Dear [Name]

On 10 August, you sent an e-mail to Dr Cable’s office asking for response to two questions you had sent earlier relating to support for defence exports which is delivered by UK Trade & Investment Defence & Security Organisation. I have been asked to reply.

Question: What is your department's definition of 'advanced engineering' ... and please could we have some figures. It would be useful to know the total value of the 'goods export sector' as well as the value of the 'advanced engineering' goods within this.

UK advanced engineering covers a wide range of engineering specialisations including: aerospace (civil) but excluding airports; automotive, including motorsport and construction equipment; mechanical, electrical and process engineering; metallurgical process plant; metals and minerals.

Information on individual sectors is set out in some detail in several publications on UKTI’s website, Advanced Engineering sector pages at:


Published figures in 2007 list the value of UK goods exports as US$ 439,091 million (World Trade Organisation). Goods made up 61% of UK goods and services exports in 2007. In the same year, total goods exports for the UK advanced engineering sector, based on UKTI Sector Group’s definition of the sector, totalled US$ 103,606 million (Institute for International Integration Studies), which was 23.60% of total goods exports.

Question: If the BASIC study understated the benefits and overestimated the costs [of support to defence exports], please could you arrange for the evidence to be published.

The study “Escaping the Subsidy Trap” published in 2004 on behalf of British American Security information Council (BASIC), Saferworld and Oxford Research Group claimed that the defence...
industry receives subsidies of £500 million to £1 bn. The main elements of this alleged subsidy when the Report was published in 2004 are included below along with the assessment made at that time:

a. **ECGD support for defence exports represents an annual subsidy of £222M.** The report wrongly claims that the premiums ECGD charges industry were too low. It also used flawed methodology and inaccurate data. For example, it overstated the value of ECGD’s defence portfolio and understated the premiums charged for covering medium term risk. ECGD’s support for new export contracts in the defence sector has, however, declined sharply in recent years and is now negligible.

b. **MOD procurement is distorted to provide a subsidy to defence exports of £200M.** Defence procurement is not systematically distorted to favour exportable products, at extra costs to the taxpayer and we are aware of no evidence that could justify such a claim. The MOD’s aspiration is to design future equipment with exportable characteristics which will help reduce MOD costs of acquisition, lowering unit costs and through life cost of ownership.

The statement which was made in the BASIC report appears to reflect unfounded press reports from 2003 which claimed that £1 Billion could have been saved if Hawk had not been selected [in preference to an Italian alternative] to meet MOD’s requirement. In reaching the decision to select Hawk, Ministers balanced the capability requirement, the through life cost to the taxpayer and wider factors such as the impact on the UK industrial base and economy.

c. **Development of new systems (R&D) spend - £600M attributed as subsidy to exports.** The report takes total defence R&D spend and assumes that this should be apportioned between MOD procurement and exports, in line with the relative volume of sales. The report concedes that “there is considerable disagreement amongst experts” on whether R&D spending is relevant. The level of spending on defence R&D reflects what is needed to equip and maintain the capability of the UK’s armed forces. None of MOD’s R&D spend supports export customers.

As you say the Defence Industrial Strategy (DIS) noted the conclusion of the York study that the balance of argument about defence exports should depend mainly on non-economic considerations. However, the DIS recognised that defence exports bring benefit for to defence through supporting defence diplomacy, helping to maintain key sovereign capabilities, and by spreading fixed overhead costs. The MOD submission to the York study estimated that this saved over £300M per year on its procurement budget.

Yours sincerely

Signed

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