



Clean Investment Campaign 2006

Media Advisory

The UK's local authorities are major investors, often holding multi-million or multi-billion-pound share portfolios. But despite being publicly accountable bodies, their investment decisions - often made using public money - are largely divorced from democratic decision-making.

CAAT's Clean Investment Campaign aims to shed light on the little-scrutinised investments of the UK's councils and local authorities. Using Freedom of Information legislation introduced last year, our researchers requested details of shares held by 99 local authorities' pension funds in 15 of the world's largest weapons manufacturers. Most sell weaponry to repressive regimes, and into regions of conflict. All help to fuel the burgeoning global arms trade, diverting useful spending away from health, infrastructure and education.

The results provide the first complete survey of the financial connections between local authorities and the global arms trade.

- All but 2 of the local authorities for which information could be obtained held shares in one or more of the 15 arms companies.
- The study identified shareholdings in the 15 companies worth over £709 million: more than double what local authorities spend on promoting local enterprise and new businesses across the UK.¹
- 67 of the UK's 99 local authority pension funds hold shares in BAE Systems, the UK's largest arms company, currently the object of Serious Fraud Office investigations into allegations that it paid £1m to Chilean dictator Augusto Pinochet, and operated a £60m 'slush fund' providing 'hospitality' for Saudi officials connected to a massive UK-Saudi arms deal. BAE has denied the slush fund claims.²
- 33 councils invest £19,913,941 in Lockheed Martin, the world's largest arms company and arguably the world's biggest nuclear weapons maker. Lockheed manufactures Trident nuclear missiles for the UK and US, and is a co-contractor of the Aldermaston Atomic Weapons Establishment, which produces and maintains the UK's nuclear warheads.

¹ *Public Expenditure Statistical Analysis 2005, Table 6.6, http://www.hm-treasury.gov.uk/media/172/92/pesa2005_chapter6.pdf. 2004-5 expected outturn on UK local authority current and capital expenditure on 'Enterprise and Economic Development' is £451m.*

² For BAE allegations, see David Leigh & Rob Evans, 'Arrests in BAE-Saudi investigation', *The Guardian*, 14 September 2005; 'Serious Fraud Office to look into BAE link with Pinochet', *The Guardian*, 16 September 2005

The arms companies

CAAT's study covered investments in the world's largest 11 arms producing companies, plus the 5 largest arms-producing companies publicly listed in the UK. These are:

BAE Systems

Military sales³: \$20,345m

Military sales as a % of total sales: 80%

Military products include: fighter aircraft, warships, submarines, torpedoes, radar, missiles, countermeasures, cluster bombs, armoured vehicles and tanks.

In their own words, "BAE Systems has major operations across five continents and customers in some 130 countries".⁴ BAE's customers include a roll-call of human rights abusers. Since 1984, BAE-made Hawk jets have been sold to Indonesia, where according to eyewitnesses they were used in a 2003 invasion of Aceh in which at least 2,000 (mainly civilian) people died; to the repressive Saudi Arabia; and to Zimbabwe, where they were used in the brutal ongoing war in the Democratic Republic of Congo. The Serious Fraud Office is currently investigating allegations (denied by BAE) that the company operated a £60m 'slush fund' for Saudi Arabian officials involved in a previous UK-Saudi arms deal. *The Guardian* newspaper has also alleged that the company paid £1m to Chilean dictator Augusto Pinochet.⁵

Lockheed Martin

Military sales: \$34,050m

Military sales as % of total sales: 95.8%

Military products include: nuclear missiles (including Trident system), fighter aircraft (including the F-22 Raptor and F-35 Joint Strike Fighter), bombs (including Hellfire II missiles)

US arms giant Lockheed Martin is the world's largest arms manufacturer. Central to the nuclear arsenals of the UK and the US, Lockheed is a co-contractor of the Atomic Weapons Establishment at Aldermaston which designs, maintains and produces the UK's nuclear warheads, and the prime contractor for the Trident II Submarine-Launched Ballistic Missile, the only long-range US or UK nuclear missile currently in production. It is also a major subcontractor at the Nevada Test Site carrying out "subcritical testing" of new nuclear weapons designs, a form of testing that exploits loopholes in the Comprehensive Test Ban Treaty.⁶

Lockheed's 'conventional' Hellfire missiles were widely used in the invasion of Iraq. In January 2006 US news agencies reported that a Hellfire had been used in an attack by a US unmanned Predator drone in Pakistan in which over 20 civilians were killed.⁷ Amnesty International argued that the attack breached international humanitarian law, "with air-to-surface missiles taking the

³ All sales figures for 2004 (source: *Defence News* 25 July 2005)

⁴ www.baesystems.com/newsroom/2004/nov/151104news2.htm

⁵ 'Serious Fraud Office to look into BAE link with Pinochet', *The Guardian* (UK), 16 Sept 2005

⁶ <http://www.reachingcriticalwill.org/corporate/dd/lm.html>

⁷ <http://www.msnbc.msn.com/id/10303175/>; for casualties, see <http://www.washingtonpost.com/wp-dyn/content/article/2006/01/22/AR2006012200759.html>

place of judicial process”.⁸

Smiths Group

Military sales: \$1,243m

Military sales as % of total sales: 25%

Military products include: gun pods for Hawk jets, gun turret parts and trigger systems for US-made Apache attack helicopters (used in Israeli attacks on civilians in Palestine), cockpit control panels for the B-2 bomber and F-16 fighter.

Smiths Group has reported a swing towards military work in recent years, its 2002 Annual Report stating that a reduction in civil aircraft production “was counterbalanced by rising requirements for our military aerospace and detection products”.⁹

VT Group

Military sales: \$1,048m

Military sales as % of total sales: 75%

Military products include: warships, logistics and training services.

VT Group is one of the world's largest warship manufacturers.

Cobham

Military sales: \$947m

Military sales as % of total sales: 50%

Military products include: missile components, including parts for the US Hellfire missiles used during the invasion of Iraq; weapons carriage and release systems.

EADS (European Aeronautic Defence and Space Company)

Military sales: \$10,506m

Military sales as % of total sales: 24%

Military products Include: military transport and combat aircraft, military helicopters, Unmanned Aerial Vehicles, electronic warfare systems, guided missiles.

EADS was created in 2000, the product of a merger between Aerospatiale Matra of France, Daimler Chrysler Aerospace of Germany and Construcciones Aeronauticas of Spain. In 2003 Tony Yengeni, former chief whip of South Africa's ANC, was convicted of fraud relating to an arms deal with South Africa, in which EADS were major players, worth around \$5bn - over 30 times the total annual spending on HIV/AIDS across the whole of Africa at the time.¹⁰ The BBC reported that EADS had admitted that it had "rendered assistance" to some 30 senior officials to obtain luxury vehicles, including defence force chief General Sipiwe Nyanda.¹¹

⁸ http://observer.guardian.co.uk/uk_news/story/0,,1697399,00.html

⁹ http://www.smiths-group.com/presentations/files/Smiths_report.pdf

¹⁰ Total HIV/AIDS spending in Africa c. 2002 was estimated at \$150m: see <http://www.fao.org/WorldFoodSummit/english/fsheets/aids.pdf>

¹¹ <http://newswww.bbc.net.uk/2/hi/africa/2756555.stm>

Thales

Military sales: \$8,868m

Military sales as % of total sales : 63%

Military products include: air defence systems, electronic warfare systems, unmanned vehicles, optronics

Thales, formerly known as Thomson-CSF, is part owned by the French government. In 2005 Schabir Shaikh, a South African businessman and associate of Defence Minister Jacob Zuma, was convicted of soliciting a bribe agreement between Thomson-CSF and Zuma in 2000 connected to a massive \$5bn arms deal.¹²

Finmeccanica

Military sales: \$7,670m

Military sales as % of total sales: 60%

Military products include: military helicopters, UAVs, radar systems, combat vehicles, ammunition, command and control systems.

Rolls Royce

Military sales: \$3,069m

Military sales as a % of total sales: 27%

Military products include: aero engines, marine propulsion systems. Rolls-Royce Adour engines power all BAE Systems' Hawk jets.

Rolls-Royce's customers include most of the world's militaries (over 160 armies and 70 navies), constituting the world's "largest military engine customer base" according to the company.

Boeing

Military sales: \$30,464m

Military sales as % of total sales: 58%

Military products include: combat helicopters (including the Apache attack helicopters used by the Israeli military in the Occupied Territories), surveillance aircraft, fighter planes), bombs and missiles.

Northrop Grumman

Military sales: \$22,126m

Military sales as % of total sales: 74%

¹² *The Independent* (SA), 24 July 2005, http://www.int.iol.co.za/index.php?set_id=1&click_id=2976&art_id=vn20050724101923517C264066

71% of 2005 revenues from US military.

Military products include: fighter aircraft (including Global Hawk and Fire Scout unmanned aerial vehicles), shipbuilding (including warships, aircraft carriers, submarines), munitions (including ballistic missiles)

Raytheon

Military sales: \$18,771m

Military sales as % of total sales: 93%

74% of total sales to US government in 2004 and 2005.

Military products include: missiles (including the Tactical Tomahawk, Paveway laser-guided missile, Maverick, HARM)

General Dynamics

Military sales: \$15,000m

Military sales as % of total sales: 78%

Military products include: military vehicles (including tanks), artillery, shipbuilding (including submarines).

Honeywell

Military sales: \$10,240m

Military sales as % of total sales: 40%

Military products include: defence electronics, including military aircraft systems.

Halliburton

Military sales: \$8,000m

Military sales as % of total sales: 39%

Military products include: components, infrastructure construction, facilities management, marine, aircraft and vehicle maintenance

Better known as an oil services company, Halliburton's export of military equipment and services constitutes nearly 40% of its business, making it one of the world's top 10 military companies. Notoriously depicted as part of the 'corporate carve-up' of Iraq, Halliburton has received frequent accusations of misconduct and misallocation of Iraqi oil revenues. In November 2005 the United Nation's Iraq oversight agency, the International Advisory and Monitoring Board, conducted an audit on Halliburton's subsidiary KBR, and urged the US to reimburse up to \$208m for work it argued had been either overpriced or insufficiently documented. Halliburton denied the claims.¹³ The US stock market regulator is also currently investigating claims that Halliburton subsidiaries and partner firms paid over \$180m in bribes for contracts in Nigeria.¹⁴

¹³ <http://news.bbc.co.uk/2/hi/americas/4411366.stm>

¹⁴ <http://news.bbc.co.uk/2/hi/business/3799635.stm>

Why should local authorities not invest in arms companies?

- The arms trade has a devastating and destabilising effect worldwide
 - ◆ UK, European and US arms companies routinely export weapons to conflict zones and human rights abusers, which provide core markets for the arms industry.¹⁵
 - ◆ Military spending both sustains conflicts and diverts resources from health and education in some of the world's most impoverished regions. In 1994 it was estimated that 1/5 of African debt was due to arms spending.¹⁶
- Huge public subsidies for arms companies also diverts UK spending from more productive sectors, including local government spending. Government subsidies to the arms trade amounts to an estimated £890m annually: over double what local authorities spend on promoting enterprise and new businesses across the UK, and enough to fund a £50 cut in every household's council tax bill.¹⁷
- The argument that divesting from the arms trade would damage the profitability of council investments is a myth. Investment in the arms trade is often financially risky because the arms trade relies upon large, widely spaced and highly competitive orders. A single arms deal can make or break an arms company. By contrast, ethical investment funds that preclude arms company shares are amongst the most profitable. An investigation last year by Deutsche Bank subsidiary WM Company found that in the past decade the Church of England's £4.3 billion ethically-managed fund was the 2nd best performer of more than 1,000 funds, both ethical and non-ethical.¹⁸
- Local authority activities are often in basic conflict with a trade that profits from proliferating methods of killing and destruction. Many local authorities, for instance, provide vital support for refugees fleeing conflicts and repressive regimes fuelled by the weaponry provided by many of these companies. Several councils extend international solidarity to countries destabilised by war and excessive military spending, yet also help to fuel that instability by investing in the arms trade. Aberdeen, for instance, is twinned with Bulawayo in Zimbabwe.

¹⁵ Since 1997 the UK alone has licensed arms and military equipment to 22 countries engaged in serious conflict (Afghanistan, Algeria, Angola, Burundi, Colombia, India, Indonesia, Iraq, Israel, Kenya, Nepal, Nigeria, Pakistan, Peru, Philippines, Russia, Senegal, Sierra Leone, Sri Lanka, Turkey, Uganda and Zimbabwe). In 2005 the government licensed military exports to 11 countries on the Foreign Office's own list of the world's 20 worst human rights abusers, despite UK/EU arms export rules forbidding military exports to places where they might be used for abuse or repression. See <http://www.guardian.co.uk/israel/Story/0,,1747892,00.html>

¹⁶ See http://www.controlarms.org/documents/guns_or_growth.pdf

¹⁷ *Public Expenditure Statistical Analysis 2005, Table 6.6*, http://www.hm-treasury.gov.uk/media/172/92/pesa2005_chapter6.pdf. 2004-5 expected outturn on UK local authority current and capital expenditure on 'Enterprise and Economic Development' is £451m. Total council tax revenue is expected to be £21bn in 2005-6 [2005 Pre-Budget Report Chart 1.2 p. 12]. Since average (Band D) council tax in 2005-6 will be £1,214 [<http://www.odpm.gov.uk/index.asp?id=1136804>], £890 million extra annual revenue would permit a £51 cut in each council tax bill. For the arms trade subsidy estimate, see For the subsidy estimate, see <http://www.caat.org.uk/information/publications/economics/subsidies-factsheet-0504.php>

¹⁸ See Robert Budden, 'Church Fund leaves the flock standing', Financial Times March 29 2005, <http://news.ft.com/cms/s/e3df5e22-a0b8-11d9-a3ba-00000e2511c8.html>

Aberdeen City Council's pension fund holds £1,262,066 of shares in BAE Systems, which sold Hawk fighter jets to Zimbabwe used in the brutal ongoing war in the Great Lakes region.

- Local authorities often invest in the arms trade without the knowledge or agreement of those on whose behalf they invest - council employees and council tax payers. Elected councillors and appointed finance directors who decide financial policy need to account for their investment decisions to those who elect and pay them, and to take responsibility for the wider consequences of their investment decisions.

What next?

CAAT's research has uncovered the scale of local authorities' investment in the arms trade. Pressure for councils to invest more responsibly, though, must come from ordinary council taxpayers and local authority employees who deserve a say over the investments of their council and their money. We hope that the information we provide will allow them to challenge decisions made on their behalf, and help make councils accountable for the use of public funds and their own money. They can:

- demand that their local authority provides fuller details of their investments, especially where councils have refused to provide information.
- lobby councillors to pass council motions calling on the council to divest in arms companies
- ask for a working group to be established to design an ethical investment policy for the local authority's investments

Cleaning up public sector investment is a long-term campaign. We hope that CAAT's research will help people around the country have a say in their council, and their money.