this prove impossible, ministers would in theory be consulted. If they prove unable to agree informally, inter-ministerial committees could be convened, and beyond that the full Cabinet asked to reach a decision based on the available information. However, this is a relatively rare event, so much so that the Cabinet Office has no permanent unit considering the political and/or economic implications and consequences of arms sales on British interests. However, the DOPC does receive all major arms sales proposals (e.g. Saudi Arabia, Malaysia, Indonesia, etc.).

The FCO is also involved in the Security Export Controls Working Party (SXWP). This is chaired by the MOD and includes officials from the DTI, FCO, Department of Energy and Customs and Excise. It is this committee which effectively formulates government policy on export controls on a working level. In so doing it is aided by the operation of three sub-groups considering missile, nuclear, and chemical and biological weapons proliferation issues.

There is no evidence to suggest – as Mrs Thatcher seems at times to have believed – that officials in the FCO were fully paid up members of the peace lobby. Their responsibilities include arms control, disarmament, the monitoring of embargoes, and regional peace issues, but they are also aware that arms can help cement relations with friendly governments. The record of the 1970s and 1980s suggest that the FCO has remained firmly under political control. Whatever private doubts officials might have had about the destabilizing effect of arms sales initiatives in the 1980s, none were prepared to jeopardize their careers by vigorously questioning the Downing Street line.

THE EXPORT CREDITS GUARANTEE DEPARTMENT (ECGD)

The ECGD was created under the Export Guarantees and Overseas Investment Act. Essentially, it has functioned as a governmental insurance agency, providing credit backing to exporters to cover against possible customer default.

The ECGD's role is important in that the availability of loan finance is often a key factor in a buyer's selection of a country to purchase from – particularly where a number of countries manufacture similar versions of a particular weapon or weapon system. Since, given the economics of the trade, most customers could not and do not pay cash for arms purchases, the availability of loan finance and the terms offered have come to represent a significant consideration when purchasers come to decide between competing products.

Consequently, the relationship between DESO as the promoter of British arms, and the ECGD as provider of cover (and in this sense, insurers as well as insurers) is a close one, and hence both formal and informal. The formal relationship centres around their involvement in the Export Guarantees Committee, an inter-departmental committee chaired by the Treasury which determines the individual

country credit limits. The figure arrived at covers both military and civilian sales.

The country credit limit figures are calculated through the compilation and maintenance of a series of four lists: A – D. List A contains those countries presenting least risk of default, which in practice includes most NATO countries and EC members. Lists B and C contain the names of a cross-section of developing countries, whilst List D comprises past defaulters together with a number of the poorer African states. Inclusion on this list would automatically preclude longer-term credit. Zambia and Iran proved such poor repayers that they were removed entirely from the lists in the late 1970s, although Iran's ongoing post-Gulf international rehabilitation has led to an ascent of the lists. The Export Guarantees committee also considers the provision of ECGD cover for arms sales. Consequently British arms manufacturers use DESO to make a case for provision of ECGD cover in specific cases where this is not guaranteed.

However, the ECGD does not provide direct financing. The exporting firm takes a loan with a bank about which the ECGD has been consulted, and the bank is then insured against any risk by the ECGD. The bank is thereby covered 100 per cent against risk, the exporter 90 per cent, although in the case of arms sales this is usually in the region of 75-80 per cent. If the goods are not delivered, the loan must be repaid. The ECGD offers such comprehensive cover that it even covers the risk that export licences will be cancelled by other government departments.

The ECGD's ability to meet the needs of British arms manufacturers involved in large contracts (for example, BAe in Saudi Arabia) and still accommodate civil exports was becoming limited in certain cases by the late 1980s by the need to operate within the country credit limits. Hence, in 1988, the then Trade Minister Alan Clark announced that a new £1 billion fund was to be established to cover these needs. In future, 'Where [the] ECGD's normal limits for individual countries cannot easily accommodate specific contracts, cover will, where appropriate, be made available under these new arrangements outside the country limit, but within the overall £1 billion ceiling' (*Hansard* 1988).

In December 1991 the government sold off the ECGD's short-term credit arm to the privately owned Dutch company *Nederlandsche Credietverzekering Maatschappij* (NCM) for £70 million. However, it has retained control of that part of the ECGD concerned with insuring British arms sales. Basically, the ECGD distinguished between two types of cover; commercial risk cover and political risk cover, which includes arms sales, and which remains under governmental control for a stated minimum period of three years with no stated upper limit.

This course of action was determined by the desire to sell off the ECGD and the fact that it was a more attractive proposition without the inclusion of political risk cover, and by the need to continue to offer protection to the British arms industry.

CUSTOMS AND EXCISE

The final stage in the administrative procedure is played by the Customs and Excise Department. It is their responsibility to enforce compliance with the EG(C)O and the terms of the End-Use certification, by which a customer agrees not to pass on equipment to third parties without first consulting with the MOD.

Should a violator be formally identified, Customs and Excise are empowered to detain suspect shipments, seize unauthorized or illegal shipments and press charges against individuals involved. The most visible example of this occurring in relation to the export of arms in recent years was the 1990 seizure of components for the Iraqi supergun at Teesport docks. The FCO, MOD, DTI and Customs and Excise are aware that such enforcement is circumvented, but there are many ways of doing so and ultimately more interest in selling than policing. Indicative of this is the admitted absence of a systematic or effective review of post-sale use of British arms.

CONCLUSION

It is clear from the above that HMG possesses an effective and sophisticated system for controlling its arms trade. It possesses extensive formal powers, the co-operation of the producer sector and is in many cases itself a lead player in the securing of export orders.

Successive governments, however, have had to confront contradictory pressures. On the one hand they are bound by alliances, multilateral obligations (such as those of the UN and EC) and the pressure of various lobbies opposed to the trade in arms. On the other they have consistently sought to bolster the home defence of the UK and Britain's exports by becoming directly involved in the marketing of weapons. Under Labour up to 1979 a two-track policy of control and simultaneous promotion of arms sales was followed. Under the Conservatives since 1979 restrictions have been fewer.

Both parties, however, have resorted to the arms-length principle and the tradition of dividing responsibility between departments. At one extreme of the administrative apparatus stands the FCO which, however reluctant it might be to be publicly enthusiastic about it, is to some extent at least in the peace business. In the middle, stand the DTI and the more public parts of the MOD, while at the other end lie IMS and the politics of the bazaar.

The result, inevitably, is that successive governments have laid themselves open to the charge of, at best, inconsistency, at worst, hypocrisy. It may be some consolation for the officials involved to reflect that any shortcomings in the administration of British arms sales are political rather than administrative in origin.

If it is the case that the post-Gulf world is qualitatively different and that in future there will be much greater international co-operation in the control of arms sales, then the British administrative machine will have little difficulty in regulating arms exports. The system is as administratively watertight as the government of the day wishes it to be.

ENDNOTE 1

British membership of several international regulatory bodies helps determine the composition of the Export of Goods (Control) Order EC(C)O.

As a signatory to the Nuclear Non-Proliferation Treaty (NNPT), for instance, export of quartz crystals, solid state switches, filament winding machines, high speed cameras and a range of other materials vital to the production of nuclear weapons cannot be exported freely. Countries

which are not signatories (for example, Chile, Brazil, Argentina, Oman, UAE etc.) are prohibited from receiving this equipment.

Membership of the Australia Group, which seeks to control the proliferation of the components of chemical and biological weapons, means that the export of items such as glass-lined vessels, glove boxes, protective clothing, toxins, toxic gas monitors etc. is controlled. Further restrictions on chemicals and biological weapons are provided by the EC's 1989 adoption of a Community Regulation on Chemical Weapon Precursors (Council Regulation EEC no. 428/89). This prohibited their export to states engaged in conflict or considered to be developing a chemical weapons capability.

As a signatory of the Missile Technology Control Regime (MTCR) export of items such as laser radar, analogue to digital converters, wind tunnels etc. is restricted. Essentially, all items covered by the MTCR are also covered by COCOM, and are merely being extended to the Third World.

Finally, membership of the Co-Ordinating Committee for Multilateral Export Control (COCOM) dictates that Britain will not export specific materials to the COCOM-proscribed countries (Albania, Bulgaria, China, Czechoslovakia, Hungary, Mongolia, North Korea, Poland, Romania, the former USSR [all 15 former republics] and Vietnam. In addition, although Afghanistan is not COCOM-proscribed, COCOM guidelines are used on applications.)

COCOM restrictions are based on the maintenance of three separate lists; the New International Industrial List, the International Munitions List, and the International Atomic Energy List. These categorize restricted products thus:

New International Industrial List: Advanced Materials; Materials Processing; Electronics; Computers; Telecommunications/'Information security'; Sensors and 'Lasers'; Navigation and Avionics; Marine; propulsion.

International Munitions List: 26 separate MLS

International Atomic Energy List: Nuclear materials; nuclear facilities; nuclear-related equipment.

However, these controls allow for 'national discretion' to be exercised in the export of certain categories of product to specific COCOM-proscribed countries. Most notably, China receives special consideration that allows it to receive exports denied to other countries on the list.

Currently, COCOM restrictions are being relaxed as a consequence of recent political developments in Eastern Europe, and an EG(C)O incorporating these is to be published during 1992. Details of this relaxation are included in DTI: *Security Export Control*.

In addition to these controls, further restrictions can apply to the export of military equipment if they contain components or technology of US origins through the need to secure a US re-export licence.

ENDNOTE 2

The Order derives from the Import, Export and Customs Powers (Defence) Act 1939, which empowers the Secretary of State for Trade and Industry to make orders in the form of a statutory instrument regulating exports.

There are a number of types of export licence: the Open General Export Licence (OGEL); Open Individual Export Licence (OIEL); and the Standard Individual Export Licence (SIEL).

Arms tend to require SIELs, which allow for a manufacturer to export to a single consignee a specified quantity. They are valid for two years. This represents an extension of a previous period of one year, and was a response to the DTI's expanding workload.

However, products with a potential military application have been exported using OIELs, which cover regular shipments to a range of specified destinations and are valid for three years. OGELs allow the export of eligible products without prior DTI approval and are clearly unsuitable in the case of arms exports. However, they are used for the export of controlled chemicals to members of the Australia Group.

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