

The Shadow World: Inside the Global Arms Trade

An address given to the Los Angeles World Affairs Council
On November 14th, 2011 by

Andrew Feinstein

Former member of the African National Congress;
Fellow at the Open Society Institute

Thank you very much. It's a great pleasure to be here.

[A few moments of informal introductory remarks followed by...]

Global military expenditures estimated to have totaled \$1.6 trillion dollars in 2010. That's \$235 for every person on the planet. Today, the United States spends almost a trillion dollars a year on national security, with a defense budget of over \$703 billion. The trade in conventional arms – both big and small – is worth only about \$60 billion a year of that. But despite its relative small size, this expenditure has profound impacts on the world.

From the enabling, fueling and perpetuation of conflict, to the corrosion of democracy in both buying and selling countries, and the massive opportunity costs in terms of socio-economic development in emerging countries, and I would argue the prosperity and well-being of ordinary taxpayers and citizens in more advanced economies.

To try and paint very briefly a picture for you of the arms trade, arms deals stretch across a continuum of legality. From the official or formal trade – often government-to-government deals – to the grey and the black or illegal markets, which I refer to as “the shadow world.”

In practice, the boundaries between these three markets are quite fuzzy. They're often intertwined and dependent on each other. With bribery and corruption commonplace, there are very few arms transactions that do not involve illegality, most often through middlemen or agents. Many arms dealers, who provide services to large defense contractors, and to governments, continue to operate in the black and grey markets.

In an extraordinary piece of work undertaken by somebody at Transparency International in the United Kingdom, it was calculated that the trade in weapons accounts for about 40% of all corruption in all global trade. That is, an industry that averages sales of \$60 billion a year accounts for 40% of all corruption in world trade. Why? Why is this industry so susceptible to illegality of this scale?

Again, to put it very simply, because every year you have a very small number of major deals that are concluded, each of which is worth tens of billions of dollars and sometimes determines the future of defense contractors for years to come. These crucially important contracts are decided on by a very small number of people – often half-a-dozen or fewer. And all of this takes place behind a veil of secrecy imposed by the imperatives of national security. In short, perfect conditions for massive corruption.

The corruption itself and – often as bad – the efforts to conceal the corruption, undermine the rule of law in both buying and selling countries, distort the market, and pollute the business environment, the political process and the functioning of the state.

As was mentioned in the introduction, I experienced this firsthand in South Africa. I had the enormous privilege of serving under Nelson Mandela in the first democratic government and then under Thabo Mbeki in the second.

South Africa concluded arms contracts between late 1998 and early 1999 – as Mandela was retiring – that will ultimately cost the country, when these contracts expire in 2018, around \$10 billion. Three hundred million dollars in bribes were paid. This was at a time when South Africa’s President Thabo Mbeki said that the country could not afford to provide the anti-retroviral medication for the (then) over five million South Africans living with HIV or AIDS. A study by the School of Public Health at Harvard University estimated that in the 5½ years after the arms deal was signed, when the state bought no anti-retroviral drugs, 355,000 South Africans died avoidable deaths because of this policy. Thirty-five-thousand babies a year were born HIV-positive.

Now the bribes went to the defense minister at the time, his political advisor, the head of procurement in the defense force, a number of other officials and senior politicians, and also to the ANC itself. When I was reelected to Parliament in 1999, I didn’t realize at the time that the key contribution to our election campaign came from the bribes paid by the successful bidders in that arms deal. As tragic was the fact that a number of our political leaders, who with extraordinary courage and sacrifice had brought about South Africa’s democracy, were prepared to undermine those very institutions of democracy that they had created in order to conceal the corruption.

I was removed from the committee on which I was the ranking ANC member because I refused to close down an investigation into the deal. Prosecuting authorities, which are meant to be constitutionally independent, were told by the President exactly who and what they could and could not investigate. One, and then a second anti-corruption body was closed down because of the vigor with which they tried to investigate.

Recently the country’s deputy president, Kgalema Motlanthe, has publicly lamented that the government at all levels and the ANC itself are drowning in

a sea of corruption. It was the arms deal when the ANC lost its moral compass and the modus operandi for this corruption was set in place. But there were corrupting countries too. The United Kingdom, primarily; the company BAE Systems, which after five-and-a-half years of investigation into five corrupt arms deals around the world, was eventually fined 500,000 pounds for accounting irregularities in the smallest of the deals. In return for which all investigations were dropped and the United Kingdom Serious Fraud Office gave the company an extraordinary undertaking that they would not allege corruption by the company for a period of ten years.

During the '60s, the '70s and the 1980s, United States defense contractors were at the forefront of paying bribes to conclude international arms agreements. They used as agents a wide range of people including, at one point, the husband of the Queen of the Netherlands. However, as a consequence of the Foreign Corrupt Practices Act, and tougher enforcement of that act from the late 1980s through the '90s until today, the United States, in terms of the export market in arms, has cleaned up its act.

However, domestically, the system of weapons procurement in the United States is – in my opinion – built on a circle of patronage between defense companies, lobbyists, lawmakers, the White House and the Pentagon. A scheme of mutual back scratching that is not breaking U.S. law, but would be seen as illegal bribery in many countries of the world. A Capital Hill aide described to me in the very early days of my research that this system, that he had been involved in researching for many years on the Hill, could only be understood as legal bribery.

Its consequences are often inordinately expensive weapons systems that are sometimes inappropriate to the country's defense needs, seldom perform as promised and are, on occasion, delivered years – sometimes even decades late. The Pentagon officials who make these decisions have to establish good

relationship with the contractors. In the year 2010, 84% of senior Pentagon officials who took retirement went to senior executive jobs with defense contracting companies to whom they had awarded contracts. Lawmakers approve these projects in return for campaign funds and promises of jobs for their district; albeit jobs that cost up to seven times the cost of equivalent employment in other manufacturing sectors.

How else could one explain the folly that is the F-35 – the most expensive jet fighter ever built? The current estimate of \$380 billion is estimated to increase by at least 30% by the time the jet is finally manufactured. Now, this is an airplane that, according to a leading former Pentagon aerospace design engineer, would have been useful and effective during the Cold War but is irrelevant to the types of conflicts that the U.S. finds itself engaged in today and that, according to U.S. intelligence agencies, is likely to be engaged in for at least the next two generations.

“Well,” I thought, when coming across this information, “At least there are checks and balances in place.” As somebody who worked in South Africa in the setting up of a public financial management framework for a new democracy, I was astonished to discover that the Pentagon – the single biggest employer and biggest spender in the United States government – has not been audited for well over two decades. Announcing that it was to miss the target set by Congress of 2014, the Pentagon recently informed Capitol Hill that it hoped to be audit-ready by 2017.

In addition to this domestic system, governments across the world also lend support to the black and gray trades in weapons. The Russian arms trafficker Victor Booth was, two weeks ago, found guilty in a New York court – a rare and extremely welcome victory for those who work towards the elimination of the illegal trade in weapons. However, between 2003 and 2005 – when there was an international warrant for Victor Booth’s arrest – he made \$60

million ferrying equipment, weapons and ammunition into Iraq for the United States Department of Defense and two of the country's biggest defense contractors.

In researching this field, I particularly looked out for arms dealers unlike Victor Booth who has become something of the poster boy of the illegal trade in weapons. I looked for those who hadn't been written about and at one point found, in a footnote to a commission of inquiry report, mention of a Beirut-based Lebanese-Armenian arms dealer who a South African official, who had had dealings with him, described as "the scariest man on the planet." My interest was immediately piqued.

I searched for him for almost nine months without success. I was visiting Cape Town when my then-fourteen-year-old niece – and I was telling my sister and her family about this guy I'd been pursuing – my then-fourteen-year-old niece suggested to me that I look on Facebook. Showing my own completely incapable understanding of technology, I said to her, "But I thought only people under 16 used Facebook."

So she took me off to her computer – this was a few years ago, in mitigation – she took me off to her computer and explained to me what Facebook was and she set up a Facebook page for me. And we searched for Mr. Doho Sepian. And sure enough, there he was, with a big Stetson on his head. Not much information on his Facebook page, it has to be said.

So I emailed him. I received a one line reply, it said basically: "In my long life, I have never done anything for nothing. Why should I start now?" I had nothing to offer him; certainly not money. So I thought, well maybe a little bit of flattery. So for months and months and months I wrote him emails, and every time I met anyone involved in the industry, I would write to him

and say, "So and so tells me that you, more than anyone else alive, are the person to talk to about the global trade in arms." I never got replies.

But one day I was sitting in my little office in North London, and my cell phone rings. A very Germanic voice says, "This is Dojo Sepian here. I'll be at my office in Oman, Jordan on Sunday. Come and have a chat." So really, without thinking, and telling my wife that there was nothing to be worried about, I jumped on a plane and went to Jordan. I had 5½ hours on the plane to contemplate what I was doing, and thought that perhaps I was being slightly injudicious.

So when I arrived at my hotel, I said to a very bemused concierge, "I'm meeting a man about whom I know nothing. I'm a little concerned. Could I take your cell phone number? I'm going to text you every half an hour. If you don't hear from me in over an hour please call my cell number, and if I don't answer, please send somebody to this address where I'm meeting him." This was my attempt at security.

He was charming; absolutely charming. Sat behind a huge desk, still with his Stetson on, and he regaled me for five; six hours about how he had started in the business with a company called Merricks that was formed by a small group of senior Nazi officers soon after World War II. Supported in its early deals by German intelligence and U.S. intelligence, and then proceeded to tell me how for the past four decades he had broken virtually every U.N. arms embargo there has been.

There have been 502 violations of U.N. arms embargos. One has ever resulted in a court case, and the person concerned was acquitted. Dojo Sepian has been involved in many of those violations. Finally, at the end of the interview, after I thought we had been getting on quite well, I asked him why the gentleman in South Africa had described him as the scariest man in

the world. He stood up, said, "It might have been because I put a gun to his head and told him I was going to kill him."

I was sitting at the desk, taking notes and I said, "Well yeah, that could have done it." He laughed uproariously and he said, "What I didn't tell him is that I'm actually a pacifist. I only buy and sell the stuff. I don't use it myself."

I then asked him if his neo-Nazi connections had ever been a problem in business. He laughed again and said, "Exactly the opposite." Now, my ethnic origins from my name and my appearance are fairly obvious. Despite that, he said. "I often talk to my Middle Eastern clients about how if only Hitler had been able to finish his work, the region wouldn't have many of the problems it has today."

And then the party trick: He pulled out his identity tags for his contracting work in Iraq and Afghanistan for the U.S. Department of Defense and one of the largest U.S. defense contractors. He then pulled out yet more tags for the work he does for USAID in Iraq and Afghanistan and Liberia in Africa – the unintended consequences of the global trade in arms; the blowback.

From 2003, when Colonel Muammar Gaddafi was rehabilitated in the eyes of the West, the governments of Europe, particularly Russia, and to an extent the U.S., sold him more weaponry than he had personnel to utilize it. In the process of his overthrow, many of these weapons warehouses were left unguarded. Today, much of that weaponry has found its way to the world's black markets in weapons including, among other things, surface-to-air weapons which can be bought for around \$50,000 and are capable of bringing down a commercial jet airliner.

And what of the fiscal consequences? Can we, in these current economically straightened times, afford to continuing spending \$1.6 trillion per year at a

time when the basic human security of many of our ordinary citizens is under threat like never before?

In Greece, the economy has effectively collapsed. Germany, France and the U.S., in insisting that the Greek government cut spending in everything – no bandages in hospitals at the moment in Greece – they have insisted that not one penny be cut from the defense budget, because the U.S. sells Greece 42% of its weapons. Greece is Germany's biggest single weapons customer in Europe.

What can be done, in conclusion? An industry that counts its profits in billions and its costs in human lives should be far more regulated than the other industries that we regard as dangerous to our health: tobacco; alcohol, amongst others. Instead, it is far less regulated. We have an opportunity, because at the United Nations, an international arms trade treaty is currently under negotiation.

Rather than a weak treaty that simply confirms and accepts the status quo in the trade in weapons, if – in addition to obvious things like basic human rights criteria; socio-economic development impact, etc. – there were strong measures to ensure that in those elements of arms deals that do not impinge on national security, like the use of middlemen whose only role is to pay bribes, if there were vigorous anti-corruption measures which are actively enforced, requiring more internationalized law enforcement; if there were harsher penalties for transgressors, debarment from public contracts, and the prosecution of senior individuals, then perhaps we would be able to clean up this industry.

But all of that requires political will and courage. Something that I believe is sadly lacking in the world's political leadership today. As we meet here tonight, the United States is about to sell \$60 billion of weapons to Saudi



Arabia. And the deal is still possible, despite attempts to halt it, to sell \$53 million to Bahrain, where health workers who assisted wounded protesters have recently been jailed.

If we accept the weakened national arms trade treaty, we will continue a situation where the trade in weapons will continue to make the world a poorer place, a less democratic place, a more corrupt place, and most ironic of all, a more dangerous place.

Thank you very much.

www.lawac.org

Speeches are edited for readability and grammar, not content. The views expressed herein are not endorsed by the Council. The Los Angeles World Affairs Council is a non-profit, non-partisan organization that pays neither honoraria nor expenses to its speakers.