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## **Submission from the Campaign Against Arms Trade to the Business & Enterprise Committee's inquiry into Exporting out of recession**

1. The Campaign Against Arms Trade (CAAT) is working for the reduction and ultimate abolition of the international arms trade, together with progressive demilitarisation within arms-producing countries.
2. Currently, a disproportionate amount of UK government support and subsidy for exports goes to an industry whose products are not only controversial in their nature, but also a drain on the UK economy. CAAT believes the arms companies have persuaded governments to give them this support because of the strong links they have enjoyed over decades and not because any analysis has shown that military exports are good for the economy or employment. The recession presents an opportunity for a rethink about the kind of goods that the UK should be manufacturing and exporting.
3. Manufacture must be considered before exports. With limited Government resources overall, provision of export support for an existing industry, such as military production, could be at the expense of start up investment in newer and potentially more economically beneficial industries.
4. There is general political agreement that there needs to be a more environmentally sustainable economy. In support of this, a credit line of £50 million was established by the Export Credits Guarantee Department (ECGD) in 2003, ring-fenced for renewable energy yet, CAAT understands, to date there have been no applications for such support as the exports do not exist. This is an example of an industry which needs to be assisted as it develops and manufacturing is established, before it can make use of any export support.

### **Support given**

5. Military exports account for just 1.5% of all exports, with 40% of the components for these being imported. The UK government supports and subsidises them through the promotional activities of UK Trade and Investment's Defence & Security Organisation (UKTI DSO), ministers, defence attachés and other embassy staff; research and development (R&D) funding; the provision of export credits and distortion of the UK's own military procurement.

6. It is difficult to put precise financial values on the support given, but it has been variously estimated as between £500million and £1billion a year, which is many thousand of pounds for each arms export job. As examples of the disproportionate support, UKTI DSO has 160 staff working to promote arms sales whereas there are only 129 UKTI staff working specifically allocated to all the other industrial sectors put together. The remaining 2,300 UKTI staff are available to support all industries, including military production.

### **No economic justification**

7. Defence Equipment Minister Quentin Davies MP questioned the idea that producing military equipment is the way to stimulate the economy when he appeared before the Commons' Defence Committee on 16th December 2008. He said that: ".. to use your money for maximum impact you need to spend it on goods and services which are labour-intensive rather than capital intensive in their manufacture so that the benefits flow through into pay packets rather than into rewards for providers of capital - banks and shareholders and so forth who would inevitably have a very high propensity to save and a low propensity to consume. Ideally you need these wages to flow through to people who are relatively low-paid. This is not the case with defence; defence is capital-intensive rather than labour-intensive." By a Government Minister's own admission, supporting military exports does not appear to be a recipe for helping the UK out of recession.
8. Furthermore, in common with many other sectors of the economy, there is no longer any identifiable UK arms industry. Military industry is internationalised with most equipment containing components and sub-systems from a variety of companies, which typically may have their headquarters in one country, but subsidiaries in several others. Sales and employment, too, are globalised with, for example, Thales and General Dynamics being major suppliers to the UK Ministry of Defence, and BAE employing more people in the US than it does in the UK.
9. UKTI addresses this lack of recognisably UK businesses by saying that: "To qualify for UKTI trade services the business should be able to demonstrate that it has an active UK trading address. This includes both UK-based business investing, or looking to invest, overseas and foreign-owned businesses based in the UK. There is no policy with regard to foreign content, we are looking at overall benefit to the UK economy." The ECGD will support projects with up to 80% foreign content.
10. However, with the military export sector, the benefit to overall economy does not exist. Even the Ministry of Defence, in its 2005 Defence Industrial Strategy, admitted: "Arguments for supporting defence exports in terms of wider economic costs and benefits e.g. the balance of payments, are sometimes also advanced. A group of independent and MoD economists (M Chalmers, N Davies, K Hartley and C Wilkinson - *The Economic Costs and Benefits of UK Defence Exports*. York University Centre for Defence Economics, 2001) examined these, by considering the implications of a 50% reduction in UK defence exports. They concluded that the 'economic costs of reducing defence exports are relatively small and largely one off...as a consequence the balance of argument about defence exports should depend mainly on non-economic considerations.'"

11. Military exports undoubtedly bring commercial benefit to arms companies and their shareholders, but, to the best of CAAT's knowledge, there is no evidence from economists independent of the arms industry that suggests military exports are important to the UK economy.

## **Employment**

12. Turning to employment, the 55,000 jobs supported by arms exports account for 0.2% of the UK workforce and less than 2% of manufacturing employment. A further 155,000 workers are employed producing equipment for the UK armed forces, but even the military industry total of 210,000 jobs makes up less than 0.7% of the UK workforce and around 7% of manufacturing jobs.
13. Since the beginning of the 1980's at the height of the Cold War, numbers of employees in the sector have dropped rapidly, levelling out over the past few years. There is little reason to suppose that the long-term decline will not continue, due to the capital-intensive nature of the industry and outsourcing to countries with lower production costs.
14. The arms companies are, not unnaturally, prone to exaggerate the number of jobs sustained by the arms industry. In the run-up to the decision to stop the Serious Fraud Office inquiry into BAE Systems arms deals with Saudi Arabia, figures of up to 50,000 Eurofighter jobs under threat were appearing in the press. However, a June 2006 report commissioned by the Eurofighter PR and Communications Office said that the Saudi Eurofighter deal would secure around 11,000 jobs throughout the whole of Europe. Fewer than 5,000 of these jobs would be located in the UK.
15. The sale of Eurofighters to Saudi Arabia also illustrates another trend under which the buying country insists that an assembly line is set up in that country. Two thirds of the 72 Eurofighters are expected to be assembled in Saudi Arabia leading to the creation of 10,000 skilled jobs there. Similarly, 66 Hawk jets were sold to India, but 42 of these are being manufactured under licence in India by HAL. The logical extension of this is that HAL will produce Hawks for the global market, and negotiations to this end have been reported.
16. A common misconception is that UK arms industry jobs are primarily in areas of high unemployment but the largest number of military industry jobs are in the low-unemployment South West and South East. It is only after these that we come to the North West, where there is a significant amount of BAE employment. There are only a handful of areas that could be described as having a residual dependency on arms employment. Of these, only three sites - BAE Warton in Lancashire, BAE Brough in East Yorkshire and AgustaWestland (owned by Finmeccanica of Italy) in Yeovil - have significant export contracts. BAE Brough already faces an uncertain future and there were 450 redundancies in 2008.
17. Government support for arms exports cannot, therefore, be seen an efficient way of boosting jobs in the UK.

## **Preserving yesterday's industry**

18. The disproportionate support given to one industry is a historical legacy, exploited by those interested in preserving the status quo. The "revolving door", whereby politicians, military personnel and civil servants, move into the arms industry or, sometimes, vice versa, as well as the plethora of committees, for example, the National Defence Industries Council, on which company executives sit alongside politicians and senior civil servants, give the arms industry a foothold within government machinery.
19. In addition, there is the understandable desire of trade unions and local authorities, as well as Members of Parliament, to preserve the jobs which exist rather take a risk on a more sustainable future.
20. A further factor is the emotional association of military industry with the "defence" of the UK and the security of its citizens. The international nature of the arms industry, as described above, belies this. In fact, there is a growing body of opinion that the arms companies distort the UK's procurement priorities. For example, Lewis Page, who used to be in the Navy, wrote "Lions, Donkeys and Dinosaurs" on this theme in 2006, whilst a retired army officer wrote to the *Daily Telegraph* on 19th September 2008 saying that: "The reason we have a military is to protect the nation, not to generate employment in the defence industry." He cited the "white elephant Eurofighter".

## **New opportunities**

21. Ending the support for military exports would free up resources to help other sectors that might be more efficient and innovative and likely to grow rather than decline. It is not within CAAT's competence to explore these in detail. However, an obvious example is the response to climate change, widely acknowledged as the biggest threat to human security. A key factor in addressing the threat is the rapid expansion of renewable energy research and development and production, and this requires public investment and skilled engineers. In 2007 UK government-funded R&D for renewables was around £42million, compared to £2,598million for arms (28% of all Government R&D) and total military expenditure of £34,045million. There will have been some increase in R&D for renewables in the intervening period, but it is still a drop in the ocean compared with arms spending.
22. There is demand for funding. By way of example, on 7th April 2009 the *Financial Times* reported that the Confederation of British Industry wanted investment to help the switch to a low-carbon economy. The same issue had an article on calls by the science research councils calling for £2billion of additional money to invest in high-tech start ups and prevent a brain drain to the United States
23. Arms industry workers have skills that are needed to meet these new challenges. BAE likes to portray itself as a major provider of high-tech jobs, but these jobs are dependent on R&D funding from the tax-payer, if the money changed sector it is likely the jobs would follow. Resources could be targeted at those locations which might be disproportionately affected during the changes, as clearly these areas would have workers with good skills to undertake alternative engineering projects.
24. Once the new industry has been established, Government support, through UKTI and export credit provision, can then be directed towards the promotion of its exports.

25. It is worth noting here, that there is also some evidence that the application of science and technology to an area to which many people have ethical objections may dissuade some from studying science. The UK Graduate Careers Survey 2008, as reported in *The Times* 9th April 2008, said that working for the Ministry of Defence and arms companies topped the list of employers rejected on moral grounds. Such people may well be attracted to scientific or engineering careers if they are seen as making a positive contribution to society.

### **Consistent policies across government**

26. The prevailing policy of promoting military exports has frequently undermined other policy objectives such as ending conflict or support for human rights. It has left the UK open to accusations of hypocrisy over issues of corruption, which, in turn, has led to questions about London's role as a financial centre. Ending the support for military exports could lead to more consistent Government policies.
27. It would also free up resources which might not only help the UK out of recession, but could build a sustainable economy for the future.

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