

Written evidence submitted by Andrew Feinstein and Alexandra Smidman at Shadow World Investigations (UKI0029)

Brief Introduction to Shadow World Investigations

1. Shadow World Investigations (formerly Corruption Watch UK) is a UK-based NGO that undertakes investigations into cases of grand corruption, corporate malfeasance and militarism, predominantly but not exclusively in the global arms trade. These case-studies are used to indicate the legal and political reforms that are needed to halt the corrosive impact of criminal and institutional corruption.
2. Andrew Feinstein is Executive Director of SWI and Alexandra Smidman is an Associate Researcher.
3. Andrew Feinstein is a former South African ANC MP, who resigned from South Africa's second post-apartheid Parliament in protest at the neutering of investigations into a pervasively corrupt arms deal between South Africa and UK and European countries. He is the author of *Shadow World: Inside the Global Arms Trade* (2011), which has been described by the *Washington Post* as "the most complete account of the arms trade ever written." *Shadow World* was the basis of a documentary feature film of the same name, released globally to critical acclaim in 2016. He has participated in numerous submissions to the British, EU and other European, Middle Eastern and African country Parliaments.
4. Alexandra Smidman, an associate of SWI, is a freelance researcher and writer who has experience working with a number of non-profits on issues related to corruption, corporate lobbying and the consequences of armed conflict.

Introduction:

5. This submission will consider Iran-UK Relations through the prism of the arms trade between the two countries. It will briefly consider:
 - the history of the arms trade between the countries;
 - the problems that have arisen as a consequence of this trade, including:
 - significant, unnecessary, hidden costs to British taxpayers totalling in excess of £1 billion in today's values
 - adverse impacts on British foreign policy and interests
 - undermining UK democracy and accountability
 - endangering the safety and wellbeing of British citizens
 - possible improved approaches to Iran-UK relations, including:

- greater scrutiny and oversight of British arms trading, especially in febrile regions
- speedier, more decisive and cost-effective resolution of arms trade disputes
- better protection of British citizens to mitigate the risks of the arms trade.

Iran–UK Relations Through the Prism of the Arms Trade:

The Global Arms Trade and Britain's Role in it:

6. As the Committee well knows Iran-UK relations have fluctuated over many decades with strong and close relations under the Shah of Iran being bookended by Britain's role in the overthrow of Prime Minister Mohammad Mosaddegh and strained relations with the country since the revolution of 1979.
7. One constant in these relations has been the role of arms deals. As Andrew Feinstein has exhaustively documented in his critically acclaimed book on the arms trade, *The Shadow World*¹, the global trade in weapons in which the UK plays a central role, is something of a parallel world of money, corruption and subterfuge. It operates according to its own rules and is largely under-scrutinised. Almost always shrouded in secrecy, arms deals are often concluded between governments who then turn to manufacturers, many of which are now privately owned, to fulfil them. In some instances, governments enter into contracts directly with commercial suppliers. Intermediaries, some independent, some state-controlled, are omnipresent in these transactions.
8. Arms deals stretch across a continuum of legality and ethics from the official, or formal trade, to what is referred to as the shadow world, also known as the grey and black markets. The grey market alludes to deals conducted through legal channels, but undertaken covertly. They are often utilised by governments to impact foreign policy illicitly. Black market deals are illegal in conception and execution. Both black and grey deals frequently contravene arms embargoes, national and multilateral laws, agreements and regulations. In practice, the boundaries between the three markets are fuzzy.
9. It is, therefore, unsurprising that many of the arms deals between Iran and the UK have been conducted through fairly opaque UK-government owned enterprises, most importantly a company called International Military Services (IMS).

International Military Services (IMS):

10. IMS emerged out of a network of government-controlled companies under the rubric of the Crown Agents, a UK public statutory corporation overseen by the British Ministry of Overseas Development as it then was. When the Crown Agents were restructured the MoD came to control a quango called Millbank Technical Services

¹ Feinstein, Andrew, *The Shadow World: Inside the Global Arms Trade*, Hamish Hamilton/Penguin, 2011/2012.

(MTS).² The entity suffered a highly publicised financial scandal in the 1970s. It was decided that given that most of MTS's business constituted defence-related sales, that it was most appropriate that it be brought under the control of the MoD and in the same spirit was renamed International Military Services in 1978.³

11. The UK government at the time wanted to respond to the increased popularity of government-to-government sales. IMS allowed it to underwrite defence sales, selling on the assurance of a government-to-government contract, without having to be wholly responsible for them. Part of the appeal of IMS was that it could conduct government business while operating outside of the restrictions and scrutiny of the Parliamentary Vote system for funding and outside Civil Service manpower limitations.⁴ The company drew most of its senior staff from former military personnel. The government would provide support for sales to foreign states by issuing memoranda of understanding (MOUs). This meant the contracts didn't require bonds and guarantees. IMS was also able to access credit through the use of the Export Credits Guarantee Department (ECGD), effectively allowing the government to insure itself.⁵
12. IMS was formed to handle defence business on behalf of the UK government, and as both FCO and MoD officials wrote at the time, as such "acts in accordance with the policies of the United Kingdom government ... International Military Services is thus the commercial arm of the Ministry of Defence."⁶ IMS never produced defence equipment but prided itself on its ability to control the pace and characteristics of complex sales and services packages. It aimed to bring together the resources and services of a number of British and foreign contractors.
13. The relationships between IMS and the FCO, the MoD, the Defence Sales Organisation (DSO) and the Royal Ordnance Factories (ROFs) were symbiotic. Political clearance for IMS sales was handled by the defence department within the FCO and by a division called the 'Defence Secretariat 13' in the MoD.⁷ On occasion the FCO would second staff to IMS and overseas diplomatic missions would promote the company. The DSO used IMS to put together packages for sale as well as to arrange the payment of agents' commissions.
14. In the UK arms industry it was, and some argue, still is common practice for companies to pay commissions to agents, the cost of which is hidden in the overall price of the contract.⁸ While the MoD directly employed agents prior to the setting-up of the DSO and IMS, there is evidence that the department used the company when it was known as Millbank Technical Services as a front to pass on bribes.⁹ MTS was described as able and willing to pay "agents' commissions".¹⁰ There is strong

² There is some debate over the term Quango, but it has been listed as such and in the note of a meeting held in HM Treasury 30 May 1980 (National Archives), the MoD accepted that IMS was indeed a quango.

³ <https://www.theguardian.com/business/2008/nov/03/5>

⁴ FCO46/2871 IMS 1981. Page 50

⁵ Defe 24/2657_1979-1982_133

⁶ Page 158, Iraq 1981, 1982 (National Archive doc, online)

⁷ FCO 46/4818 IMS_1985_66

⁸ *The Shadow World*, *op cit*.

⁹ <https://www.epsjournal.org.uk/index.php/EPSJ/article/viewFile/65/59>

¹⁰ <https://www.epsjournal.org.uk/index.php/EPSJ/article/viewFile/65/59>

evidence that this practice continued when the company was renamed and came under the control of the MoD.¹¹

15. In 1991, after falling revenues and a dramatic reduction in staff, IMS ceased operations. IMS was unable to be wound-up due to “warranty commitments on outstanding contracts”, as well as its on-going court case with Iran.¹² [See below]. After a decision was taken at the Hague in 2009 in favour of the Iranian Ministry of Defence (MODSAF), IMS officially became dormant in 2010. IMS has stated its intention to liquidate once all outstanding issues in relation to the debt dispute are resolved.

IMS and Iran:

16. IMS in its 25 years of operations worked in over a hundred countries, across the Middle East, Africa, Asia and Latin America. At one stage IMS was working in over forty countries. By far the company’s biggest customer was Iran, at least up until the revolution.
17. In addition, the ROF - the collective name for the UK state owned weapons production sector, which was privatised in 1987 and later bought by British Aerospace (now BAE Systems) – was very active before the downfall of the Shah in Iran, which accounted for well over half of the ROF’s business.¹³ The Factories sold goods to the DSO Sales Supply Office, which then sold them on to IMS, which completed the sales abroad. When the Shah was deposed, IMS was given control of the ROF’s non-NATO sales contracts.
18. Between 1971 and 1976, Shah Mohammad Reza Pahlavi signed approximately 60 agreements with IMS to supply the Iranian Military Organisation with defence equipment and services. One of these agreements was for 1,500 Chieftain tanks and 250 armoured recovery vehicles, with supporting spares and ammunition. The contracts also included providing technical training to the Iranians in training schools in the UK, as well as substantial support on the ground in Iran. Iran pre-funded the project at £281m covering production and development costs. This sum was held in a UK bank account under IMS control, with the interest accrued for the benefit of the project.^{14 15}
19. Between 1978-79 a massive popular upheaval, spearheaded by Iran’s religious leaders, overthrew the country’s despotic monarchy. In March 1979, the last Britons left working for IMS were withdrawn from Iran, but the company continued to retain an office in-country staffed by Iranian nationals which remained open until February 1989. In the course of the revolution two UK citizens who had been working for IMS were detained for misappropriating national funds, but they were later released. Relations between the two countries had deteriorated to the extent that the British

¹¹ ‘The Bribe Machine’, Campbell, D. *The New Statesman*, 17 October 1980.

¹² IMS 1995 accounts

¹³ The Guardian 31/07/1980

¹⁴ Defe 24/2657_1979-1982_1

¹⁵ Craftsmen and the army: The story of the royal electric and mechanical engineers Vol II 1969-1992

diplomatic presence in Tehran was confined to a small interest section in the Royal Swedish Embassy. The regime change, however, did not dampen IMS efforts in both trying to salvage contracts with Iran as well as attempts to drum-up new business.^{16 17 18 19}

20. After the revolution £1700m worth of contracts were either terminated or went into suspension. The resolution of the contracts was further complicated by the onset of the Iran/Iraq war in 1981, in which official UK policy was to remain neutral between the two countries.
21. Correspondence between the FCO, the MoD and IMS refer explicitly to the contracts time-and-again to be between Iran and “IMS/MoD”, despite the UK government’s recent claims that the contracts are private and subject to the normal rules surrounding commercial disputes. Some of these contracts were resolved fairly quickly by financial solutions, while others were resolved by the release of “non-lethal” spares.²⁰
22. IMS’s Iran office was open throughout the war between Iran and Iraq. It was noted that if there weren’t any “political constraints,” orders for military equipment from Iran could total £3bn-£4bn.²¹
23. IMS in its dealings with Iran was largely concerned with keeping “the balance of their Iranian and Arab clients”. It was on primarily on these grounds, along with secondary political concerns that the UK refused permission to export 300 Main Battle Tank engines to Iran in July 1983. It didn’t want defence sales to suffer to other Arab countries, in particular Saudi Arabia. Nevertheless, it was affirmed that “British exporters should take every opportunity of exporting to the Iranian market” Items such as lorries, land rovers, boots and uniforms were considered acceptable.²²
24. In 1984 more strident guidelines were introduced. Stephen Egerton at the FCO wrote that they “may well provoke howls of anguish from British manufacturers supported by MoD sales”. Egerton also advised that the UK government resist calls from the US to publicly define what was meant by “lethal” and “non-lethal equipment.”²³ The supply of the Chieftain and Scorpion tank spares under the pre-existing contracts was an issue of contention.²⁴ After attempting to put the Iranians off it was agreed that further equipment could be released in 1986.²⁵ The Guardian reported that the deal was brokered through a series of middle-men, including two UK-based arms dealers to avoid direct contact between IMS and the Iranians.^{26 27}

¹⁶ Birmingham Daily Post, 28/02/1979

¹⁷ The Guardian, 05/03/1979

¹⁸ FCO8/5168, letter 14th March 1983

¹⁹ FCO 46/4818 IMS_1985_10

²⁰ FCO 46/4818 IMS_1985_1 Page 110

²¹ FCO8_5910 Iran Iraq 1985: 24/04/1985

²² IMS 1983 (Citrix)

²³ FCO85598 page 110

²⁴ Guardian, 21/12/2015 (British Library access)

²⁵ IMS 1986 (Citrix)

²⁶ British library access

²⁷ IMS 1986 (Citrix)

25. IMS was also involved in a number of highly controversial deals with Iraq during the Iran-Iraq war, as revealed at the Scott Enquiry and elsewhere. A senior defence ministry military advisor, Richard Glazebrook, testified how he wrote a memo after finding out about an illegal 1985 IMS deal with Iraq in which Jordan was deceitfully named as the destination, "Is this another case of IMS smuggling NBC equipment to Iraq in contradiction of HMG's guidelines?" The Scott Enquiry Report details a number of additional IMS contracts with controversial defence companies who would conceal the destination of equipment using false End-User Certificates. However, IMS's name seldom appeared on the paperwork. In its place would be Midland Bank's defence finance department, MITS. Sir John Cuckney, a former CEO of IMS who had by then moved on to become a director at Midland, made clear to the companies that IMS would be in charge of the sales and transfers, as well as setting up the 'necessary arrangements.'²⁸ Crucially, many aspects of such illegal arms dealing were withheld from Parliament, which the Scott Enquiry described as "reprehensible".²⁹

Negotiations & Court Proceedings:

26. At the time of the Iranian revolution, 74 contracts between IMS and Iran were interrupted. In 1981, the Iranians approached the UK with the view to beginning negotiations to unravel the contractual complications, but they didn't really get underway until May 1982.³⁰ Some of the contracts were resolved fairly quickly by financial solutions, while others were resolved by the release of non-lethal spares and services which had been agreed under the pre-revolution contracts. It was known early on that the Chieftain tank contract would be the most difficult to resolve. In 1985 an internal FCO memo said: "The most difficult of the outstanding issues will be reaching a financial settlement on P4030, a cancelled contract for main battle tanks, on which the difference between the Iranian and IMS/MoD views on settlement could be as much as £250 million." Later a note to then FCO minister Richard Luce, said: "Progress needs to be seen to be maintained towards a settlement of these complex issues if the Iranians are not to resort to litigation which would expose HMG to substantial financial risk."³¹

27. As behoves a state-owned company, the IMS, MoD and the FCO's financial team were in close contact over negotiations tactics, while IMS, the MoD and the FCO's legal team consulted over the legal aspects.³²

28. The negotiations were fraught. Strangely, in 1986 an internal memo noted that UK government officials were pleased that negotiations on the 4030 [tanks] contracts were being "spun out".³³ Unsurprisingly, therefore, negotiations made little progress over the following decade with, the UK side regularly changing its position on

²⁸ On Allivane: <https://www.independent.co.uk/news/uk/how-the-uk-fed-a-war-machine-a-european-network-of-firms-secretly-supplied-ammunition-to-both-sides-1543464.html>

²⁹ https://link.springer.com/chapter/10.1057/9780230597846_8

³⁰ 5598

³¹ IBID

³² FCO8_5910 Iran and Iraq 1985

³³ 28 August 1986 IMS doc, from AS Collins, to Egerton

whether IMS was state-owned or private, and politicians prevaricating on decisions that might have resolved the issue.

29. Both MODSAF (in 1986) and IMS (in 1990) commenced International Chamber of Commerce (ICC) arbitration proceedings. In May 2001 the ICC tribunal rendered final awards in both arbitrations, finding that IMS was liable to pay MODSAF in respect of termination of the contracts, interest and costs for MODSAF's claim, and for the same reasons also ordered IMS to pay \$3,127,701 in respect of MODSAF's costs.
30. On 30 July 2001, MODSAF applied to the UK courts in terms of section 101 of the Arbitration Act 1996 ("the Act") to enforce the Awards. The judge granted leave to enforce, but subject to the usual provision that the Awards were not to be enforced until after any application to set aside the orders was finally disposed of.
31. In August 2001, IMS issued applications to set aside or, alternatively, to adjourn MODSAF's enforcement proceedings, in particular in view of an IMS challenge to the awards before the Dutch courts. In December 2002, MODSAF's enforcement proceedings were adjourned pending the final resolution of IMS's challenge in the Netherlands. The adjournment was conditional on IMS paying £382,500,000 into court as security for any money that it might ultimately have to pay MODSAF. On 18 December 2002 IMS provided the required security. That amount has now increased, by the accrual of interest, to just over £500,000,000.
32. In December 2006, the Court of Appeal in The Hague partially set aside the one award by reducing IMS's liability to MODSAF to £127,651,823. In all other respects the awards were upheld. In April 2009, the Supreme Court of Netherlands dismissed an appeal by Iran of the Court of Appeal's decision.
33. Sanctions were imposed on MODSAF in June 2008 when it was added to the list of entities subject to sanctions imposed against Iran by the EU. As a result, the UK and Iran believe that the money due under the awards cannot presently be paid to MODSAF. Nevertheless, MODSAF was of the view, and still is, that there is nothing to stop the English court ruling on the enforcement of the awards. To this end, in September 2012, MODSAF sought the dismissal of IMS's applications to set aside judgment.
34. The 2012 Application has taken an unusually convoluted procedural course. It was initially listed to be heard in January 2013 but was adjourned five times. Meanwhile, in January 2016, the Central Bank of Iran ("the CBI") was removed from the list of sanctioned entities. MODSAF, thus, applied for a further adjournment in order to make an application to HM Treasury for a licence that MODSAF says, will facilitate payment of the money due to it. In December 2016, a judge ordered that the hearing of the 2012 Application be re-listed for hearing in October 2017 and directed that MODSAF pursue the Licence Application with all due diligence. A hearing was scheduled to be heard in May 2016, but it is unknown whether it went ahead. Another hearing on the debt was scheduled for October 2017. It was again

postponed three further times as a decision on MODSAF's licence application hadn't yet been made.

35. The issue of interest was dealt with at a hearing in May 2019, when it was held that MODSAF cannot enforce the interest component of the award in respect of the period during which it was subject to sanctions imposed by the EU. MODSAF was refused permission to appeal the May judgment at a hearing in October 2019, but was subsequently granted permission to appeal on the papers. In February 2020, the Court of Appeal upheld the judgment of the Commercial Court and dismissed the appeal. However, it is expected that the Ministry will appeal this decision. The primary issue of whether the awards are enforceable in England remains to be resolved.
36. The monies involved are vast: Iran paid IMS £300m in advance of delivery for tanks and ARVS between 1974 and 1979. Following a court approved adjustment, as of 2019, the IMS position is that the total amount due to MODSAF, including interest and costs is £385m. In December 2002, IMS paid £383,500,000 to be held by the court, in relation to the debt. This was noted in the company's accounts, stating that "future costs" and "any increase in the settlement" will be met by the Secretary of State for Defence. We assume that as IMS's sole shareholder, the MoD must have provided the money deposited with the court, possibly channelling it through IMS. According to the 1984 Royal Ordnance and Military Services Act, the Defence Secretary was required to bring a statutory instrument before Parliament in order to authorise a payment of this magnitude. There is no evidence that it has brought this statutory instrument before Parliament to date, thus making the payment illegal per the terms of the 1984 Act. Similarly, a £5 million dividend paid out by IMS to the MoD in 2010, the first in over twenty years, per the terms of the 1984 Act should then have been paid into the Consolidated Fund. The Government when questioned in PQs failed to confirm that this was the case, stating previously that "any sources of income received by the MoD are used to fund Defence activity."^{34 35}

Financial, Political & Human Consequences for UK Citizens of Arms Dealing with Iran

37. There have been multiple deleterious consequences of the UK's opaque, secretive arms dealing with the Middle East as a whole. Arguably it has made the region less stable, costing the lives of untold innocent civilians. It has undoubtedly cost the British taxpayer far more than the economic benefits accruing to the UK economy, and it has, on occasion, resulted in contradictory foreign and military policies that have undermined the credibility of the UK as a force for good in the region.³⁶ In the case of arms dealing with Iran specifically the costs to British citizens and taxpayers can be tabulated as follows:

Financial Costs to the Taxpayer:

³⁴ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2020-01-27/8402/>

³⁵ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-03-02/66363>

³⁶ See Feinstein, *op cit.* and Holden, P. *et al. Indefensible: Seven Myths that Undermine the Global Arms Trade*, Zed Books, 2017.

38. Ultimately the British tax-payer has had to and will continue to foot the bill for the extreme prevarication by IMS, British public servants and politicians who have all failed, in almost four decades, to resolve the issue of the monies owed to Iran, as determined by the international arbitration process, for IMS's ill-conceived and -executed arms deal.
39. Our current estimate suggests that in excess of £1 billion in today's values has consequently been spent by British taxpayers. [A detailed breakdown of this calculation can be made available on request]. This excludes the cost of the time of numerous government officials and elected representatives. Many auditors, and Parliament's Public Accounts Committee, might opine that this is wasteful, fruitless and unnecessary expenditure.

Damage to the UK's reputation in International Affairs:

40. This drawn-out saga, characterised by a failure of political decision-making on the part of senior politicians and civil servants, signalling an intention to pay and then backing away from it, confusion between branches of the government – including the FCO and MoD – and between the government and its wholly-owned company, IMS, has contributed to a perception that the UK continues to operate in contradictory, sometimes inexplicable, ways and has limited regard for the rule of law on international disputes.
41. It raises questions about the UK's commitment to the international rule of law, the honouring of international dispute resolution mechanisms, and the honouring of its agreed debts.
42. It also suggests that the UK has little interest in resolving international disputes in a manner that would be to the benefit of global health by, for instance, taking up the proposal from both civil society and Iran that the debt be paid in urgently required medical supplies, at a time of a global health pandemic. Such a humanitarian solution to the issue would both address the matter of sanctions against Iran and promote the UK's reputation as a force for good in the world.
43. And, finally, it raises the concern that the UK has little commitment to an appropriately regulated, integrous, responsible and effective arms export regime, either domestically or internationally. Since the days of IMS's opaque, corrupt and often hypocritical arms dealing, the UK's largest arms companies have had to spend hundreds of millions of pounds settling investigations into arms deals allegedly involving billions of pounds of bribes across numerous countries.³⁷ Investigations into corrupt UK arms deals continue currently in the UK and many other parts of the world, sullyng Britain's reputation.

Undermining accountability and British Democracy:

³⁷ See Feinstein, *op cit* and Holden, *op cit*.

44. The opaqueness and obfuscation that accompanies IMS's activities, and that is still a part of the British arms trade, goes significantly beyond the legitimate requirements of national security and commercial confidentiality. It has, and possibly continues to conceal government failures and possibly, even criminal, conduct such as bribery, corruption, fraud, racketeering and money laundering.
45. The significant wasteful expenditure as a consequence of the drawn-out and confused approach to resolving the Iranian debt has been effectively hidden from Parliament. It is astonishing that the Defence Secretary did not bring a statutory instrument before Parliament as required by the 1984 Royal Ordnance and Military Services Act in order to authorise the payment of over £380 million made to or on behalf of IMS, and that the payment remains classified as a prepayment in the MoD's accounts, despite the court award happening over 10 years ago!
46. The accounts and activities of state-owned entities such as IMS, which are never presented to Parliament or scrutinised in any meaningful way, could lead to inaccuracies in the accounts of major Departments of state including the MoD; actions that contradict stated government policy; and even the witting or unwitting complicity of senior civil servants and politicians in illegal activity.
47. The experience of a number of MPs who have, over the years, placed PQs on the matter, and our own experience as civil society researchers and journalists making FOI requests, confirms that Parliament, and the general public, is provided with no meaningful information on companies such as IMS. Such secrecy in crucial parts of the state is corrosive an accountable democracy, especially in relation to the arms trade and national security which is intended to protect UK citizens. But it is why the UK's approach in failing to protect British citizens unfairly imprisoned by Iran is on the surface so hard to understand.

Endangering the Safety and Wellbeing of British citizens:

48. The final and most serious consequence of Britain's secretive and unaccountable arms trading, as reflected in the case of IMS and Iran, is that it has, and continues to, make British citizens less rather than more safe.
49. Confusion in foreign and defence policy has historically led to unintended consequences, what academics sometimes refer to as Blowback.³⁸ The best known historical example being Western support for the *Mujahideen* in Afghanistan, who were subsequently significant players in the creation of *Al Qaeda*. More recently, the fluctuating loyalties of groups in Syria has caused significant national security difficulties, including the possession of Western-supplied weapons by groups with whom we are in conflict.
50. Most concerningly, these haphazard and unaccountable activities seriously endanger the lives of innocent British citizens. Nazanin Zaghari-Ratcliffe is the best known, but

³⁸ See, for instance, Johnson, C. *Blowback*, Sphere, 2002.

by no means the only, British citizen to lose their liberty in Iran and potentially more, as a consequence. As has been made clear to Ms. Zaghari-Ratcliffe herself by senior judicial officials in Iran and as has been acknowledged by senior politicians in the UK, she was kidnapped and is being held hostage by the Iranian authorities in an attempt to compel the UK to repay its IMS/MoD arms deal debt.

51. While Iran's behaviour is unconscionable and indefensible, the UK government should never have acted in a manner that places its own citizens in such danger. State-owned companies, that are largely unaccountable and above scrutiny, have no place in a functioning democracy. Arms deals characterised by opaque intermediation, the frequent use of bribery and corruption, and undertaken with little or no meaningful oversight or accountability, have no place in a country committed to the rule of law and the safety and security of its citizens.
52. The disorganised, confused and sometimes incomprehensible efforts by the UK government to resolve the outstanding Iranian debt for almost four decades, has only been matched by its prevarication, hesitancy and confusion in trying to resolve Ms. Zaghari-Ratcliffe's tragic situation. These inter-related issues have displayed the very worst of the UK government, and the FCO and MoD in particular. The current Defence Secretary, in 2014, described 'the relationship between International Military Services Ltd and the Ministry of Defence, and a specific case as it relates to Iran' as 'a sorry passage in our history and the UK's relationship with that country. It is not only a sorry story, but un-British in that the process that I will describe has been marred by double dealing and obfuscation.'³⁹ These issues must be resolved with utmost haste and in a spirit of accountability, openness and decency.

How To Improve Iran-UK relations and Britain's Role in the Region:

Greater scrutiny and oversight of British arms trading:

53. The UK government should cease the use of unaccountable, secretive companies and intermediaries to sell arms internationally, along the lines proposed in Article 11 (Procurement in the Defence Sector) of the Oslo Statement on Corruption Involving Vast Quantities of Assets, adopted at the UN Convention Against Corruption Expert Panel meeting on Corruption Involving Vast Quantities of Assets.
54. Parliament's Public Accounts Committee, with the participation of the FAC and Defence Committee, should, as soon as is practically possible, review any and all FCO and MoD accounts pertaining to IMS to ensure that these accounts are accurate and acceptable. The Committee should further call relevant Ministers and senior civil servants to appear before it to elucidate a strategy for the rapid resolution of the outstanding debt to Iran, including the provision of a full and accurate costing of the process to date and future cost estimates up to and including resolution.

³⁹ Speech by Ben Wallace MP in Westminster Hall at 4:55 pm on [11th March 2014](#)

55. The current Parliamentary Committees on Arms Export Controls (CAEC) is ineffective, has no statutory powers, no statutory authority and is almost always ignored by the government. A full Standing Committee of Parliament should be established to properly scrutinise arms export licences before they are granted to avoid unwise, dangerous and/or illegal exports. It should have the power to decide whether national security secrecy is warranted in relation to every aspect of arms contracts, or should be waived on any element of a transaction that might contradict government policy, domestic and/or international laws and bilateral, multilateral and/or international agreements to which the UK is signatory. It should also have the power to assess the actual consequences of concluded arms deals and should be briefed on disputes in arms contracts and their resolution.

Speedier, More decisive and Cost-effective Resolution of Arms Trade Disputes:

56. The abject experience of the attempted resolution of the debt owed on the IMS arms deal with Iran must never be repeated. Ministers must account to Parliament openly and transparently on any such arms transaction disputes, provide regular updates on efforts to resolve such disputes and the cost and security implications of these efforts.

Protection of British citizens to Mitigate the Risks of the Arms Trade:

57. Every arms export licence application should contain information on the potential security risks to British citizens in the event of the export taking place. Where there is meaningful risk, government should develop mitigating measures to protect British citizens. These risks and the mitigating measures should be made public in Parliament and more widely.

58. Arms deal disputes, especially involving febrile states and regions, should be brought to the attention of Parliament and the wider British public by the FCO and other relevant Departments. Security warnings and advice should be made available to British citizens, especially those travelling in these regions. Where such travel is essential, protection should be made available.

59. The most important step the FCO and government can take is to ensure that the UK arms trade, notwithstanding legitimate national security and commercial confidentiality constraints, operates in a more transparent and accountable manner, as befits our democracy.

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