

The Defence Export Services Organisation

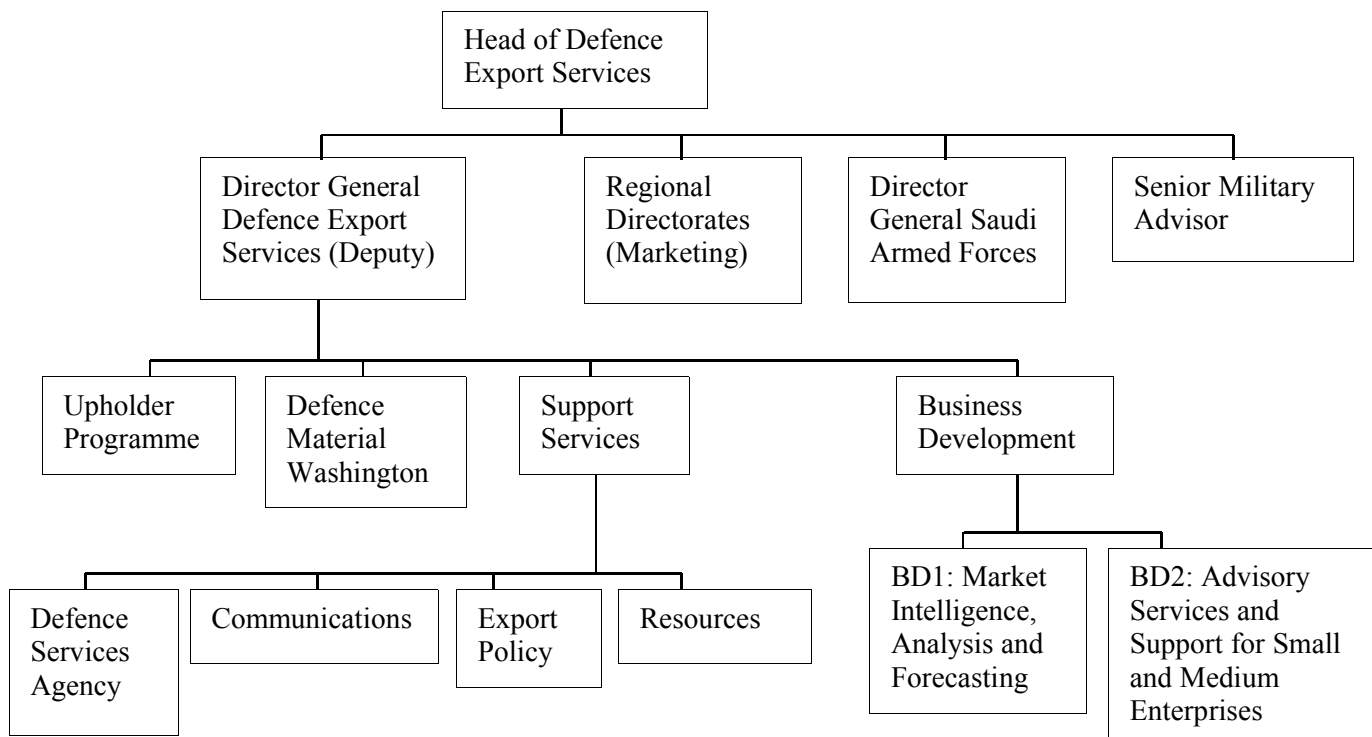
Fynn Prager, December 2004

History and Current Function

The Defence Sales Organisation (DSO) was set up in 1966 as part of a wider scheme of Ministry of Defence (MoD) reorganisation¹. Specifically, it was felt by many in government that UK companies were losing out to better supported foreign competition and that this would have negative effects on UK employment and the 'Defence Industrial Base'. In the early 1960s, sales of UK made weapons overseas had declined. For example, the UK share of the world aircraft market fell from 32% in 1959 to 14% by 1964.² Defence secretary Denis Healey commissioned Donald Stokes to produce a report with the aim of modernising the government support given to UK companies exporting arms. The Stokes Report recommended the creation of 'a small but very high powered central arms sales organisation in the MoD'.³ In 1985 a change of name produced the Defence Export Services Organisation (DESO). Its aim is now 'to maximise legitimate UK defence exports in coordination with industry'.⁴

DESO's Structure

Table 1



¹ www.mod.uk

² www.deso.mod.uk

³ Stokes quoted in Phythian, M. *The Politics of British Arms Sales Since 1964* (Manchester, Manchester University Press, 2000) p. 64.

⁴ www.deso.mod.uk

Number of Staff

From the latest figures, DESO currently employs 606 personnel. 34 staff work on export licensing oversight.⁵ In 2002, DESO employed 610 staff, of which 402 staff worked in the UK while 204 worked overseas.⁶ The figures below suggest there has been a shift of employees from 'Government-to-Government Project Offices' posts to 'Military assistance and exhibitions' posts between 1998 and 2002.

Table 2

	DESO Staff Percentages⁷ (1998) Estimated numbers of employees are in brackets	DESO Staff Numbers⁸ (2002)
Marketing support	22% (134)	136
Military assistance and exhibitions	17% (104)	114
Export control, policy and finance	7% (43)	47
Disposals of MoD equipment	14% (85)	87
Government-to-government Project Offices	40% (244)	226
Total	100% (610)	610

Cost

Table 3⁹

Financial Year	Expenditure (£million)	Receipts (£million)	Net operation costs (£million)
1997-98	-	-	14.38
1998-99	45.359	-29.342	16.017
1999-2000	46.473	-34.977	11.496
2000-01	55.810	-41.430	14.380
2001-02	48.930	-37.853	11.077
2002-03	56.944	-44.407	12.537
2003-04	-	-	15.583 ¹⁰

⁵ Hansard 16/12/03

⁶ Hansard 1/7/02 Column 32W

⁷ www.publications.parliament.uk/pa/cm199899/cmselect/cmdfence/147/14706.htm - Select Committee on Defence report

⁸ Hansard 1/7/02 Column 32W

⁹ Hansard 16/10/03 Column 318W

¹⁰ Hansard 2/3/04 Column 188/9W

Head of Defence Export Services

It was recommended in the Stokes Report that the Head of Defence Sales [now Head of Defence Export Services (HDES)] should be an industrialist; someone 'with a strong personality, drive, organising ability, experience of exporting and an instinct for business'¹¹. Each Head of DSO/DESO has been seconded from an arms-producing company.

Table 4

Head	Years	Seconded from
Raymond Brown	1966-69	Racal
Lester Suffield	1969-76	British Leyland
Ronald Ellis	1976-81	British Leyland
James Blyth	1981-85	Lucas Aerospace
Colin Chandler	1985-89	British Aerospace
Alan Thomas	1989-94	Raytheon
Charles Masefield	1994-98	British Aerospace
Tony Edwards	1998-2002	TI Group
Alan Garwood	2002-	BAE Systems

According to DESO, the HDES 'is responsible for taking the lead, both within Whitehall and in the UK's relations with other Governments, on the promotion of overseas sales of the products and services of the UK defence industry, consistent with the Government's defence export policy. He is responsible to the Secretary of State for Defence and for advising the Secretary of State and other Ministers as appropriate on defence export matters.'¹² The current HDES is paid £165,000pa (plus £15,000 performance bonus pa), which is topped up further by the Defence Industries Council – a forum for senior executives from the military industry and trade associations.¹³

Alan Garwood chairs a new body called the Defence Export Markets Access Forum (DEMAF), which includes representatives from the The Cabinet Office, MoD, Treasury and military industry.¹⁴

THREE MAIN AREAS OF WORK

DESO's work has focussed on three main areas since 2003. These are Support Services, Business Development and Marketing.¹⁵

1. Support Services

All those in the Support Services section report to the Director General of Defence Export Services. This section includes the Disposal Services Agency (DSA), the Communications Directorate, Licensing and Export Policy, Resources and Administration.

- Disposal Service Agency

The Disposal Sales Agency (DSA) is an integral part of DESO and yet exists with some degree of autonomy. Unlike much of the rest of DESO, it is a largely transparent organisation. It publishes an annual report and appears willing to answer parliamentary questions in depth. According to the MoD, the 'Disposal Services Agency provides a managed disposal service for Government and public sector organisations.' It focuses on 'asset realisation, inventory disposal, site clearances,

¹¹ Quoted in Phythian, M. *The Politics of British Arms Sales Since 1964* (Manchester, Manchester University Press, 2000) p. 64.

¹² www.deso.mod.uk

¹³ *Fanning the Flames* CAAT campaign.

¹⁴ www.publications.parliament.uk/pa/cm200203/cmselect/cmdfence/694/3051306.htm

¹⁵ As announced at the DESO Symposium, in DMA (Defence Manufacturers Association) News, May 2003

waste management and consulting, and project management.¹⁶ The DSA functions largely by liaising between UK and foreign governments and contractors, and claims to have brought in 'business in excess of £150 million to UK industry' in 2003.¹⁷

The DSA sells its services to foreign governments as well as selling off refurbished MoD equipment to overseas governments (with support from DESO's regional directorates), companies and private individuals (combat memorabilia etc.). Major deals in 2003 included the sales of ships and naval training to Bangladesh and three C-130K Hercules aircraft to Austria. Approximately 23,000 military vehicles were sold in the last six years.¹⁸ These military vehicles range from tanks to fighter aircraft to naval ships. The DSA is currently in the 4th year of its Al-Husseini Project – a deal to sell ex UK Army tanks along with training and support to the Jordanian Armed Forces. It has a branch in Germany which conducted operations in Kosovo last year. The DSA also conducts marketing and sales agreements with a range of companies. For example, DSA has a deal with Thales to market the Javelin 'Starburst' S15 close air defence system and a deal with BAE Systems to market 'Stingray MODO' and 'Tigerfish'. The DSA also conducts sales agreements with textiles and computer companies.¹⁹

In 2003 the DSA employed 84 people and cost just over £5 million to run.²⁰

- Communications

The Communications Directorate is responsible for organising DESO's attendance of UK and overseas arms and trade fairs, and the media and public relations of DESO (such as their website). DESO's presence at overseas arms exhibitions is seen as a must. 'DESO works in partnership with Trade Partners (UK) and UK industry to attract overseas delegations to the UK areas at exhibitions'. The total cost of this in 2002 was £2.1million (this figure includes staff costs).²¹ The international arms fair circuit runs on a two year cycle and costs could vary from year to year. However, as attendance of IDEX 2003 cost £280,000 (this figure includes 'providing a stand, office and demonstration team')²², it is unlikely that 2003 would have been significantly cheaper. In 2002, DESO 'supported' 12 overseas exhibitions and eight Defence Industrial Days.²³

2. Business Development

The Business Development section of DESO is broken down into a further two departments; BD1 and BD2.

The remit of BD1 is Market Intelligence, Analysis and Forecasting. This includes the conducting of 'worldwide research analyses, surveys and forecasts of the defence market'. They also aim to 'identify and quantify markets and provide information on competitors and their products'. The 'Future Systems' area cooperates with MoD colleagues and those in the military industry to ensure the medium- and long-term competitiveness of UK made equipment.²⁴

BD2 covers Advisory Services, SME (Small and Medium Enterprises) Business Unit, Military Training in support of exports, and development of niche markets. Advisory Services includes an Industrial Participation/Offset Advisor - who advises the Defence Procurement Agency on export equipment and the MoD's Industrial Participation policy, and an International Finance Advisor - who advises UK companies on financial and insurance matters. Industrial Participation is a response to the internationalisation of production of military equipment over the last twenty years.

¹⁶ www.mod.uk

¹⁷ www.disposalsales.agency.mod.uk

¹⁸ www.publications.parliament.uk/pa/cm200304/cmhansrd/vo040210/text/40210w10.htm

¹⁹ www.publications.parliament.uk/pa/cm200304/cmhansrd/vo040209/text/40209w10.htm

²⁰ Disposal Sales Agency 2003 report.

²¹ Letter from Dr Lewis Moonie MP to Angus Robertson Esq MP 17 December 2002

²² Hansard 13/3/03 Col WA194

²³ Letter from Dr Lewis Moonie MP to Angus Robertson Esq MP 17 December 2002.

²⁴ www.deso.mod.uk

The policy allows 'offshore companies to bid on UK defence procurement programmes'. The contracted work should be undertaken within the UK and involve products or services from a UK supplier. The Industrial Participation/Offset Advisor decides on whether the offshore company is within the criteria and hence eligible for DESO services such as credit account arrangements and marketing assistance.²⁵

The SME Business Unit provides advice and support for Small and Medium Enterprises. A significant aspect of SME support is the Export Support Teams, which provide specialist military advice and organise demonstrations and presentations of military equipment. It is difficult to discern the numbers of staff within the Export Support Teams as they work for separate areas of DESO's organisation structure. There is an Export Support Team for each major combat area: Royal Armoured Corps, Royal Artillery, Royal Engineers and Infantry. All military support is headed by the Senior Military Advisor. The SME business unit also provides a database for SMEs of the major companies' offset policies and general marketing information.

The business of military training is perceived as a 'UK strength area' and the business development section aims to 'help providers pursue training opportunities overseas and organises training in support of specific sales'.²⁶

3. Marketing

While the current structure of marketing is 'regionally based', Alan Garwood HDES mooted the idea of moving towards a product based structure.²⁷ The four Regional Directorates remain, but integrated into three of them are product based campaign teams. Offices are situated in the major cities of target countries and often connected to Embassies and High Commissions. As shown above, DESO's attendance of exhibitions is important enough to warrant significant investment. It is not surprising therefore that offices and exhibitions are often in the same places.

RD1 covers most of the Middle East (including the Gulf States), North Africa and Sub-Saharan Africa. The Regional Director is Malcolm Howarth. There are four offices: in Pretoria, Kuwait, Qatar and UAE. There is an integrated campaign team which covers the marketing of Communications and Information Systems and Electronic Warfare/Intelligence, Surveillance Target Acquisition and Reconnaissance.

Table 5²⁸

Office	No. employees	Budget (£)	Exhibitions 2004/5
South Africa	2	79,800	Africa Aerospace & Defence Exhibition
Kuwait	5	213,800	
Qatar	2	85,100	Milipol
UAE	1	88,100	IDEX, Dubai Air Show

This Regional Directorate has strong links to the Kuwaiti Programme Office - with four employees all funded by the Kuwaiti Government, and the Saudi Al-Yamamah Project - with 59 employees all funded by the Saudi Government.

²⁵ www.deso.mod.uk/pdfs/ipguide_over_public.pdf.

²⁶ www.deso.mod.uk

²⁷ Defence News, 2-8/12/2002

²⁸ Figures for Office, No. employees and Budget taken from Hansard 1/7/02 Column 31/32W. Exhibition information taken from www.eventseye.com

Table 6

Office	No. employees	Budget (£)	Exhibitions 2004/5
Saudi Arabia	59	'Paid for by customer government'	ASTEX, Riyadh
Kuwait	4	'Paid for by customer government'	

RD2 covers South Asia, Central Asia, Australia and Latin America. The Regional Director is David Brewerton.²⁹ There are offices in New Delhi and Canberra.

Table 7³⁰

Office	No. employees	Budget (£)	Exhibitions 2004/5
India	1	50,100	Aero India, DEFEXPO
Australia	2	144,300	Pacific 2004, Australian Air Show

RD3 covers South East Asia, Japan, Korea and China. Each office is within the British Embassy/High commission and is headed by a First Secretary (Defence Supply). It is unclear whether these are specifically DESO or Foreign and Commonwealth Office employees. An integrated campaign team covers marketing of the Eurofighter/Typhoon.

Table 8

Office	No. employees	Budget (£)	Exhibitions 2004/5	First Secretary (Defence Supply)
Singapore	2	131,700	Asian Aerospace, UDT Asia, IMDEX Asia	Peter Wythe
Malaysia	4.5	169,800	DSA, LIMA	Dave Mew
Brunei	2	93,400		Colin Britteon
South Korea	2	63,100	Seoul Air Show	Chris Earl

It is likely that the Malaysian office is connected to the Malaysian Arms Project, which since 1988 has provided advice to Malaysia on its purchase of Hawk aircraft, radars and frigates.³¹

RD4 covers the US, Canada, Europe and Mediterranean regions. An integrated campaign team covers the marketing of the EH101 Helicopter.

Table 9

Office	No. employees	Budget (£)	Exhibitions 2004/5
Germany	4	153,700	ILA, Avionics Expo Europe
Greece	1	50,100	Defendory
Turkey	1	91,300	IDEF

There are also staff in the British Embassies in Berlin, Paris and Washington DC. Links to the US are maintained through the director of Defence Material Washington who liaises with the Defence Trade Office at the British Embassy. The German First Secretary of Defence Supply is Ed O'Donnell, while the US equivalent is Chris Cook. There is a DESO presence at a number of the many Exhibitions in the US. In 2003, DESO supported efforts by UK companies to access

²⁹ www.londonchamber.co.uk

³⁰ Figures for Office, No. employees and Budget taken from Hansard 1/7/02 Column 31/32W. Exhibition information taken from www.eventseye.com

³¹ www.parliament.the-stationery-office.co.uk - Select Committee on Defence report

potential markets in France through presence at the EUROSEM 03, the Paris Air Show, Eurosatory, and Euronaval.³²

The Projects

There are three 'projects'. These are the Saudi Armed Forces Project/Al Yamamah, Kuwait Programme Office and the Malaysian Project (although only the first two are mentioned explicitly on DESO's website). Specific governments sign Memoranda of Understanding with DESO for services accompanying large orders. According to the Government, 40% of DESO employees (around 226 people) work in the project offices. Whenever a question is asked to the government concerning DESO staff numbers, it is always stressed that the 'customer government' pays for the 'Project' offices in both Saudi Arabia and Kuwait. However staff are required in the UK as well as the 'customer' country. As the staff working in the overseas offices appear to number 63, 163 presumably work in the UK funded by DESO.

Priority Markets

DESO has a list of around 20 markets that it targets. However it is thought by officials that public knowledge of this would negatively affect the UK government's international relations.³³ As a result the latest known priority markets are for the financial year 2001/2. However, this could well be a convenient excuse to deflect criticism considering that past priority markets have included Pakistan and Indonesia in 1998 and Turkey and Saudi Arabia in 2001/2.

Table 10

Year	UK Priority Markets
1998 ³⁴	Australia, Brazil, Finland, Greece, India, Indonesia, Norway, Pakistan, Sweden, US
2000 ³⁵	Australia, Brazil, Finland, Greece, India, Norway, Sweden, US
2001/2 ³⁶	Australia, Brazil, Brunei, Canada, India, Japan, Kuwait, Malaysia, Oman, Republic of Korea, Saudi Arabia, Singapore, Sweden, Turkey, UAE, USA

Military Connections

The Senior Military Advisor heads up military involvement within DESO and in 1998 was Major Steve Smith.³⁷ Military personnel are integrated into the Regional Directorates and the SME and Military Training section so as to provide military advice to their DESO colleagues, UK military industry and potential overseas customers. It is unclear, however, how many personnel are employed in each section and how many work within both sections. Around 114 DESO employees work in 'Military assistance and exhibitions' while around 136 work in 'Marketing Support' (see table 2). Information on the number of employees who are military personnel is not available.

The work of the Export Support Teams is detailed above and relates to the military advice provided by the Army within the marketing arm of DESO. Further military advice is provided on the areas of Navy, Air Force and Logistics. The Fleet Programme aims to market Naval equipment overseas and is demonstrated by the Royal Navy and Royal Marines. Regional Directorates 'bid'

³² Hansard 12/2/03 Col 741W

³³ Lord Bach, Minister for Defence Procurement, letter to Julia Drown MP, 17 March 2003

³⁴ Private Eye, 27/12/02

³⁵ Private Eye, 27/12/02

³⁶ Lord Bach, Minister for Defence Procurement, letter to Julia Drown MP, 17 March 2003

³⁷ www.defence-data.com

for such demonstrations, which can be for the Navy of a sole country and include Defence Industry Days. Defence Industry Days involve around 20 companies advertising their wares on a 'show' ship provided by the Navy. The Royal Air Force works with DESO on Air Shows and flying displays - this include the famous Red Arrows.

Foreign & Commonwealth Office Connections

As already noted above, DESO Regional Directorate offices are often attached to Embassies and High Commissions. However, further support is provided by Foreign and Commonwealth Office in the form of Defence Attachés (employed at embassies) and Defence Advisors (employed at High Commissions) who perform the same role including the promotion of arms exports. This provides DESO with a worldwide network of support for its activities. There are some 128 Defence Attachés/Advisors deployed in 82 locations, of which 69 are Army personnel, 27 are RAF and 32 are Royal Navy. A further four (two RN and two RAF) are employed without diplomatic accreditation. All newly appointed Defence Attachés/Advisors are briefed by DESO prior to taking up their posts.³⁸

Table 11

Financial Year	Defence Attaché/Advisor Costs³⁹ (£m)
1997/98	30.6
1998/99	31.7
1999/2000	32.4
2000/01	34.0
2001/02	37.2
2002/03	37.1

³⁸ DMA (Defence Manufacturers Association) News, Jan 2003

³⁹ Hansard 16/10/03 Column 318W