

Who calls the shots?

How government-corporate collusion drives arms exports



Despite its pledge to introduce an ethical dimension to UK foreign policy, the current Labour government has continued to support arms exporters, both politically and financially, at a level highly disproportionate to civil industry. The government's stated reasons for its support – focussing on the economy, national security and international peace and stability – fail to stand up to scrutiny.

The real reasons for the government's continued support of the arms industry and arms exports are complex, but perhaps the single most significant factor is the relationship between arms companies and the government. An intricate web of links gives arms companies unparalleled influence in determining government policy.

Military industry has attracted a stream of high-level ex Ministry of Defence (MoD) and armed forces staff and has offered a number of its own staff to the MoD as secondees. It is heavily represented on an extensive network of high-level advisory bodies, giving it further access to government. Lobbying companies, many with links to the Labour Party, also give arms companies a potential advantage. Cash donations and corporate sponsorship further blur the boundaries between state and industry and a number of former industry executives have become Labour Peers with highly influential roles. The government's increasing use of arms companies in Public-Private Partnerships blurs the boundaries even further.

Each individual link might merit little attention, but their cumulative impact requires a reassessment of government military-related policy and the motivations behind it. Any attempt to challenge the government's enthusiastic support for arms exports must begin by understanding the relationship between arms companies and government.

This paper is an overview of the arguments and key information contained in the CAAT report 'Who Calls the Shots?'. The full report is available at www.caat.org.uk or from the CAAT office.

Government support for UK-based arms-exporting companies

Arms companies enjoy an enormous amount of political and financial support from the government. In his 2003 autobiography, former Foreign Secretary Robin Cook observed 'I never once knew Number 10 come up with any decision that would be incommensurate to British Aerospace'.¹

The government's political support for the arms industry is underpinned by high levels of financial support which is difficult to accurately quantify due to a lack of official information. However, four recent studies² have estimated that arms exporters benefit from subsidies ranging between £228 million and £990 million per annum. They warn that their figures are likely to represent considerable underestimates.

Sources of support include:

- A government unit, the Defence Export Services Organisation (DESO), which employs 600 civil servants to market and sell weapons. In proportion to their share of UK exports, DESO receives thirteen times the budget of the department promoting civil exports;
- Promotion of military sales abroad by government ministers and members of the Royal Family;
- Paying for military Research and Development work that supports arms exports;
- Providing insurance for arms exporters, at the taxpayer's expense and at levels highly disproportionate to civil exports, through the Export Credits Guarantee Department.

Official reasons for government support and why they fail to convince

1. Arms exports bring economic benefits, including jobs and a healthy contribution to the balance of trade.
 - The MoD's own estimates show that, at most, 60,000 jobs are now sustained by military exports, just 0.2% of all UK jobs;
 - Arms sales make up around 1.6% of all UK visible exports. Even this is an overestimate, as the import content of exported goods is around 40%;
 - A study co-authored by MoD economists concluded that 'the economic costs of reducing defence exports are relatively small and largely one-off'.³
2. Arms exports help maintain a strong 'defence industry' which underpins our own security and contributes to the security of friends and allies overseas.⁴
 - As for 'our own security', military industry has become increasingly global and the UK is dependent on imported components for its military equipment;

- Arms exports have contributed to political insecurity (Saudi Arabia) and sustained underdevelopment (South Africa) in recipient states.
3. Exporting arms buys the UK political influence over recipient states and facilitates international peace and stability.⁵
- In a buyers' market, seller states have an incentive to attract prospective buyers and keep them. Successive UK governments have acted as public apologists for some of the worst abusers of human rights. The current Labour government has issued export licences to persistent human rights abusers including Saudi Arabia, Qatar, South Korea, China and Indonesia;
 - The current government has approved a large number of export licences to states experiencing conflict, including rival states. Sales have frequently been approved at times of greatest tension. In 2002, for example, it authorised arms export licences to both India and Pakistan when tensions between the two were at fever pitch.

The real reasons behind government support

There are a number of alternative explanations for the government's support of the arms trade. They include the possibility that arms sales are used as a diplomatic tool to achieve hidden foreign policy goals or that Tony Blair is particularly driven towards military intervention and therefore has a personal commitment to the arms companies. Another possible reason is the desire of the Labour government to stay on the right side of big business in general. While each of these may go some way to explain the government's support, they must be viewed in the context of the arms companies' relationship with the government, and the extraordinary influence it provides them.

The revolving door between government and arms companies

A significant, and long standing, feature of the relationship between the UK government and military industry is often referred to as 'the revolving door': No other industry has attracted such a large number of high-ranking government staff while at the same time seconding many of its own employees to the same government department.

Government officials in industry

The Advisory Committee on Business Appointments, which regulates the acceptance of private sector employment by 'the most senior members of the Civil Service, the Armed Forces and the Diplomatic Service', has itself acknowledged that 'In the case of the MoD, it can be argued that the numbers seeking such employment are so

significant as to amount to a 'traffic' from the Department to the defence contractors who supply it.'⁶ On average, between 1997 and 2004, 39% of all applications to the Committee were made by individuals working in the MoD.

Since the start of the 1990s at least six government Ministers – three Defence Secretaries and three Defence Procurement Ministers – have gone on to work for arms-producing companies. They include:

- **Michael Portillo**, Defence Secretary (1995–97); joined BAE Systems in September 2002 as a Non Executive Director.
- **George Robertson**, Defence Secretary (1997–99); following his position as Secretary General of NATO (1999–2003) he became a Non-Executive Director at military aerospace firm Smiths and a Non-Executive Director of the Weir Group, the Glasgow based engineering firm who are a major supplier of weapons systems for all Royal Navy submarines.
- **Jonathon Aitken**, Minister for Defence Procurement (1992–94); became a consultant for GEC Marconi but his contract was terminated in 1999 when he received an 18 month prison sentence for perjury and perverting the course of justice.

Industry in government

In May 2003 the government disclosed that at least 38 from a total of 79 individuals seconded to the MoD between April 1997 and January 2003 came from arms-producing companies. Twenty-two of these were seconded from BAE Systems for periods of between six and 37 months.

DESO has always seconded its head from, and often delivered him back to, military industry. Its current head is Alan Garwood, who was seconded from missile-maker MBDA, of which BAE Systems owns around a third.

Until his appointment as head of DESO (1998–2002), Tony Edwards was Group Managing Director at Lucas Industries and Chief Executive of the TI Group. When questioned by the Select Committee on Defence in 1999 about remuneration and the potential for conflict of interest, he explained 'I can say openly I am beholden to the industry and grateful to them for this top up but then I am working for them openly and overtly anyway.'⁷

It is difficult to see how BAE Systems and the other arms companies involved do not gain any advantage from this blurring of boundaries between industry and government.

Advisory bodies

Tony Blair has established more groups of non-elected individuals to advise on government policy than any other British Prime Minister. Between May 1997 and December 1998 at least 295 new advisory groups, including 'task

forces', were created, drawing in some 2500 members who were neither government officials nor ministers. Recently established European advisory groups offer arms-producing companies further opportunity to influence policy on an even wider scale.

The deliberations of these largely publicly unaccountable bodies are generally secret and membership information can be difficult to obtain. From what is known of the four main domestic military-related bodies (outlined below), out of a total membership of 81, 45 are from industry and 28 from government.

There is little room for non-military and non-corporate voices, and these bodies afford military industry extraordinary access to high level government officials.

The National Defence Industries Council – Singled out by the MoD as the most important forum for coordinated planning on military industrial policy, the council identifies and funds work of importance to military industry and is made up of high ranking representatives from government and the arms industry. As of December 2003 it was led by the then Chair of BAE Systems, Dick Evans, who was joined by ten other representatives of arms companies and arms industry trade associations. They benefit from privileged access to the highest ranking departmental representatives, including the Defence Secretary, the Minister for Defence Procurement and the Chief Executive of the Defence Procurement Agency.

The Defence Export and Market Access Forum – This forum was established in 2003 to improve the access UK-based industry has to foreign markets. In response to parliamentary questions it was disclosed that in recent meetings the forum has discussed export control legislation and the contribution of military exports to the UK economy. It is chaired by Alan Garwood, head of DESO and formerly of MBDA and BAE Systems. The government will not disclose the names of other individual members, but it includes representatives of the Cabinet Office, MoD, Foreign & Commonwealth Office, Department of Trade & Industry, Treasury, BAE Systems, Rolls Royce, Smiths and the Society of British Aerospace Companies.

The National Defence and Aerospace Systems Panel – Established in 2002, the panel's remit is to 'prepare the UK defence and aerospace sectors for the challenges of the future'⁸ and will, according to a government website, 'continue to have the ear of Government decision makers at the highest levels.'⁹ It is composed of thirteen industry representatives, six government representatives, two academics and one representative of each of the Engineering and Physical Sciences Research Council and the Royal Aeronautical Society. The panel oversees, amongst other bodies, nine National Advisory Committees which advise the government on the direction of new research funding.

The Aerospace Innovation and Growth Team – Also set up in 2002, this DTI team aims to 'Ensure the competitiveness of UK Aerospace over the next twenty years' and is chaired by Dick Evans, former Chair of BAE Systems. Evans is joined by eleven colleagues from industry and their trade associations, six from government and three others from academia, unions and regional development agencies, all chosen by the Secretary of State for Trade and Industry.

Lobbying companies

Another recent phenomenon in the political landscape is the growth of lobbying companies paid to represent the interests of their clients to government and in the media. A search of senior staff whose biographies have been posted on lobbying company websites reveals 40 former Labour Party advisors or former advisors to Labour MPs now at work within the lobbying industry.

Lobbying companies that have arms company clients include Bell Pottinger Public Affairs, Bergmans and APCO UK. Labour Party sponsor Bell Pottinger Public Affairs, which has reportedly worked for both BAE Systems and Rolls Royce. Its Associate Director, Howard Dawber, who specialises in military and aerospace, is a former employee of Labour Party HQ and an unsuccessful Labour Party candidate.

Labour Peers

Though relatively few Labour Peers are connected to military industry, those that are enjoy influential government jobs and/or have links to some of the highest echelons of the Labour government.

One particularly versatile Peer is Lord Clive Hollick, a Director of British Aerospace (BAe) from 1992 to 1997. Hollick became Special Advisor to Margaret Beckett at the DTI in May 1997 and, after her departure, to Peter Mandelson until October 1998. One of the central players in bringing corporations closer to Labour, he ran the Labour Party's Business Relations Unit and kept corporate money flowing into Labour's current account at a time when the party was facing a mounting overdraft. It has been reported that Hollick himself donated between £25,000 and £50,000 to the Labour party during 1997, a year he began as a BAe Director. Andrew Rawnsley, associate editor of *The Observer*, and others, have alleged that former Foreign Secretary Robin Cook privately blames Hollick's influence in Downing Street for his failure to push through tighter regulation of arms exports.

Donations and sponsorship

Income from wealthy individuals and commercial activity have increasingly come to replace the Labour Party's income from trade unions and party membership. In 1987 affiliation fees (80% of which came from trade unions) made up 87% of the party's income. By 1997 these were

11 Goodwin Street, London N4 3HQ

Tel: 020 7281 0297

Fax: 020 7281 4369

Email: enquiries@caat.org.uk

Website: www.caat.org.uk



23% of the party's income and had dropped further to 17% by 2001.

Financial contributions range from reported donations to the Labour Party by individuals, such as Lord Hollick and David Brown, Managing Director of commercial and military vehicle manufacturer Multidrive, to corporate sponsorship of a key Labour government project - BAE Systems' sponsorship of the Mind Zone at the Millennium Dome, reportedly at a cost of £12 million (tax deductible).

This shift in the source of Labour Party funding contributes to an environment in which the government increasingly has an incentive to pursue business-friendly policies.

'Public-Private Partnerships'

Areas previously considered core government-run sectors are now being considered for, or are already running as, public-private partnerships. Once in the private sector there is less transparency and fewer means of overseeing activities. In addition to having reduced control, the government has to retain much of the financial risk because it would be politically damaging to let a company running core public services fail. This provides yet another incentive for the government to promote business-friendly policies.

At the MoD, private contractors are being considered as possible contenders to run all but a few of the department's core duties despite warnings from unions that the 'anticipated benefits of public-private partnerships are at best questionable and at worst disastrous.'¹⁰ The MoD's favoured form of Public-Private Partnership is Private Finance Initiatives, in which the private sector owns the assets, often buildings, sometimes military equipment, and provides the services required, for which they are compensated from the public purse. As of June 2004 the MoD had signed 46 Private Finance deals, involving a total of more than £2.3 billion in private sector investment. A further 40 to 50 projects worth £12 billion are either underway or are being considered.

Conclusion

The underlying reasons for the government's support of the UK arms industry appear to lie in the complex web of links between the two. Some of those links were already strong when Labour took power – military industry has regularly employed top ex-MoD and armed forces staff, and seconded its own employees to the MoD. Others – advisory groups, lobbying companies and private finance initiatives – have developed since. Each individual link may not in itself be problematic, but taken together they paint an alarming picture. Boundaries between

government and the arms industry are severely blurred. The lack of transparency and the complexity of the relationships mean that the electorate are not aware of the extent to which the UK arms industry determines government policy.

In the current political environment, where the Labour Party has become increasingly focussed on big business, Tony Blair's unstinting support for arms exports, and in particular BAE Systems, makes the challenge for those who oppose the arms trade greater than ever. Only when the public demands greater transparency and less involvement from arms companies in government policy-making will a reduction in the arms trade be possible.

References

1. Robin Cook, *The Point of Departure* (London: Simon & Schuster, 2003)
2. WDM, *Gunrunners Gold*, (WDM, 1995); Stephen Martin, 'The subsidy saving from reducing UK arms exports', *Journal of Economic Studies*, 26:1 (1999); ORG & Saferworld, *The Subsidy Trap* (ORG & Saferworld, July 2001); CAAT, *Arms Trade Subsidies Factsheet* (CAAT, May 2004). A fifth study by two MoD economists and two academics (Malcolm Chalmers, Neil Davies, Keith Hartley and Chris Wilkinson, *The Economic Costs and Benefits of UK Defence Exports* (York: University of York Centre for Defence Economics, 2001)) found that there was a small saving. However, the authors excluded several of the subsidy elements considered by the other reports.
3. Chalmers et al., *The Economic Costs and Benefits of UK Defence Exports*
4. Lord Bach, 'MoD Has No Difficulty With York Report', *Financial Times*, 13th March 2002
5. See House of Commons Defence Select Committee, *Second Report: The Appointment of the New Head of Defence Export Services*, 31st March 1999, HC 147; House of Commons, Hansard, 28th July 1997, Written Answers Col. 26
6. The Cabinet Office, *The Advisory Committee on Business Appointments*, Sixth Report 2002-2004
7. House of Commons Defence Select Committee, *Second Report: The Appointment of the New Head of Defence Export Services*, 31st March 1999, HC 147
8. Department of Trade and Industry <www.dti.gov.uk/aerospace/partnerships.htm>
9. Peter Holtby, 'New Foresight Panel Picks up the Challenge', *Vision: The newsletter of the Foresight and Link initiatives*, Issue 3, Summer 2002
10. AMICUS, GMB, PCS, Prospect, T&G, UCAAT, Still Daft, *Damaging and Demoralising: The trade union response to the MoD revolution in military support and logistics capability*, February 2003