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Submission from the Campaign Against Arms Trade to the Comprehensive Spending Review 2010

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.
2. CAAT welcomes the Comprehensive Spending Review and hopes that the occasion will be used to look again at real threats to the UK's security and whether spending is properly aligned to meet them. As part of this, CAAT urges the Government to stop the support and subsidy given to arms exports, as well as its wasteful spending on military procurement.
3. This document does not examine the moral and ethical arguments for doing this latter, but concentrates on the strong economic grounds for withdrawing such support. A submission from CAAT which examines the threats to security, including those posed by the arms trade, in more detail is being sent to the Strategic Defence and Security Review.

Still spending to meet the old threats

4. The 2008 "National Security Strategy of the United Kingdom" describes the "drivers of insecurity": Challenges to the rules-based international system; Climate change; Competition for energy; Poverty, inequality and poor governance; and Global trends (economy, technology and demography). Two decades after the end of the Cold War, there is a considerable measure of agreement that a conventional military threat to the UK itself from another nation state or a coalition of them is extremely unlikely. The current threats to security within the UK are likely to come from UK citizens with grievances in relation to actions by Government or others.
5. The changes needed to improve our security will also move us towards a more sustainable economy, as well as a more secure peace. To move in this direction, however, means the Government needs to consider security challenges objectively, moving away from the military-dominated perspective of security and vested interests, in particular, those relating to the arms industry.
6. There is currently a very close relationship between the arms companies and the Government which gives the former immense influence over Government decision-making. The relationship is sustained through the use of lobbying companies,

sponsorship and donations and procurement partnerships. More important, however, are, the Government's arms export promotion unit, UK Trade & Investment Defence & Security Organisation (UKTI DSO); the "revolving door" whereby Ministry of Defence (MoD) ministers and officials move to work with arms companies [lobby companies closely related to this] ; and joint Government-industry bodies.

7. This effective lobbying by military industry, anxious to maintain shareholder profits, has left the UK committed to heavy expenditure on large items of military equipment, including aircraft carriers, fighter aircraft and Trident, the utility of which in today's world is questioned even by some of those within the military. In the case of Trident, its renewal would also lessen the chances of other states forgoing such weaponry.

Exports

8. The same lobbying has made successive governments into arms sellers, promoting the wares of the military manufacturers. While governments talk of strict arms 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 them. Most countries where major conflicts are taking place are recipients of UK arms. Human rights abusing governments and authoritarian regimes rank among the UK's most important markets. Development concerns are irrelevant as long as a country is willing to pay for weaponry.

9. As well as the dangers of the actual use of equipment supplied, military exports also carry a message of acceptance and support for the purchasing government and they can ameliorate the impact of any criticism of that might otherwise be occasioned. They can also impede efforts to tackle problems such as corruption.

10. UK Trade & Investment

The UK government's arms sales unit is now located within UK Trade & Investment, part of both the Department for Business, Industry and Skills and the Foreign and Commonwealth Office. Within UKTI as a whole, there are about 160 staff in a 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, despite arms being only 1.5% of total UK exports and, even then, 40% of their components are imported.

11. 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, ensures that members of the UK armed forces are on hand to help the companies' sales efforts and assists with arms fairs.

12. 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 Export Credits Guarantee Department (ECGD).

13. 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.

14. 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, is 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. Unfortunately, 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, but there is no reason to believe the the general picture of assistance has changed.
15. 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."
16. 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.
17. 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

18. 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.
19. 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 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".

20. 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.
21. 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 FoI 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."
22. 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%.

The justifications for supporting exports

23. National security is the Government's main official argument for supporting arms sales. The premise is that military exports can help guarantee sovereign capabilities for the supply of the UK armed forces. However, the arms industry is international, with that in the UK being one of the most internationalised, and all significant MoD purchases include many overseas components and sub-systems. It is entirely unrealistic to expect the global arms companies and their international shareholders to prioritise any one country's armed forces over those of other markets.
24. The Government claims military exports help reduce industry's fixed overhead costs and thus lowering the cost of equipment bought by the MoD. The academic studies mentioned in paragraph 14 differ as to whether or not this is case. However, all were agreed the subsidy was far greater than any contribution from military exports to fixed costs.
25. The argument that exports assist "defence diplomacy" and the building of "bi-lateral defence relationships" is also advanced by the Government. That this assists national security is far from self-evident; that it enforces the military mindset in the Government's approach to international relations and assists the arms companies is undeniable.
26. 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

27. 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 less than 2% 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 0.7% of the UK workforce and around 7% of manufacturing jobs.
28. 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, due to the capital-intensive nature of the industry and outsourcing to countries with lower production costs.
29. 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 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.
30. 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. 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.
31. 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 low-unemployment parts of the 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. There were 450 redundancies in 2008 and another 212 announced in September 2010.

32. Government support for arms exports cannot, therefore, be seen an efficient way of boosting employment in the UK.

New opportunities

33. 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 likely to grow rather than decline. It is not within CAAT's competence to explore these in detail.
34. An obvious example, however, is the response to climate change, widely acknowledged as the greatest "driver of insecurity". 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.
35. 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.
36. 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."
37. For arms industry workers, the choice is not between military manufacturing and unemployment. If public funds were redirected, the jobs would follow.

Proposals for the Comprehensive Spending Review

38. 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.

39. 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.
40. 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.
41. At the same time, the UK should move away from buying equipment designed to address scenarios that are extremely unlikely to happen. Indeed, by seeing problems as military ones requiring a military solution, the UK is more likely to become engaged in wars. The UK government could lead a global rethink on arms procurement, starting by cancelling the purchase of the Eurofighter Typhoons (where, because of operating costs, savings would be substantial regardless of cancellation penalties), the aircraft carriers, Trident and other "white elephant" projects.
42. Resources should be transferred from supporting the arms companies to addressing what is widely acknowledged as the biggest threat to human security. 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.
43. 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 depending on Government support and ramping up new sectors where demand is increasing rapidly.
44. Taking these steps would allow resources to be freed so the Coalition government can make good its commitment in its programme: "We will ensure that UK Trade and Investment and ECGD become champions for British companies that develop and export innovative green technologies around the world, instead of of supporting investment in dirty fossil fuel energy production."

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