

Committees on Arms Export Controls

Oral evidence: UK Arms Exports During 2016, HC 666ii

Wednesday 14 March 2018

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Watch the meeting

Members present: Graham P. Jones (Chair); Leo Docherty; Mike Gapes; Priti Patel; Faisal Rashid; Lloyd Russell-Moyle; Royston Smith; Stephen Twigg; Catherine West.

Questions 79-123

Witness

I: Paul Everitt, Chief Executive, ADS.

Written evidence from witnesses:

– [Paul Everitt, ADS](#)

Examination of witness

Witness: Paul Everitt.

Q79 **Chair:** Thank you for coming, Paul. We have some issues with the acoustics, so I will try to raise my voice. It is a bit like the statement today about relations between Russia and the United Kingdom: there is a significant gap between us. Given that you are so far away, it would be helpful if you raised your voice. I hope we will be here for about an hour and no more. Would you like to introduce yourself and make a few opening comments before we ask you some questions?

Paul Everitt: My name is Paul Everitt. I am the chief executive of ADS, which is the UK national trade association for the aerospace, defence, space and security industries. I am very pleased to be here today, and I am happy to take questions.

Q80 **Chair:** Thank you very much, Paul. You mention in your written submission that open licences help keep the number of licence applications to “manageable proportions”. To what extent is appropriate use being made of open licences compared with standard licences, taking into account the need to balance efficiency with ensuring that potential exports receive proper consideration?

Paul Everitt: From an industry point of view, we find the open licensing system works very well. There is a process that needs to be gone through in order to register to use an open licence, and a regular auditing process to ensure that companies are using them appropriately. Stats produced by the Export Control Joint Unit suggest that that is taking care of some 250,000 applications that would otherwise have to go through either the open or the standard licensing process, which clearly would put a huge demand on the limited resources available. Given that open general licences are specifically for either non-contentious goods or non-contentious destinations, it is a process that, in our view, works well.

Q81 **Chair:** You say that the open licensing system is “fraught with perceived problems and delays, especially when it comes to the time and bureaucracy involved”. Are there any amendments or changes that you think should be made to improve the licensing system?

Paul Everitt: Generally speaking, there are three areas. There is open general licensing, which, as I said, we think works well. There is the open individual export licence. Basically, a company applies for that and goes through a scrutiny process, and it is allowed a time-limited period to utilise the licence. The area that causes us concern is where a company has used that licence efficiently and effectively and then wishes to re-apply. They effectively have to go through exactly the same process again, and the processing time for an open licence is up to 60 days. By and large, the process works reasonably well. There are obvious areas where, with a little



more flexibility, we could take some of the burden out of the work that the unit does so that, rather than spending its time on processing things that are, by and large, non-controversial, it has more opportunity to focus on areas where there are more serious concerns.

- Q82 **Mike Gapes:** Your group has advocated an open general export licence covering what you call “non-contentious cryptographic goods”. I can see the argument that other countries—the United States is specifically mentioned—have a more flexible approach on this, but what would you actually define as a non-contentious cryptographic good?

Paul Everitt: Definitions are always difficult. Our point is that there is a dynamic marketplace, particularly if you think about online transactions, communications, satellite communications and satellite delivery services, all of which are commercial activities. Because of concerns about cyber-crime, hacking and the like, normal businesses increasingly want to make their standard commercial business activities more secure. The sorts of areas that we are thinking of are, indeed, satellite communication or satellite service delivery and/or how you go about securing financial transactions that might be done either online or through mobile telecommunications.

- Q83 **Mike Gapes:** Would that cover things like WhatsApp groups? There are some concerns about human rights issues. In certain countries, journalists, human rights defenders and activists have a desire to communicate without the authorities knowing. How would that relate to this?

Paul Everitt: We are looking at what we see to be a more nuanced policy than the one we currently have. We work closely with our colleagues in other trade associations, such as techUK, on trying to define more clearly an open general licence in this area. So far, we have not been successful.

We are absolutely aware of concerns around higher-grade or more sophisticated cryptography tools, which we recognise need a higher degree of scrutiny and decision making. We believe that there is a dynamic change going on not just in the UK and developed markets, but in markets around the world. The UK risks losing out on business opportunities if we say, “We are not prepared to work in particular countries or domains.” We are not looking at trying to provide equipment that might be used to monitor people; we are looking at supplying commercial-grade equipment and software that would be used to secure mobile telephony and other things for things like commercial transactions. Again, a mix of end-user scrutiny would be sufficient to determine whether it is going to the right type of business.

- Q84 **Mike Gapes:** To be clear—this is my final question—would that be a product-designated control or a country-specific control?

Paul Everitt: We would be looking at something that is much more about the type of product, because we would be looking at things that are common currency in the commercial environment—things that you might be selling or providing to banks or other institutions that provide an array



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of services and wish to provide a greater level of protection for themselves and their users because of concerns about hacking or crime. It is not equipment of a higher order that could be used, as our security services might do, to monitor other people and their activities. The US example provides a basis for at least a discussion about how you might go about that in a sensible way.

- Q85 **Lloyd Russell-Moyle:** You mentioned the US example, which is interesting because they do look at end user. Am I right in thinking that in our open licence system at the moment, we don't list the value and size of shipments within the open licence framework? Should that be added before we look at loosening up? You surely keep those records.

Paul Everitt: In the open general licencing, a company has to be able to provide an evidence trail of what has been shipped to whom. That evidence, by and large, already exists.

- Q86 **Lloyd Russell-Moyle:** But it is not made public.

Paul Everitt: That is a different issue. From an industry point of view, we are reporting in the way we are required to report. I recognise that how the authorities are able to lift information from that is more about the data collection and how they aggregate it, rather than the collection and the willingness of people to provide information.

- Q87 **Lloyd Russell-Moyle:** So for individual licences it is made public, but for open licences it is not. You would not have any objection to this being made available for open licences then.

Paul Everitt: As long as we are not creating a separate system of reporting. Again, if a company wants to apply for the licence, go through the process and go through an audit process if appropriate, that is the information that is required. We don't want to get into a number of different processes with a number of different reporting regimes, which merely add burden and, in most cases, confusion, because the more forms you give people, the more likely they are not to complete them appropriately.

- Q88 **Leo Docherty:** Paul, could you tell us a bit about your members' general experiences of applying for the licences? How, if at all, has it changed since the establishment of the Export Control Joint Unit in 2016?

Paul Everitt: The general view from people is that there has been no major—if you shift in performance—improvement or deterioration. By and large, for the overwhelming majority of the licence applications that are made, they go through reasonably speedily. There are always challenges. It is an area that we have highlighted on a number of occasions. If we see a problem, there can be requests for further information. Someone will have applied once and they would have provided a set of information. They will apply again using exactly the same set of information and sometimes they will be asked for further information. One of the things that we have tried to ask the unit for is to help us. If you can analyse the reasons why people fill in the forms wrongly, we can provide a mechanism for improving the training and making sure that people are aware of the

sensitive areas where, if you do not provide a certain bit of information, it is more of a problem or you are likely to be refused or they will come back to you or something else.

I would not want to blow it out of proportion, but, although the overwhelming majority of licence applications are approved, there are sometimes issues and, for whatever reason, you find yourself in a loop where you keep applying and you keep getting told more information is wanted, and then more information is supplied and you carry on in that loop. We haven't got a systems approach that allows us to understand where individual companies or individuals are going wrong so that we can then try and assist both the unit and our member companies to put it right.

Q89 Leo Docherty: With regard to the online system, will the change from the SPIRE system to the LITE system make any difference?

Paul Everitt: Online computer systems are always a challenge. We have worked closely with the team. I would again stress how we have had a good relationship with the team in the development and testing of the new regime, the new system. We hope that we get the transition right so that it should potentially be a more efficient system and more developed. Again, with all these new things, you have to keep your fingers crossed. Unquestionably, at the point of change, there will be some challenges. It is about making sure that on both the industry and Government sides we have the right resources in place to smooth out any problems that might arise at that point. The issue tends to be training—everyone needs to know how it works—and bedding it down quickly.

Q90 Priti Patel: What is your members' feedback on the consolidated criteria: their experience of it, the application of it, and the decision making around risk in particular?

Paul Everitt: From an industry point of view, we accept and acknowledge that that is the regime. The criteria are there and they are ones that no one ever raises particular issues about. As I have mentioned, by and large the system works very well. We do not have major problems. From an industry point of view, we don't find ourselves in a disputation situation. We accept that there are sensitive areas and that it is right that Government make decisions about them based on their judgment calls.

Q91 Priti Patel: What is your view regarding the Department for International Trade and the proposal that it should be one of the Departments involved in contributing to staff in the Export Control Joint Unit? Do you have a particular view from the industry's perspective?

Paul Everitt: Did you mean the Department for International Development?

Priti Patel: Yes, I did.

Paul Everitt: We would absolutely acknowledge that the Department for International Development has knowledge and expertise that is particularly useful in assessing these situations. Our experience to date,



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given where we are, is that the current arrangements seem to work well. I do not think we have a particularly strong view either way, in terms of whether they should be more or less formally involved. Without edging into controversial areas, I think that the areas in which their views would hold weight would be relatively few, albeit those few would be very sensitive. Our sense is that the current regime provides the opportunity for that expertise and views to be taken into account.

Q92 Chair: On a final point on that, when we leave the European Union, would you expect us to stay within the EU framework of the consolidated criteria?

Paul Everitt: Yes, it is an international set of criteria and standards that is the basis for our export control regime. There are some technical issues—

Chair: “Alignment” is the word I think we use—alignment and not divergence.

Paul Everitt: It is a broader issue in this case than just the EU, but clearly it is about maintaining our position in those key international fora and about engagement. We would not anticipate that there would be need for any significant change, and it would make sense for any changes that happen to be mutually recognised.

Q93 Faisal Rashid: If we leave aside the question of how the consolidated criteria are applied in practice, how appropriate are the criteria in themselves and what changes, if any, would you like to see made to them?

Paul Everitt: I don’t think we have any particular comment or question or wish to see changes. They seem to be a durable set of criteria and people are comfortable with their operation.

Q94 Faisal Rashid: Are there no changes that you want to see?

Paul Everitt: Not that I am aware of from across our members.

Q95 Lloyd Russell-Moyle: Corruption Watch UK has proposed that there should be an additional criterion, perhaps on corruption and regimes or countries that have particularly bad corrupt practices, added into the consolidated criteria. Would your members have an objection to that?

Paul Everitt: We have not specifically asked them; there is quite stringent legislation in most territories around bribery and corruption, so whether it would be necessary to add an additional one would be the question. People are well aware of the concerns; again, I do not think that from an industry point of view there is a strong sense either way. We look to operate within the national and international regimes that are out there.

Lloyd Russell-Moyle: We will come back to corruption later.

Q96 Stephen Twigg: We took evidence previously from Control Arms; as you may know, it argues for a reform that would introduce a presumption of denial in respect of licence applications for exports to countries that have not signed up to the arms trade treaty. How do you regard that proposal?



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Paul Everitt: From our point of view, we are keen to see all procurers—those purchasing equipment—seeing the arms trade treaty as the benchmark. Where countries choose to buy defence equipment, we want to see that they are purchasing it from countries that have a strong regime and where you can know and understand the goods that have been exported or imported, as the case may be. That is the focus and approach that we have supported and would continue to support.

Q97 **Stephen Twigg:** You said “imported”, so does that imply that you have some sympathy for the idea that you could move to a presumption of denial in those cases?

Paul Everitt: It is always very difficult in this particular area. Without having in front of me a long list of all those countries that have or have not, there will always be exceptions who have chosen not to for particular reasons. As an industry, we have been a strong supporter of the arms trade treaty. Anything and everything that helps to support and ensure that that is taken up in the widest possible sense we would see as an important thing.

Q98 **Stephen Twigg:** My understanding is that the presumption of denial would not be a ban on exports, but would add an additional threshold. Of the 73 countries to which arms were sold in the recent period, 17 have not signed up to the arms trade treaty. Do you think that there is an argument that a presumption of denial could act as a lever for at least some of those countries to sign up?

Paul Everitt: Again, without some understanding of which ones—it might be major destinations for some of my member companies, so I am not prepared at this point to give a hostage to fortune. But we would certainly take seriously, and look at sympathetically, anything that encouraged and created a stronger drive for countries to sign the arms trade treaty, and to see it embedded as best practice as widely as possible. We believe that the UK will be better off—safer and more prosperous—the more clearly countries regard who they are buying from.

Q99 **Chair:** Just on that point—and I did ask this question at the last evidence session—would we not become a hostage to the list? There are some countries on that list that signed the arms trade treaty that you might take a sharp intake of breath about. Honduras is on that list, having signed the arms trade treaty. I do not want to condemn Honduras, but giving the green light—and Palestine is on the list of nations that have signed the arms trade treaty. Then there are others, such as the United States, that have not signed it, along with other western nations. Would it not cause problems if presumption of denial against countries that have not signed the arms trade treaty became the de facto policy? I am only playing devil’s advocate about who is and is not on the list.

Paul Everitt: That is why I am slightly hesitant about saying, “Yes, we will all sign up to it.” It is not an issue that we have raised with our members, so I am not able to speak on their behalf. Again, I think it is about appropriate balance in these situations. We always see defence exports in three steps. By and large, we are involved in Government-to-



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Government arrangements for defence exports. They are strategic equipment—part of a strategic national security relationship—and it is appropriate for Government to make decisions on that. Then there is a piece for us that is obviously about a number of our allies that are looking for interoperability of equipment, sharing of equipment and those sorts of things, where it makes sense for us to have a relationship. There is also a piece for us that is about “exports are good for the UK,” because it means we are able both to spread the cost of some of the key equipment that the UK requires and, from an industry point of view, to sustain capability that we would be unable to sustain if we were reliant only on a UK customer. If that is the lens through which we look at these things, that is how we would judge any suggestions about changing how we look at individual nations.

Q100 Lloyd Russell-Moyle: My understanding is that the presumption of denial issue was particularly about open licences, not all licences, but there is a call for presumption of denial for countries that are on the FCO list. Have you had any discussions about the FCO human rights abusers list, or are the answers the same as the ones you have given in respect of the arms trade treaty?

Paul Everitt: Given what I have said about our rationale for being involved in defence exports, it is about supporting the work we do with our UK customers. As an industry, we accept that it is for Government to take decisions about what is acceptable and to whom it is acceptable to export. By and large we do not run campaigns to say, “This shouldn’t happen.” The only issues that we would address if serious propositions were put forward is whether on a day-to-day basis it is deliverable.

Q101 Catherine West: The European Commission proposes to revise the EU regulation on the control of export of dual-use items, to take into account repressive regimes’ misuse of new technologies. You have already touched on this a bit. How do you view these proposed changes and, if they are implemented, should the UK continue to adhere to them after Brexit?

Paul Everitt: Obviously we have had sight of the consultation that is going on. We believe that it is probably not going to get done soon, and certainly not before March next year. To a certain extent, as we discussed earlier, we are looking for a more nuanced approach. A number of member states might have some challenges to what has been proposed, which is essentially a removal of any restriction on cryptographic goods and services, so I am not sure that that will pass muster across EU member states. Clearly, as we have said before, it makes sense for there to be some level of alignment between what we do in the UK and the wider international community, particularly the EU, so what we have sought is a more nuanced approach around cryptography, which recognises that there is a growing commercial demand for the types of things we talked about earlier.

Q102 Lloyd Russell-Moyle: We have heard that extraterritorial brass-plate companies and brokering continues to be a major issue. The predecessor



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Committees heard about how brass-plate companies were involved in shipping gas to Syria, for example, even after the gas attacks. We are very concerned about that. Do your members adhere to making the names of advisers and intermediaries public, or take on their liability as they have to do in the US?

Paul Everitt: I should say that I do not represent, and ADS does not have among its members, any companies of the type you describe. Our members—obviously we have a process for accepting companies—are companies whose activities are in the UK and that, although they might provide a range of goods and services, produce things or provide those services from the UK. They are not involved in the sorts of transactions that I think you were talking about, which is effectively a company based in the UK that is buying and selling defence equipment or arms and shipping them through third countries. We do not represent those businesses and, as an organisation, on a number of occasions we have worked with NGOs on how we better tackle some of the issues that those types of businesses create.

Q103 **Lloyd Russell-Moyle:** So you would be perfectly happy for slightly more stringent rules and regulations on brass-plate companies, such as the ability for the Secretary of State to intervene in them perhaps?

Paul Everitt: The challenge that we face—this is around arms brokers and arms brokering—is creating a definition and a regime that target the companies that we are interested in, rather than a wide proportion of companies and individuals that are not. For example, with previous attempts at looking at arms broker licensing, we were in the situation where an information provider such as Jane's would have been regarded as an arms broker. Many of the companies that are relatively small operations would potentially have been drawn into a licensing regime to no good effect.

Similarly, we may well have faced situations where individuals working for large international corporations based outside the UK would also have been registered. We are absolutely clear that there is a challenge there and that we are trying to find ways of dealing with it, but to date what we have seen is ways of dealing with it that impose more burdens on those that are already compliant and doing the right thing, rather than being able to target something specifically on those businesses that we all wish to focus more attention on.

Q104 **Lloyd Russell-Moyle:** I might have confused the issue, because we are probably talking about two different kinds of companies. We are talking about the brass-plate companies that do not really do any activity in the UK, because they are just letterboxes, and those that, I assume, have no particular problem about further regulation—you mentioned speaking to and working with NGOs.

Paul Everitt: As long as we can define it in a way that means something—numbers vary, but we are probably looking at something in the region of 50 to 100 businesses. It is about trying to define things in a way that we address—



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Q105 **Chair:** Is that 50 to 100 businesses that you would classify as brass-plate companies?

Paul Everitt: I am merely quoting evidence provided to the Committees by a number of NGOs. The truth is that I don't know.

Q106 **Lloyd Russell-Moyle:** Because they are not regulated. So the second part of the companies that you were talking to and we are alluding to is brokerage companies. This is about the idea that for brokering one should have a brokerage licence, which you now have to for small arms under the EU directive, but not for large arms—so if you are involved in small-arms sales you do, but not for large arms. The Government told our predecessor Committees that the existing legislation was probably adequate in this regard. You have just mentioned that you recognise that there are some issues there that need to be tightened up.

Paul Everitt: I was focusing more on the former than the latter—

Q107 **Lloyd Russell-Moyle:** On the brass plates, not on the latter. So you are more than happy with how brokerage companies are regulated in the UK.

Paul Everitt: When we have looked at the issue, what we have found is that it is about being able to define things in a way that targets it appropriately. We have a very robust regime, which companies are happy and compliant with, so it is what additional issues we are trying to address and what the right tools to address them with are. Again, under a previous Administration—

Chair: May I just stop you there? We will have to stop and suspend because we have Standing Orders on Committee members being present, and one of my Committee members has had to go to the bathroom for a very short period of time.

Sitting suspended.

On resuming—

Chair: Where were we? Lloyd, I think you had one more question on brass plates and brokering.

Q108 **Lloyd Russell-Moyle:** Yes. In principle, there is no problem with the regulation of brass plates and there could be some regulation of brokering, but you would have to look very carefully at the effect on other companies that might not need to be registered.

Paul Everitt: It is about trying to make sure that it is focused on being clear what the intent is, and ensuring that what would be an additional administrative process is targeted at companies where there is a concern or where extra regulation is required, rather than at an industry that is thousands of companies strong and for which the current regulatory regime works effectively and appropriately.

Q109 **Lloyd Russell-Moyle:** May I propose that one could make the system more advantageous for you? You mentioned that you were unhappy with how long the renewal of licences took, particularly for open licences and



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so on. Could you have a system where companies—particularly brokering companies, but others as well—were placed on a register? If they were on the register, it would mean that their licence applications were dealt with slightly quicker—within 30 days, say.

Paul Everitt: I think we are at cross-purposes. I do not represent, knowingly, any brokerage businesses. The people who use the export licensing regime, who are ADS member companies and are the overwhelming majority of defence and security businesses in the UK, do their business in the UK. They are creating either products, services or IP in the UK, which they then seek to export to a third country. They are not involved in seeking to broker deals by buying in one country and selling in another. That is not what the overwhelming bulk of our members do.

Q110 **Lloyd Russell-Moyle:** But your members do use brokering companies.

Paul Everitt: Do they?

Q111 **Lloyd Russell-Moyle:** Well, BAE Systems spent £149 million on brokerage just between May and November 2001. That was in the fraud presentation that it had to give to the American Government because it had not declared to the Americans. Your members use brokerage and promotions companies and spend a large amount of money.

Paul Everitt: I would suggest that those companies did, at those periods in time. I think it would be very unusual for those companies to be involved in it again.

Chair: We have BAE Systems coming before us at our very next meeting.

Lloyd Russell-Moyle: I will ask them.

Chair: We can probably move on from this question now, but it is a pertinent question for the next meeting.

Q112 **Lloyd Russell-Moyle:** It is interesting that you say that you do not use them anymore.

Paul Everitt: I would suggest that there has been quite a big change in the way the industry has operated as a consequence of legislative changes taken post 2001.

Q113 **Catherine West:** That was really my follow-up question: if it is so robust for you, how do the very low-quality companies that are really not doing the right thing get through?

Paul Everitt: Again, give me an example. Get through in what sense?

Q114 **Catherine West:** Brass-plate companies, which NGOs tell us Committee members about. How do they manage it, if it is so robust for you?

Paul Everitt: Again, I cannot answer for them, because those are not businesses we represent.

Q115 **Catherine West:** Sure, but do you think there is a weakness in the enforcement regime?



Paul Everitt: We would be very happy as an organisation to work to eliminate businesses that are not abiding by appropriate laws, regulation and legislation, or that are behaving in a way that is detrimental to the wider industrial base in the UK. We are open to working with companies on trying to find ways to do that. With the propositions that have come forward to date, particularly on brokering, part of the problem has been using and defining in an appropriate way so that you are targeting companies that are not acting appropriately, rather than all of those that do. One of the challenges with regulation in more general terms is that the compliant companies continue to comply and the non-compliant companies, irrespective of the regulations that are imposed, continue to be non-compliant. It is about targeting resources appropriately.

Q116 **Mike Gapes:** Can I take you back to the issue of extending the principle of extraterritoriality? Previous Committees in this House have argued that extraterritoriality should be extended to cover all category C weapons as well as the more narrowly defined categories A and B. So far, the Government have not done that. The Export Group for Aerospace, Defence & Dual-Use always argued against that. What is the position of ADS?

Paul Everitt: The Export Group for Aerospace, Defence & Dual-Use is part of ADS. My understanding is that we are working closely with a number of NGOs to extend that to category C. The reality, however, is that it is more a Government resource issue, rather than an issue relating to the willingness of industry to find a route through. Categories A and B are reasonably tightly defined and relatively limited in number. When you move to category C, you open the envelope much wider, which creates more of a resource burden for Government. We would and are happy to work with the Government and other agencies to find a way to do it, but there is no point creating a regime that is not implemented.

Q117 **Mike Gapes:** So what you are saying is that the issue is how much you or the Government would have to invest. If it had some kind of levy on the industry, the question would be, who would be paying and would it be worth it? It is not about seeing the merits of it.

Paul Everitt: We do not have an issue with extraterritoriality. We would be quite happy if we can find an approach to do it. We have had debates and discussions with NGOs, in which we have found routes. The issue is that the Government has found it difficult to accept because of the resource burden it would imply for a whole range of reasons. Would we wish for Government resources to be focused on the areas where the risks are highest or the areas where you might get results but you might not address the serious issues that most people are concerned about?

Q118 **Lloyd Russell-Moyle:** I said that I would come back to corruption. Airbus themselves admitted in their Serious Fraud Office investigation in 2016 that they had misrepresented their use of third-party agents and brokers just the year before. That touches on the question you answered earlier. That also shows that there is systemic misrepresentation—to use the nicest terms—in some of our biggest companies. BAE Systems, Rolls-



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Royce, Leonardo, Westland, Airbus and GPT have all had to settle Serious Fraud Office investigations or US investigations in recent years. Many studies show that corruption is prevalent in this industry. How do we reconcile the continued involvement of the UK's defence companies in corruption with what you said earlier, which is that corruption is not a big issue because there are plenty of rules around the world that prevent it from happening?

Paul Everitt: I don't think that's quite what I said.

Lloyd Russell-Moyle: To paraphrase what you said.

Paul Everitt: My point would be this. If you look at those companies and the actions they have taken, I think that in all cases they self-reported. In most of the cases, they relate to the use of agents at a period in time where it was certainly not illegal. It was certainly before the introduction of the anti-bribery and corruption legislation that we have in the UK and that is widely endorsed elsewhere.

I would suggest that all of those companies have had a difficult time. Their management recognise that serious issues and flaws were apparent in their own systems at the periods that they were reporting, and they have made strenuous efforts to ensure that those type of activities cannot happen again. I would point out that there is no ongoing corruption activity that I am aware of, or cases being taken against UK defence companies. You mentioned a number of very large international businesses. They have self-reported on issues that have taken place in key parts of the world over a number of years.

It is not a happy time and it is not a happy thing that we report, or that you are able to report, but, as an industry, I believe that we have taken a lot of steps to be compliant with the legislation that exists but also to put ourselves and to put our house in order in a way that ensures that these issues are not things that we have to be embarrassed about as we move forward.

Q119 **Lloyd Russell-Moyle:** Let us be clear. Westland, for example, and the corruption payments paid to India was post-Bribery Act. It has still carried on. Rolls-Royce was not a self-report. There are issues here that need a bit of unpacking. When Sir Richard Evans, chairman of BAE Systems, appeared before Parliament, he said, for example, that his company had never paid bribes and never would, and then in the case against them from the Department of Justice and the State Department in the US, they were forced to pay substantial fines because they had done exactly that. Not to be rude to you, Paul, but—

Paul Everitt: Can you remember when Richard Evans was the chairman of BAE Systems?

Lloyd Russell-Moyle: A little while ago.

Paul Everitt: I am not here to speak for BAE, and individual companies will be more than able to represent themselves on those specific issues.

However, I would put to you that there is no evidence of systemic corruption in the UK defence industry. We are an organisation, and a representative, of many hundreds if not thousands of companies who behave and operate their businesses in a wholly reputable way.

Q120 Lloyd Russell-Moyle: Previously, they clearly haven't. If what you are saying—

Paul Everitt: What you have identified is a number of companies, very large international businesses, who have acknowledged in a variety of different ways—

Lloyd Russell-Moyle: Your biggest members.

Paul Everitt: Who have acknowledged in a variety of ways that they have not acted appropriately. Some of those instances were some considerable time ago. Some would dispute the details that you present. Again, it is not for me to go through. The point that I make is that lots of things happened a long time ago, but if we look at what has happened since the legislation has changed, I believe our companies act in an appropriate way. I have not seen any evidence to suggest that that is not the case.

Q121 Lloyd Russell-Moyle: So putting aside history, which is what I was trying to get to, you are saying that bad, but not awful, things have happened in the past, as they happened in many industries, and it has all been cleaned up. Putting aside Westland, which was post-Bribery Act, and the two Serious Fraud Office investigations that are happening at this moment, you have all cleaned up your act. What measures has the industry taken specifically to change what they do since these scandals have come out?

Paul Everitt: I would say very clearly from an ADS perspective that we have developed a series of activities to assist companies in training and in ensuring that they do understand the rules, regulations and legislation and are compliant with them. We have seen a significant reduction in the use of such things as agents and other things. In many cases, we can dispute what people knew and all the rest of it, but that has tended to be the source of problems. Companies have taken action to ensure that either they have wholly owned businesses in some of the key markets or they have in place systems, mechanisms, reporting and clear guidance for those working on their behalf about what they should or should not be doing and what is or is not appropriate behaviour. I can attest to that. We operate in a number of different areas and we have had experience where it is very clear that people have been offered inappropriate inducements. Because of the measures we have in place, that is not appropriate. People manage their businesses in a different way.

Q122 Lloyd Russell-Moyle: You rightly point out the reduction in the use of agents, which was a big problem in the past. In the US, companies have to sign to say they are legally liable for all the actions that their agents do, and they have to declare which agents they are using. We do not have such requirements here in the UK. Earlier on, you said to me that the industry did not take a view one way or another about corruption in



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the consolidated criteria. Thinking about what we have talked about, would something around corruption or the use of agents in those areas be a useful addition, at least to bring us in line with the US?

Paul Everitt: We would like to see a proposal, and then we could respond properly to it. The existing legislation does not allow you—you are responsible for the behaviour of your agents; it is already there. The law provides clarity in that respect anyway. If your agent behaves inappropriately, it is down to you. That is why a number of the companies—

Q123 **Lloyd Russell-Moyle:** Agents abroad are treated as employees.

Paul Everitt: I don't know if they are treated as employees, but their behaviour is covered under the existing legislation. You cannot avoid your responsibilities or the law by employing an agent in another country. You are responsible for their actions, whatever they may be. Again, the issue is what we bring additionally to what is there.

Lloyd Russell-Moyle: For example, at the moment we do not check to see whether there are fraud or corruption cases ongoing when we issue licences. We do not even check that. It is about whether that should be part of the check and the criteria. That is what I was trying to get to.

Chair: We will get opportunities to ask these questions. We have at least three more interesting sessions. That concludes the meeting. Thank you very much. Thank you for coming in, Paul; it was very helpful.