



11 Goodwin Street, London N4 3HQ
020-7281 0297 telephone
020-7281 4369 fax
email: ann@caat.org.uk
web: www.caat.org.uk

Submission from the Campaign Against Arms Trade to the Business, Innovation and Skills Committee's inquiry into Government assistance to industry

1. The Campaign Against Arms Trade (CAAT) in the UK works to end the international arms trade. Around 80% of CAAT's funding comes from individual supporters. CAAT is responding to your Committee's welcome inquiry into Government assistance to industry, focussing on UK Trade & Investment (UKTI) and the Export Credits Guarantee Department (ECGD).
2. In this submission, CAAT will draw attention to the problems engendered by the arms trade; point out that its promotion by the Government is controversial, not apolitical; say why the supposed economic and employment benefits to the UK are not proven; and suggest that the support given to the arms companies be redirected to newer industries tackling climate change, with benefits to both the economy and security.

Not all trade is welcome

3. Not all trade is beneficial, either to the people of the UK or beyond, so before your Committee looks at the effectiveness of Government trade assistance programmes, CAAT would urge it to examine what kinds of trade or projects are appropriate to receive such support.
4. Although CAAT's focus is on military trade, and this is what we examine below, Government support for specific projects has also been questioned by environmentalists, human rights campaigners and development charities. A common feature of all these concerns is that the Government has supported commercial companies without due regard for the consequences of doing so.
5. Addressing specifically the support for military exports, this can have an adverse impact on human rights, conflict and development, as well as on the struggle to end corruption.

Human Rights

6. Military equipment can be used to carry out human rights abuses directly. The indirect consequences can, however, be just as devastating as the receipt of UK arms increases general military capacity and conveys a message of international acceptance and approval. Criticism of governments of countries such as Saudi Arabia, identified by the

Foreign and Commonwealth Office as a country of major human rights concern, is muted as senior UK government figures court the abusers to promote arms.

7. The denial of human rights to women in Saudi Arabia, to its overseas workers and to dissidents continues because, for successive UK governments, these people have seemingly been of less importance than the desire to sell military equipment. The UK's priorities need to change.

Conflict

8. Arms exports increase tension and fuel conflict around the world. Equipment produced in the UK has been used in action in numerous conflicts.
9. It has been used by the Indonesian military in East Timor, Aceh and West Papua, by Zimbabwe in the Democratic Republic of Congo, by Argentina (against UK armed forces) in the Falklands war, and by both sides in the Iran-Iraq war. UK arms sold to Israel have been used in Lebanon and the Occupied Territories, and the sales continue despite widespread condemnation of Israel's actions. The UK supplied arms to Sri Lanka throughout its bitter civil war. The tension between India and Pakistan makes South Asia one of the most volatile regions of the world, yet the UK supplies arms to both countries.
10. The suffering consequent on these conflicts is obvious. It is not sufficient to say that much of it would have happened even if the UK had not supplied military equipment. Doing wrong because others also are is no excuse. The UK should refuse to be complicit in conflict by proxy.

Development

11. The arms trade affects development through the money wasted on arms purchases as well as through the conflict it fuels. In 1998, as part of a massive European deal heavily promoted by Government, BAE Systems sold military aircraft to the South African government, even though millions of South Africans were unable to afford anti-retroviral medication for HIV and AIDS.
12. Sometimes these sales rebound. In the mid-1990's British Aerospace Hawk aircraft, as well as tanks and armoured personnel carriers, were sold to President Suharto's Indonesia. Despite committing crimes against humanity in East Timor, prosecuting brutal wars in the provinces of Aceh and West Papua, and using UK equipment against civilians, the Indonesian Army continued to receive a steady supply of weapons from the UK, until it was unable to pay for them.
13. In 1998, Indonesia became one of the victims of the Asian financial crisis and subsequently defaulted on its payments. It had built up very large debts as a result of its arms purchases from the UK over the previous 20 years. In February 2007, Indonesia still owed £757million, of which three-quarters related to military equipment.

Corruption

14. Military deals are often large and complex, are shrouded in officially sanctioned secrecy and a small group of people make the decision to buy. This environment is perfect for corruption. Bribery doesn't just mean that bidders are shuffled with no

impact on the buying country and population. Corruption is likely to inflate the cost of procurement, and also provides an incentive for decision-makers to purchase weapons that they might not otherwise have bought.

15. Corruption at its worst can undermine government accountability and democracy. In the aftermath of the 1998 South African arms deals, investigations into corruption allegations against senior African National Congress leaders led the party and Government to undermine the country's new parliamentary institutions. The Indonesian deal mentioned above, as well as sales to Saudi Arabia, were also tainted by corruption.

Accountability

16. Despite the examples above, there is still a prevalent idea that all trade is good and warrants support from Government and funding from taxpayers. This acceptance of trade as apolitical has extended to the accountability of trade ministers. In recent years, they had predominantly been industrialists or financiers, brought into Government and given a seat in the House of Lords. The Trade ministers with responsibility for the UKTI and the ECGD were Lord Digby Jones from 2007 to October 2008 and Lord Davies of Abersoch from January 2009 to May 2010. These junior ministers reported to the Secretary of State, Lord Mandelson.
17. CAAT was pleased that this trend was broken when Mark Prisk MP and Ed Davey MP assumed responsibility for UKTI and ECGD respectively in the Coalition government, and extremely disappointed to learn that HSBC's Stephen Green is likely to take over from them when he becomes Trade Minister towards the end of 2010.
18. Leaving aside the policy content and the individual personalities involved, CAAT feels this presents a major problem with accountability. These brought-in ministers responsible for, and making decisions about, trade cannot respond to debates in the House of Commons, nor can they answer parliamentary questions in their own right. They are not exposed to constituents who might question the morality of some UK exports, or to local political parties or human rights or development groups which might raise the issue in debate.

Promotion

19. Notwithstanding the negative consequences of arms exports, effective lobbying by military manufacturers has made successive governments into arms sellers, promoting the wares of the military manufacturers. While governments talk of strict export controls, the policy and practice has been to promote arms sales with little or no regard for the damage they might cause or the wider implications of supplying military goods.
20. **UK Trade & Investment**
The UK government's arms sales unit is now located within UKTI. There are about 160 staff in UKTI's Defence and Security Organisation (UKTI DSO) dedicated to promoting military exports, more than those providing specific support to all other sectors of industry put together. This is despite arms being only 1.5% of total UK exports, and the fact that even then, 40% of their components are imported.

21. UKTI DSO liaises with the companies they are selling the arms for, builds relationships with overseas governments and military officials, arranges political assistance for arms deals, ensure that members of the UK armed forces are on hand to help the companies' sales efforts, and assists with arms fairs.
22. UKTI DSO is not discriminating about the records of Governments to which it promotes arms. Its priority markets for 2010/11 include Algeria, with a poor human rights record; regional rivals India and Pakistan; unstable Iraq; recent "pariah" Libya; and repressive Saudi Arabia. (Hansard, 28.6.10 Col 418/9W) The only criteria for inclusion on this list appears to be the willingness and ability to pay for the equipment.
23. **Export Credits Guarantee Department**
For many years support for arms sales accounted for between a third and a half of all government export insurance through the ECGD.
24. A massive drop in this proportion, to just 1%, occurred in 2008 when BAE stopped the cover on its arms deals with Saudi Arabia, cover which documents obtained from the National Archive and through Freedom of Information (Fol) requests show the Treasury, the ECGD itself and the Bank of England all had reservations about. This drop, however, could prove to be temporary unless the conditions for ECGD support change.
25. The direct cost of UKTI DSO, £14.6million in 2008/9 (Hansard, 10.6.10, Col 232W), is a relatively minor component of what many studies have revealed to be a considerable subsidy afforded to arms exports. Export credits, when this facility is used, are a more important factor, as is unrecouped research and development spending and the distortion of procurement choices. Other costs include those associated with the use of military attachés and official visits. While the studies, which include Stephen Martin's 'The subsidy saving from reducing UK arms exports', *Journal of Economic Studies*, 26:1 (1999) and the Oxford Research Group and Saferworld's *The Subsidy Trap: British Government Financial Support for Arms Exports and the Defence Industry* (July 2001), were undertaken a few years ago, it is unlikely the general picture of assistance has changed.
26. Even the MoD has accepted that the economic picture is not as traditionally portrayed. In its Defence Industrial Strategy (December 2005) it says: "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."
27. Despite this, it is still claimed that arms sales are good for the economy. No independent study seems to have been undertaken which supports this. Freedom of Information (Fol) requests by CAAT to the MoD and the then Department of Trade and Industry revealed that neither conducted any studies into the economic impact of Al Yamamah 1 or 2. A parliamentary answer (Hansard, 26.10.09, Col 117/8W)

referred to the Department for Business, Innovation and Skills' (BIS) "analysis" of the number of jobs sustained in the UK by Eurofighters ordered by the MoD. Follow-up Fol requests, however, revealed that the figures given had been arrived at by asking three companies the number of jobs they and their supply chains would lose if the order was cancelled. No independent analysis had been undertaken by BIS or independent researchers.

28. Jobs figures for military projects are also frequently hailed without any consideration of the costs of the relevant equipment to the taxpayer or the opportunities forgone because that money was not spent elsewhere

A global arms industry

29. Today, military industry is internationalised with most equipment containing components and sub-systems from a variety of companies. The companies may have their headquarters in one country, but have subsidiaries in several others.
30. BAE Systems (BAE) provides an illustration of this. It sells more to the US Department of Defense than it does to the UK Ministry of Defence (MoD), most of its shares are held outside the UK and only around 40% of its employees are in the UK. It would already be a US company had it been able to persuade one of the massive US companies to buy it. BAE and the other major arms companies exist to maximise profits for their international shareholders and have little, or no, commitment to the UK and UK "defence".
31. The global nature of the arms industry has not prevented recent UK governments from using taxpayers' money to support it. Alan Garwood was Head of the previous government arms export promotion unit, the Defence Export Services Organisation (DESO), between 2002 and 2007. In a letter dated 9th September 2005 he told CAAT: "The broad test for assessing DESO support to a UK-based defence exporter is not company ownership, but the added value that the export would bring to the UK defence industrial base." This is a somewhat vague and unspecific concept.
32. There are, however, signs that even this may be watered down. On 16th April 2008, now working for BAE as Marketing / Business Development Director, Alan Garwood met with the acting Head of UKTI DSO. According to notes of the meeting received by CAAT as a result of an Fol request, Alan Garwood asked about UKTI DSO's stance towards supporting a BAE project manufactured out of the US. He was reminded that his own DESO stance still applied, but was told that "... these things evolve and it was worth discussing when a specific opportunity arose."
33. The ECGD had also addressed the level of UK government support for a multi-national commercial enterprise. In June 2007 it accepted that it would support projects with a foreign content of up to 80%.

Employment

34. Turning to employment, as Alan Beattie, World Trade Editor of the *Financial Times*, pointed out: "You can have as many arms export jobs as you are prepared to waste public money subsidising." In 2007/8, the latest year for which Defence Analytical Services and Advice employment statistics are available, the 65,000 jobs supported by arms exports accounted for 0.2% of the UK workforce and 2.24% of manufacturing

employment. A further 150,000 workers were employed producing equipment for the UK armed forces, but even the military industry total of 215,000 jobs makes up less than 0.68% of the UK workforce and 7.41% of manufacturing jobs.

35. 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 decline will be reversed, owing to the capital-intensive nature of the industry and outsourcing to countries with lower production costs.
36. The arms companies and journalists sympathetic to them 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 stated 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.
37. The sale of Eurofighters to Saudi Arabia also illustrates another trend in which the buying country insists that an assembly line is set up in that country. Of the 72 Eurofighters sold under the 2007 agreement, 48 are to be assembled in Saudi Arabia, leading to the reported creation of thousands of skilled jobs there. Similarly, the £700 million deal signed during Prime Minister David Cameron's visit to India in July 2010 will see 57 Hawk aircraft manufactured under licence there by Hindustan Aeronautics Limited. The logical extension of this is that HAL will produce Hawks for the global market. The number of UK jobs said to be supported by the Hawk deal is just 200.
38. A common misconception is that UK arms industry jobs are primarily in areas of high unemployment, whereas the largest number of military industry jobs are in the low-unemployment South West and South East regions. 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. There were 450 redundancies in 2008 and another 212 announced in September 2010.
39. Government support for arms exports cannot, therefore, be seen an efficient way of boosting employment in the UK.

New opportunities

40. UK governments have chosen to allocate taxpayers' money to support arms exports and production. Ending the support for military exports and the spending on prestige procurement projects would free up resources to help other sectors that might be more efficient and innovative and be likely to grow rather than decline. It is not within CAAT's competence to explore these in detail.

41. An obvious example, however, is the response to climate change. 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 2008 UK government-funded research and development (R&D) for renewables was around £66 million, compared to over £2,500 million for arms.
42. 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.
43. This was acknowledged by Dr Sandy Wilson, President and Managing Director, General Dynamics UK, and VP-Defence, ADS Group Ltd, when he gave evidence to the Defence Committee on 8th September 2010: "A point that I have made to this Committee previously is that the skills that might be divested of a reducing defence industry do not just sit there waiting to come back. They will be mopped up by other industries that need such skills. We are talking about high-level systems engineering skills, which are often described as hen's teeth. It is an area in which the country generally needs to invest more. You can think of the upsurge in nuclear and alternative energy as being two areas that would mop up those people almost immediately. Then the question would be not of choice, but of them just not being there."

Proposals

44. CAAT has made many of the above points to the Treasury for consideration as part of its Comprehensive Spending Review. The proposals that follow are also included in CAAT's submission to the CSR.
45. Currently, a disproportionate amount of UK government political and financial support 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 spending and exports are vital for the economy or employment. The recession presents an opportunity for a rethink about the emphasis of government support for manufacturing. Ending the support for military industry would free up resources which might not only help the UK out of recession, but could build a more sustainable economy for the future.
46. The promotion of military exports has frequently undermined other policy objectives such as support for human rights or ending conflict, as well as leaving the UK open to accusations of hypocrisy over issues of corruption. Ending the support for military exports could lead to more consistent Government policies and increase security.
47. The UK, one of the major players, could take the lead in withdrawing from the destructive international arms trade. As a first step, UKTI DSO should be shut, without transferring its functions elsewhere, and export credit support withdrawn.

48. Resources should be transferred from supporting the arms companies to addressing what is widely acknowledged as the biggest threat to human security. Before the products are available to export, they must be developed. A rapid expansion of renewable energy R&D and production is necessary, and this requires public investment that will, in turn, draw in skilled engineers.
49. Tackling climate change rather than producing arms would win almost universal support and leave the UK and the world a more secure place for future generations. At the same time significant economic benefits will accrue from scaling down a stagnant industry dependent on Government support, and ramping up new sectors where demand is increasing rapidly.

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