

ECONOMISTS ALLIED FOR ARMS REDUCTION—SOUTH AFRICA

(ECAAR-SA)

Submission on the ARMS DEAL to the

STANDING COMMITTEE ON PUBLIC ACCOUNTS (SCOPA)

PARLIAMENT, CAPE TOWN

19 November 2008

1. CONCLUSION:

European governments, the British government in particular, exerted enormous pressure upon the South African government to buy warships and warplanes that were both too expensive and unsuited to South African requirements. An economically discredited system of offsets recklessly promoted the arms deal as a unique opportunity -- a "Marshall Plan" -- to stimulate South Africa's economic development. Expenditure of R30 billion on armaments would magically generate R110 billion in foreign investments and exports to create over 65 000 jobs.

The British government seconded British officials to the Department of Trade and Industry to assist with the success of the offset programme. Yet even parliamentarians were denied details of the offset contracts on the spurious excuse that the contracts were "commercially confidential." In short, our government was "conned" and "played for suckers!"

Offsets are internationally notorious for corruption. They are prohibited for civil transactions under the rules of the World Trade Organisation, precisely because they distort market forces and cannot be adequately monitored. They are a scam promoted by the armaments industry in collaboration with corrupt officials to fleece taxpayers in both supplier and recipient countries. They serve also to encourage proliferation of armaments and wars in politically unstable countries and future conflict zones.

Offsets are believed to be incompatible with section 217 (1) of the Constitution, which requires government procurements to be conducted "in accordance with a system which is fair, equitable, transparent, competitive and cost-effective." In summary, offsets violate both international best practice and the Constitution.

A study by Transparency International UK entitled "Corruption In The Official Arms Trade" (annexure A) notes that the arms trade is disproportionately involved in corrupt transactions and, specifically that:

Offsets...provide additional inducements to governments to prefer a particular bidder for reasons other than competitiveness over price and quality. Importing governments can use the

offset package to justify awarding contracts to companies paying the largest bribes. Complicated offset packages can also conceal commissions as payments are channeled through local firms, which can be chosen for their political connections.¹

Recommendation 14 of the Transparency International study calls for offsets to be outlawed in defence procurement. Accordingly, this submission recommends that the use of offsets -- as a pivotal element in both the arms deal and the government's wider economic policies -- is referred to the Constitutional Court for a decision whether offsets are unconstitutional.

The Cabinet was warned by its own consultants in the August 1999 "affordability study" that offsets could not be guaranteed. The study detailed numerous risks (including foreign exchange risks), and noted that the arms deal was a highly risky proposition that could lead the government into mounting fiscal, financial and economic difficulties. These warnings were inexplicably ignored. The only logical explanation is that the arms deal was "driven" by the bribes, and that the Cabinet ministers involved deliberately, and unlawfully, closed their eyes to the laundering of these bribes. Alternatively or at best, our government was both inexperienced and incredibly naïve.

The Anglican Church was represented at the Defence Review by Terry Crawford-Browne of Economists Allied For Arms Reduction—South Africa following designation to the task by Archbishop Njongonkulu Ndungane.

When allegations surfaced in 1998 and 1999 of BAE bribes to South African politicians, both the South African and British governments refused to take seriously or heed the concerns of civil society leaders. During the course of the Review, Mr Crawford-Browne was informed by NUMSA shop stewards that bribes of R30 million were being channeled through two Swedish trade unions and SANCO to encourage ANC members of Parliament to support the arms deal. Swedish sources confirmed the payments. Through Campaign Against Arms Trade in London, the British government was requested to investigate. The London Metropolitan Police was appointed to the task by the then Secretary for Trade and Industry. The eventual response from England was that it was [then] not illegal under British law to bribe foreigners, and consequently there was no crime to investigate.

Archbishop Ndungane on 23 August 1999 called for an independent judicial investigation. Subsequent correspondence with British government officials between October 1999 and January 2000 (including Minister Peter Hain) informed them that serious evidence of corruption relating to BAE had been forwarded to the Heath Unit for investigation. Our government was kept informed of these actions, and was also advised that finalization of the arms deal loan agreements pending these investigations would be fraudulent. Regrettably, both the British and South African governments ignored these representations.

A subsequent Secretary for Trade and Industry finally admitted in 2003 that BAE had paid commissions (for which read bribes) to secure its contracts with South Africa but, she pleaded, they were "within reasonable limits." British investigators estimate those BAE bribes at £112 million (R1.9 billion), of which more than £75 million (R1.275 billion) was transferred to South African middlemen and beneficiaries through a network of BAE front companies in the British Virgin Islands.¹¹

The use by BAE of bribery to secure armaments contracts is now under investigation in many countries, including the United States, Britain, Sweden, Switzerland, Austria, Czech Republic and Tanzania. The Organisation of Economic Cooperation and Development (OECD), which holds oversight authority over international corruption agreements, in October 2008 reprimanded the British government for its failure to take seriously its international commitments to deal with corruption by British companies and nationals.ⁱⁱⁱ

As confirmed by the article "BAE: No Way Out" CAAT News October-November 2008 (annexure B), international exposure of BAE malpractices is gaining momentum. The British Serious Fraud Office confirmed in August 2008 that its investigations into the bribes BAE paid to secure the South African contracts are still under investigation. That international opinion regarding the arms trade has changed dramatically over the past ten years is confirmed by the decisive vote in the United Nations General Assembly on October 31, 2008.

The proposed Arms Trade Treaty was supported by 147 countries, with only the United States and Zimbabwe voting against the text.^{iv} It is vigorously supported by the Nobel Peace laureates, including Archbishop-Emeritus Desmond Tutu. The United Nations Security Council is currently considering how better to implement the long-neglected article 26 of the UN Charter on regulation of the arms trade.

Further refusal of the South African government to heed these developments will severely undermine our country's standing within both the domestic and international investment community. The British government has been revealed as complicit over many years in laundering bribes through the American banking system, hence the recent involvement of the FBI in detaining BAE executives for questioning as they transited American airports. So pervasive are the malpractices and political influences of BAE that it is no exaggeration to describe the company as meeting the definitions of "organized crime."

Of the 24 BAE Hawk and 28 BAE Saab Gripen fighter aircraft that account for more than half of the arms deal costs, only 11 Hawks and 4 Gripens have so far been delivered.^v South Africa lacks the pilots to fly these aircraft, the mechanics to maintain them and even the money to fuel them. Given the present international financial crisis, these contracts should be cancelled. A current example that such cancellations are not unusual in the arms trade, let alone precipitate negative repercussions, is the cancellation by Malaysia of a US\$477 million order for Eurocopters.^{vi} The announcement of cancellation could be appropriately structured to limit embarrassment to our government. Indeed, the financial costs of cancellation would fall to British rather than South African taxpayers in terms of underwriting arrangements with the British Export Credit Guarantee Department.^{vii}

The Institute for Democratic Society in South Africa (Idasa) has described the arms deal as "the litmus test of South Africa's commitment to democracy and good governance." The nexus between corruption and both organized and violent crime with social and economic collapse leading to political collapse is increasingly well established. The consequences and fall-out of the arms deal throughout the country – and including the ANC -- that both former President Thabo Mbeki and former Deputy President Jacob Zuma were dismissed from their respective positions.

Accordingly, this submission also supports calls for an independent and thorough judicial investigation into the arms deal in the belief that remedial measures can and must be taken, including referral to the Constitutional Court on the malpractice of offsets. Continued failure to deal meaningfully with the arms deal scandal will seriously jeopardise our country's hard-won transition to a still-fragile democracy.

2. DEFENCE REVIEW:

Contrary to repeated pronouncements by the executive, there is no parliamentary approval for the arms deal. This is confirmed on pages 35 and 36 of the Defence Review stipulating that approval of the core force was at best a vision and approval-in-principle, and subject to future funding approvals by Parliament.^{viii} Nor did civil society representatives give approval to the arms deal. By mid 1998 the Defence Review process had degenerated into a farce. Civil society representatives specifically refused to be coopted into the process. A resolution was passed withdrawing civil society participation, and the Deputy Minister of Defence was so informed. Mr Crawford-Browne was mandated by his colleagues to receive the report Defence In A Democracy. He was therefore the only civil society representative at the final function held in the Old Assembly dining room, which other civil society representatives deliberately boycotted.

Given the socio-economic realities facing South Africa, parliamentarians in 1998 balked even at approving expenditure of R5.010 billion^{ix} on the recommended option 1 of the core force. Despite such parliamentary concerns, the Cabinet in November 1998 announced its preferred core force and equipment at an estimated cost of R29.8 billion.^x The current Minister of Defence, Mr Charles Nqakula announced on October 22, 2008 that the final cost of the arms deal will be R47.5 billion.^{xi} Yet even this figure is very substantially understated as the finance costs and foreign exchange risks for the foreign currency loans for the arms deal are not carried by the Defence Department, but by the Finance Department.

In his last budget address to Parliament, the then Minister of Defence, the late Joe Modise declared:

Reequipping the Defence Force...will benefit our economy by an estimated R110 billion of new investment and industrial participation programmes, and creation of approximately 65 000 jobs. As to concerns that such transactions are open to improper influences, I want to assure you that the bids have gone through a fine-tooth comb to ensure an ethical outcome. It is clear that this acquisition project will enormously benefit South African industry as a whole.^{xii}

Chapter four of the Joint Investigation Team report (JIT report) into the arms deal confirms that the President was advised as early as July 1997 by both the Department of Defence and the SANDF why the BAE proposals were unacceptable.^{xiii} BAE and the British government stepped up the pressure after Tony Blair and the British Labour Party came into office in May 1997.

Minister Modise in April 1998 suggested a "visionary approach" towards BAE in anticipation that South Africa's defence industry (in other words Denel) would benefit as part of a global defence market.^{xiv}

When BAE again failed the tendering criteria, non-costed options were introduced to favour BAE. The JIT Report confirms that the cabinet ministers introduced this bizarre notion^{xv} into the arms deal, and it is public knowledge that the former Secretary for Defence resigned rather than take accounting responsibility for this tendering irregularity.

Even BAE's preferential relationship with Denel has dismally failed to make this organization financially viable. The former chief executive officer, Dr Victor Moche told the parliamentary Committee on Public Enterprises in November 2004 that Armscor had foisted the offset contracts onto Denel which, in turn, was losing money on 80 percent of them. Dr Moche's candour cost him his job. Within three months he was dismissed by the Minister of Public Enterprises, Alec Erwin. Denel reported yet another loss of R660 million on October 22, 2008 because it failed to meet contract obligations in terms of the arms deal.^{xvi}

Denel is the successor organization of an apartheid era armaments industry that never was, and never will be, economically viable. The late Oliver Tambo declared even during the 1980s that the armaments industry is a "Frankenstein monster that cannot be reformed and must be destroyed." Denel provides sheltered and protected employment for highly educated white employees who ironically are the last people in South Africa to need such assistance. Billions of rand have been squandered on the rooivalk helicopter project.^{xvii}

The Anglican Church during the 1994/1995 Cameron Commission of Inquiry into Armscor had noted that South Africa's apartheid-era armaments industry is very heavily subsidized, and thus diverted public funding from socio-economic priorities. It recommended then that both Armscor and Denel should be disbanded, and that their assets converted to peaceful purposes. Unfortunately these recommendations were also ignored and, with no prospect of recovery, tens of billions of public moneys have since been poured down a Denel drain.

3. SCOPA's 14th and 15th REPORTS:

These were prompted by the report by the Auditor General in September 2000 that five aspects of the arms deal were of particular concern to him, including especially that BAE had been unduly favoured and that the offsets could not be guaranteed.

Chapter four of the Joint Investigation Team report tabled in Parliament in November 2001 confirms that the South African Air Force as early as July 1997 had advised the President why BAE's proposals were unacceptable. Pressure from the British government on behalf of BAE subsequently increased. When BAE's proposals repeatedly failed the tendering criteria, the former Minister of Defence with support of his cabinet colleagues, arbitrarily removed the critical aspect of cost from the tendering consideration. The rationale of "non-costed options" was then applied to justify his action.

In addition, and as was required by the British government's erstwhile Defence Export Services Organisation, even members of Scopa were prevented from investigating the offset contracts under the fallacious excuse of "commercial confidentiality." Media investigations in Britain and Sweden have

concluded that the offsets projects, listed by the Department of Trade and Industry in periodic and glossy reports to Parliament, are by-and-large either non-existent or have proved dismal failures.

4. AFFORDABILITY STUDY:

The affordability study provided to Cabinet ministers in August 1999 has until now never been made available to Parliament or to the South African public. This is a serious contradiction of constitutional commitments of ministerial accountability. This is especially given the public justification that huge economic benefits would accrue from offset contracts. The Executive branch of government has taken extreme measures to prevent publication of this study, which became available to the Sunday Times newspaper in July 2008. Accordingly, a copy of the affordability study (annexure C) is now made available for investigation by Scopa and a prospective judicial commission of inquiry.

The JIT Report notes:

The general results of the affordability report also highlight the negative effect of unproductive expenditure on military equipment on the economy in general and its impact on government finance in particular.^{xviii}

The final affordability assessment was submitted to the Ministers' Committee in August 1999. It was a voluminous document that dealt comprehensively with all the relevant issues.^{xix}

The Affordability Team and IONT took adequate measures under the circumstances to present to the Government a scientifically based and realistic view on these matters. The Ministers' Committee was put in a proper position by the Affordability Team to apply their minds in essence as to the financial aspects of the procurement. Ultimately, the decision as to what the country can and cannot afford is one of political choice.^{xx}

Parliamentarians and the citizenry of South Africa are entitled to accountability from the Executive, and to demand explanations from the surviving members of the Ministers' Committee why they so recklessly ignored the concerns expressed by the affordability study. The Ministers' Committee comprised then Deputy President Thabo Mbeki, and Ministers Alec Erwin and Trevor Manuel, and the late Ministers Stella Sigcau and Joe Modise.

The conclusions and recommendations of the affordability study are contained on page x of its executive summary, and on pages 56 and 57 of the full study. Additional appendices are available for Scopa's examination, most notably the appendix H dealing with the offset proposals for the German submarine contracts, which are also the subject of chapter six of the JIT Report. As the JIT Report notes, the affordability study was a voluminous document. It ran to several thousand pages.

The JIT Report also confirms^{xxi} that the offset proposals from the German Submarine Consortium (GSC) were hugely inflated; that in return for expenditure of R5.212 billion for three submarines, South Africa would gain offsets worth R30,274 billion to create 16 251 jobs. The most economically-illiterate person

would surely "smell a rat." The offsets were, and proved, just too good to be true. They are akin to a pyramid scheme. Nowhere does anyone spend R5, and get back R30 in change!

Like the BAE proposals for the warplane contracts, the GSC proposals had dismally failed the tendering criteria in terms of military capacity. Again, the GSC was awarded the contracts solely because of the offset promises. The flagship offset proposal for the whole arms deal was to have been a stainless steel plant constructed at Coega by Ferrostaal for export markets in Germany.

The consultants Warburg Dillon Read, as part of the affordability study, warned the Cabinet that South Africa already had massive over-capacity in steel production, and that the last thing the country needed was yet another steel plant. That warning was also ignored but, predictably, within months Ferrostaal cancelled the stainless steel plant commitment as economically not viable. Like BAE, Ferrostaal is internationally notorious for its use of bribes to secure foreign contracts.

Ferrostaal's stainless steel plant was replaced by a condom factory which, in turn, closed within weeks of opening. Ferrostaal also bought an apartheid-era but bankrupt tea estate in Transkei, ostensibly to save 2 500 seasonal jobs. There is however, an international market for the transferability of offset credits. Accordingly, these credits have since been transferred from Ferrostaal to a French aluminium company, Pechiney and in turn from Pechiney to Alcan and most recently to Rio Tinto.

This is the background to the hugely controversial proposal for the Rio Tinto aluminium smelter at Coega to replace the Ferrostaal stainless steel plant. In turn, this smelter hinges on heavily subsidized electricity at a time when Eskom cannot meet South Africa's other electricity requirements.

The purchase of the three German submarines is subject to numerous other criticisms, but the offsets saga illustrates why the use of offsets is so discredited internationally. Even for military procurements, offsets are discredited because, typically, the wrong equipment is bought at inflated prices simply because of promises of offsets. Offset promises rarely materialize, but it is also totally irrational – indeed bizarre -- to buy armaments against expectations of economic stimulation.

The financing arrangements by Commerzbank for the frigates extend until the year 2012 and the submarines are being financed until 2016. These agreements were underwritten and guaranteed by the German Bundestag in June 1999, even before the supply agreements were signed. This again highlights the complicity of European governments in violating the EU Code of Conduct on Arms Exports, and in proliferation of armaments in "third world" countries.

5. SUPPLY AGREEMENTS WITH THE GERMAN FRIGATE CONSORTIUM AND BAE:

The supply agreements entered into between Armscor and the German Frigate Consortium (GFC) (annexure D) and between Armscor and BAE (annexure E) are submitted for Scopa's investigation. They were signed on 3 December 1999 by MCP Lekota, as Minister of Defence. As Scopa's hearings in October 2000 revealed, the terms of both agreements – most especially in respect of the offset commitments -- are so vague that they are legally unenforceable.

The letter to Dr Gavin Woods dated 19 January 2001, written by President Thabo Mbeki but signed by Deputy President Jacob Zuma, deliberately derailed the Scopa investigation into the arms deal. With massive support from governments in Britain, Germany, Sweden, France and Italy, unscrupulous European armaments companies deliberately and fraudulently duped our government into the ludicrous proposition that buying armaments would stimulate South Africa's economic development.

Blohm + Voss, Thyssen Rheinstahl, Thomson CSF and the predecessor companies to BAE had flagrantly supported the apartheid government in its defiance of the international community, and in blatant violation of the United Nations arms embargo. It is therefore unconscionable that the first major procurement decision of the post-apartheid government was with companies that had been ultimately responsible for indescribable miseries inflicted upon the people of South Africa and neighbouring countries. Adding insult to injury, President Mbeki in that letter to Scopa insensitively described these disreputable organizations as "well-known and prestigious international companies."

That these same companies employed and bribed South African middlemen and agents to promote the arms deal may be outside the immediate Scopa investigation. Nonetheless, the names of many of these people are known publicly, and these are matters that should be investigated by a judicial commission of inquiry.

As advised in section 1, British investigators estimate BAE bribes at £112 million (R1.9 billion), of which more than £75 million (R1.275 billion) was transferred to South African middlemen and beneficiaries through a network of BAE front companies in the British Virgin Islands. German investigators estimate the GFC bribes as at least R130 million. Thyssen Krupp does not even deny that it paid what it euphemistically described as "useful expenditures" to secure the frigate contracts.

As part of its own cover-up of the arms deal scandal, the government has obstructed investigation of these bribes and prosecution of the recipients, and termination of these agreements. Scopa's function is to ensure that South African citizens and taxpayers get value-for-money. Accordingly, it is within Scopa's jurisdiction to recommend cancellation of these contracts.

There are numerous provisions in both agreements providing for summary cancellation, including article 19 in the GFC agreement and article 20 in the BAE agreement being "Remedies In Case Of Bribes".

6. LOAN AGREEMENT BETWEEN BARCLAYS BANK, THE BRITISH GOVERNMENT ACTING THROUGH THE EXPORT CREDITS GUARANTEE DEPARTMENT (ECGD) AND THE SOUTH AFRICAN GOVERNMENT ACTING THROUGH THE DEPARTMENT OF FINANCE.

The ECGD is one of the main vehicles through which the British government subsidises exports of armaments to countries such as South Africa, Saudi Arabia, Indonesia, etc. BAE is by far the largest of the ECGD's clients, accounting for between 35% and 50% of the ECGD's business, and Barclays Bank finances these transactions. Given its origins in the Caribbean slave trade, Barclays Bank was also the vehicle through which much of Britain's financial exploitation of its colonies was conducted. Archbishop

Tutu describes the arms trade as "the modern slave trade." It is an appropriate description given the devastation that European-sourced weapons continue to inflict upon the most impoverished communities in Africa and Asia.

At the time of the 1985 debt standstill, Barclays Bank was by far the largest foreign creditor to South Africa's apartheid government. It is one of the main defendants in the series of apartheid lawsuits being pursued in the United States in terms of the Alien Tort Act, so it is an institution with an extremely dubious history. In addition, the Deputy Chairman of Barclays Bank is amongst those BAE executives recently detained for questioning by the FBI in connection with BAE bribes of £1 billion laundered through the American banking system.

Annexure F was obtained by the writer from a source in England. It forms just 47 pages of 255 pages, which have been verified before the Cape High Court as authentic. It is made available for Scopa's investigation in the knowledge that the Department of Finance has deliberately withheld these unlawful commitments from parliamentary scrutiny. The remainder of this documentation is also available for Scopa's further investigation.

Annexure F comprises the main loan agreement covering the financing over 20 years for the BAE Hawk and BAE/Saab Gripen fighter aircraft. It is signed on page 47 by Trevor Manuel for and on behalf of the Republic of South Africa acting through its Department of Finance. It is contended that in signing this agreement the Minister of Finance has gone far beyond his authority in terms either of section 16 of the erstwhile Exchequer Act or of section 71 of the Public Finance Management Act, both of which in almost identical wording set out the Minister of Finance's borrowing authority.

In particular, though the relevant section of the PFMA provides that a resolution of the National Assembly is required to regularize circumstances not provided for in the Act, there has been no attempt by the Minister to obtain such authority from Parliament.

Clauses 21, 22 and 23 of the agreement (pages 30 to 35) are the Representations, Covenants by the Borrower and Default clauses. They have been described by the Minister's own legal counsel as "potentially catastrophic for South Africa," an assessment with which this submission agrees, and which is a cause for acute alarm.

For instance in terms of:

clause 21.14, the Minister has no authority to waive South Africa's sovereign immunity,

clause 22.3, the Minister has in effect ceded control over South Africa's economic and financial policies to Barclays Bank, which thereby has the right of veto over public spending policies,

clause 22.5, the Minister has no authority to commit South Africa to remain a member of the International Monetary Fund (IMF),

clause 23 is a textbook example of how European banks and governments have entrapped "third world countries", and impoverished their people through adherence to "structural adjustment programmes" determined by the IMF.

Barclays Bank, Britain's second largest bank, is hugely affected by the current (yet long anticipated) international financial crisis. Its share price has plummeted by 64 percent this year. To forestall collapse, it is now desperately trying to raise new capital of £6.8 billion (R115 billion) in Abu Dhabi and Qatar.^{xxii} Numerous serious concerns arise, including whether the Barclays Bank takeover of ABSA was irregularly approved by the National Treasury because of those arms deal default clauses and the threats they contain. Most ominously, South Africa's financial system could now be drained and imperiled, via ABSA, to pay for Barclays Bank's losses in other countries because of its reckless lending practices.

South Africa faces an unsustainable current account deficit and, having made its financial markets open to currency speculators, is now extremely vulnerable to the international financial crisis. Shockingly, given this country's traditional standing as one of the world's five leading food exporters, South Africa in 2007, for the first time in history, became a net food importer.

The warnings contained in the 1999 affordability study also take on new relevance and urgency given the global financial crisis. Since adoption in 1996 of the Growth, Employment, and Redistribution (GEAR) policies and now increasingly discredited prescriptions from the IMF that determined those policies, South Africa's unemployment rate has escalated from 16% to 40%.^{xxiii}

GEAR promised an economic growth rate of 6% per annum by 2000 combined with major job creation but, instead, proved a dismal failure. South Africa's already disgraceful economic and social equality has been further aggravated by these policies over the past twelve years. As measured by the GINI coefficient, South Africa is now the world's most unequal society. This will almost inevitably lead to political instability.

It is unconscionable that any impunity is conferred upon those responsible for the arms deal fiasco. Cabinet ministers were warned by the affordability study and, not least, by the Anglican Church and other faith communities that the arms deal would lead to disaster. Chapter ten of the Constitution requires ethical, efficient, transparent and accountable public administration. In terms of Section 92 (2), "members of the Cabinet are accountable collectively and individually to Parliament for the exercise of their powers and the performance of their functions."

There is widespread consensus internationally that the IMF has degenerated into a debt collection agency for "first world" banks such as Barclays Bank for arms deals and other corrupt and unsustainable transactions. Accordingly, it is imperative that the arms deal "Representation, Covenant and Default" clauses contained in Annexure F are thoroughly investigated by both Parliament and a judicial commission of inquiry, and that appropriate remedial actions are taken.

7. NEED TO REDEFINE NATIONAL SECURITY IN TERMS OF CONSTITUTIONAL COMMITMENTS TO HUMAN RIGHTS.

Whilst the political elite have been enormously enriched since 1994, the majority of South Africans are even poorer in 2008 than during the apartheid era. The Anglican Church and other faith institutions rigorously opposed the arms deal because, as acknowledged in the 1995 Defence White Paper, poverty – not foreign military attack -- was and remains the primary threat to South Africa's security and democracy.

Archbishop Njongonkulu Ndungane, chaired the poverty hearings in 1998. Ten years later, research by African Monitor which he chairs finds that extreme hunger and a shortage of food affects 50% of South Africa's population.^{xxiv} Other studies find that approximately 1 000 South Africans daily die of AIDS-related diseases. This catastrophic and preventable disaster has very serious socio-economic consequences for our country.

It is internationally proven that massive public investment in education and health are essential prerequisites for the eradication of poverty. Yet it is reported that of South Africa's 27 000 schools, about 24 000 schools are dysfunctional.

Instead of social upliftment, the government prioritized the purchase of armaments. Not surprisingly therefore, the arms deal has dominated South Africa's political controversies for more than a decade and, predictably, will continue to do so until these issues are addressed and remedial action is taken.

Section 198 (a) of the Constitution clearly prioritises human security before military security when it affirms the principles governing national security as: "National security must reflect the resolve of South Africans, as individuals and as a nation, to live as equals, to live in peace and harmony, to be free from fear and want and to seek a better life."^{xxv}

Accordingly, I urge Scopa to investigate how South Africa was entrapped into the arms deal by European arms companies and their governments, and to explore remedial options to extricate our country from the calamity that it unleashed.

TERRY CRAWFORD-BROWNE

ECONOMISTS ALLIED FOR ARMS REDUCTION – SOUTH AFRICA

ANNEXURES:

- A. Corruption In The Official Arms Trade, Transparency International UK, April 2002.
- B. "BAE: No Way Out," CAAT news, October-November 2008
- C. Affordability Of The Defence Strategic Armaments Packages: an assessment of their economic, fiscal and financial impacts, Affordability Team, August 1999.
- D. Agreement between Armscor, the departments of Defence and of Trade and Industry with the German Frigate Consortium and African Defence Systems.
- E. Agreement between Armscor and the departments of Defence and of Trade and Industry with British Aerospace (Operations) Ltd (now known as BAE).
- F. Loan agreement between Barclays Bank, the British government and the South African government acting through its Department of Finance.

ⁱ "Corruption In The Official Arms Trade," Transparency International UK, page 5. Pages 12 and 13 consider the South African arms deal as a case study, and recommendation 14 calls for offsets to be prohibited.

ⁱⁱ For comprehensive documentation on the BAE bribery networks, including payments to South Africa through Red Diamond Trading Company in the British Virgin Islands and other front companies, see BAE Files in the Guardian newspaper website www.guardian.co.uk. For further comprehensive documentation on the South African arms deal, see www.armsdeal-vpo.co.za.

ⁱⁱⁱ "Government condemned for failure to tackle bribery," The Guardian, October 17, 2008 and "Britain's failure to tackle corruption damned amid new claims against BAE," The Guardian, October 18, 2008.

^{iv} "UN panel backs call for standards in arms trade," Agence France Presse, October 31, 2008.

^v Correction 30/11. The rest of the Hawks were delivered in September 2008, but the 24 Gripen are still outstanding.

^{vi} Cape Times, October 29, 2008.

^{vii} Such action is not without recent precedent, including the decision by Malaysia on October, 2008 to cancel a US\$477 million deal to purchase Eurocopters because of the present financial crisis.

^{viii} Chapter eight "Force Design Options," Defence In A Democracy.

^{ix} Defence In A Democracy, page 47.

^x Business Day, November 19, 1998

^{xi} "Denel firm costs taxpayers R660m," Business Day, October 23, 2008

^{xii} Hansard, 9 March 1999.

^{xiii} JIT Report, paragraph 4.1.15, page 69.

^{xiv} JIT Report, paragraph 4.5.1.10, page 86.

^{xv} JIT Report, paragraph 4.12.1, page 111.

^{xvi} "Denel firm costs taxpayers R660m," Business Day, October 23, 2008.

^{xvii} "Rooivalk goes to war," Nosweek magazine, November 2008.

^{xviii} JIT Report, paragraph 9.2.3.15 (d), page 262.

^{xix} JIT Report, paragraph 9.1.1.5, page 248.

^{xx} JIT Report, paragraph 9.3.5, page 264.

^{xxi} JIT Report, paragraph 6.4.5.9, pages 167 and 168

^{xxii} "Barclays faces pressure on £6.8bn plan," Business Day, 13 November 2008.

^{xxiii} Cosatu figures, cited by Tony Ehrenreich, October 30, 2008.

^{xxiv} "Keeping track of poverty and the attempts to end it," Cape Times, October 30, 2008.

^{xxv} The urgency of these matters is illustrated by South Africa's ranking by the United Nations Human Development Index, which has plummeted by 35 places since 1990. Similarly, the 2008 Global Peace Index finds that the "state of peace" in South Africa at 116 out of 140 countries ranks as "very low."