Submission from the Campaign Against Arms Trade to the Business, Innovation and Skills inquiry looking at Exports and the role of UK Trade and Investment (UKTI)

1. The Campaign Against Arms Trade (CAAT) in the UK is working to end the international arms trade. CAAT believes that large scale military procurement and arms exports only reinforce a militaristic approach to international problems.

2. Successive UK governments have chosen to give disproportionate support to exports from one sector. Military exports account for around just 1.5% of the UK's total exports. (http://bit.ly/11BzvpY) Even then, it is likely that around 40% of the contents of these exports were imported in the first place. Despite this, the arms companies are privileged in the support they receive which far exceeds that accorded any other sector.

3. Arms companies are global businesses, with their headquarters in one country, but often with subsidiaries in several others. The companies' primary consideration is not the UK economy and production will take place wherever it is likely to maximise the profits of the international shareholders.

4. Despite this, military exports are subsidised by the UK tax-payer. Analysis carried out for CAAT by SIPRI in May 2011 calculated this subsidy at about £700million a year. This includes the costs of UK government's arms sales agency, the UK Trade and Investment Defence & Security Organisation (UKTI DSO), export credits and the work of military attachés in promoting arms sales, as well as weaponry development costs. (SIPRI paper http://bit.ly/1ttzGja)

5. This UK government backing is for a stagnant industry. This remains true, despite recent UK government commitments to higher military equipment spending. Other sectors, such as renewables, are growing and resources could be used to better effect by developing and supporting these. CAAT believes that it is in the UK's economic interests to switch the current tax-payer funded assistance from military industry to renewable energy and low-carbon technologies.

Controversial exports

6. Two-thirds of UK arms exports go to the Middle East, with Saudi Arabia being the biggest customer. It is a country with an appalling human rights record and is currently leading a coalition which is devastating neighbouring Yemen with its military attacks.

7. A majority of the adult UK public does not support these exports. A survey by Opinium LLP, conducted in September 2015, found that 70% of UK adults opposed the promotion of arms sales to governments with poor human rights records, with only 7% in support. Similarly, 60% opposed the promotion of arms sales to countries that are not democracies, with only 8% supporting them. (http://bit.ly/1Q52ZD6)

8. UKTI DSO has a list of "priority markets". The Foreign and Commonwealth Office has a list of "countries of concern" on human rights grounds. In its July 2013 report, the Commons' Committees on Arms Export Controls (CAEC) under its Conservative Chair Sir John Stanley MP said: "that it is fundamentally anomalous, not least in terms of public
perceptions, for countries listed by the Foreign and Commonwealth Office as being of human rights concerns, such as Libya and Saudi Arabia, then to be listed by the United Kingdom Trade and Investment Organisation within the Department for Business, Innovation and Skills as Priority Markets for arms exports."

9. CAEC's report also said: "the Government would do well to acknowledge that there is an inherent conflict between strongly promoting arms exports to authoritarian regimes whilst strongly criticising their lack of human rights at the same time rather than claiming, as the Government continues to do, that these two policies 'are mutually reinforcing'." CAEC reiterated this point in its later reports.

10. UK governments have, however, acknowledged that exports of military and security equipment are not like other exports. This is acknowledged in that such goods need licences to be exported. However, the licensing is largely a paper exercise, when the exports are so heavily promoted by the UK government.

**Government assistance for arms exports**

11. Despite the public and parliamentary disquiet, successive UK governments have gone to enormous lengths to support the arms companies. Prime Ministers Margaret Thatcher, Tony Blair and David Cameron have all led delegations to promote arms sales, including to some of the world's most repressive regimes. Even the Royal Family is enlisted in the effort - Prince Charles famously doing a sword dance in Saudi Arabia in 2014 to secure a fighter jet deal for BAE Systems. It is, however, arguably through the day-to-day support for their sales that the arms companies enjoy the greatest benefit. It seems as though this support is set to increase.

**UKTI DSO**

12. Originally set up in 1966 within the Ministry of Defence (MoD), the UK government's arms sales unit is now the UKTI DSO. This 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 facilitates arms fairs. It can use the services of military personnel on loan from the MoD and, more generally, co-ordinates arms sales efforts across government. Since 2012, companies have also received assistance from the MoD's Defence Export Support Group.

13. Within UKTI, support for military exports is hugely disproportionate. The Head of UKTI DSO sits on UKTI's Management Board, a privilege not accorded the Head of any other sector. Most revealingly, Matthew Hancock MP, then Business and Enterprise Minister, said in a written answer, 211850 on 11th November 2014, that, of UKTI's sector specific staff, 55% work for UKTI DSO which also receives 28% of the funding for sectors. This is a huge disparity of resources.

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<th>Sector</th>
<th>Staff numbers as at 1st April 2014</th>
<th>Budget 2014/15 £million</th>
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<tr>
<td>Advanced Manufacturing</td>
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<td>UKTI Agri-Tech Organisation</td>
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<td>1.3</td>
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<td>UKTI Automotive Investment Organisation</td>
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<td>Construction</td>
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<td>Consumer &amp; Retail</td>
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<td>Creative Industries &amp; Global Sports</td>
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While the Minister pointed out that UKTI DSO operates as a separate unit and shares less of UKTI's common resources, it should be remembered that the arms industry enjoys the additional support of the MoD personnel, as mentioned elsewhere. The very distinct and separate nature of the arms export unit also gives the industry a stronger voice within UKTI.

Extra support for military exports to Saudi Arabia

The UK government provides additional support for military exports to Saudi Arabia. The Ministry of Defence Saudi Armed Forces Project (MODSAP) covers the Saudi British Defence Co-operation Programme, formerly known as Al Yamamah (sale of Tornado, Hawk and PC-9 aircraft to the Royal Saudi Air Force) and the Al Salam programme (sale of Eurofighter Typhoons to the Royal Saudi Air Force). The Saudi Arabia National Guard Communications Project (SANGCOM) looks after the eponymous project. In each of these cases the MoD has signed one or more Memoranda of Understanding with the Saudi Arabian Government. The MoD then places contracts with UK prime contractors to fulfil the UK's obligations. Around 200 UK civil servants and military personnel work for MODSAP in the UK and Saudi Arabia, while approximately 55 do likewise on SANGCOM.

The Saudi Arabian government reimburses the operating expenditure of MODSAP and SANGCOM. While this means that UK taxpayers are not footing the bill, it seems extraordinary that an overseas government has, in effect, UK public servants working for it to support exports to it.

UK Export Finance

UK Export Finance (UKEF), known until November 2011 as the Export Credits Guarantee Department, is an independent Government department responsible to the Business Secretary. It guarantees that companies and banks involved in an export deal will not lose out if the overseas buyer does not pay, or makes late payments. Companies are charged a premium and UKEF aims to break even, but any shortfall comes from the UK tax-payer.

For many years support for arms sales accounted for between a third and a half of all export insurance. In 2008 BAE ended export credit insurance for its Saudi deals, just before a highly critical report from the from the Organisation for Economic Cooperation and Development. Since then, there have been huge variations in the annual level of support for military exports depending on whether or not there was a large deal in the particular year.

Backing for military deals was 47% of all export credits in 2012/13. This included £2billion cover for the purchase of BAE Eurofighter Typhoons by Oman; £4.2million for the export of intelligence equipment to Indonesian Ministry of Defence and £1.1million for the purchase of hovercraft by the Pakistani navy. In 2013/14 the arms cover was negligible, but by 2014/15 (the latest year for which there are figures) it had risen to 5% of all UKEF’s
This included cover of over £130million for Thales Starstreak missiles for Indonesia as well as over £190,000 for the supply of electronic protection equipment by Kirintec to Saudi Arabia.

20. Historically, a large proportion of the debt owed to the UK has been in respect of cover for arms deals. A UKEF paper on Sovereign Debt published in October 2012 (http://bit.ly/1w4sS8Q) showed that 38% of Argentina's debt comes from loans for military equipment; as did 56% of Ecuador’s, 23% of Egypt’s and 74% of Indonesia’s. The arms companies benefited from this. However, both the UK and the citizens of the countries concerned, who are still expected to repay the debt, lost out.

Even more support for military exports

21. In its National Security Strategy and Strategic Defence and Security Review 2015 published on 23rd November 2015, the UK government promises even more support for military exports. In paragraph 6.62 it says that the Government will:
   * Establish a team in UKTI dedicated to supporting the negotiation and delivery of government-to-government deals by departments;
   * Make support for exports a core task for the MoD, with responsibility for managing all strategic defence export campaigns, overseen by the Defence Secretary and a new senior official post. This will create additional capacity to support these campaigns, including the training of international customers. We will adopt a more flexible approach to charging potential customers when supporting export campaigns where this is in our national interest. UKTI DSO will continue to work with the sector to promote exports to potential customers;
   * Ensure that future export potential is factored into our own equipment procurement decisions from the outset, and that potential customers are routinely invited to trials of British-developed military and security equipment. Prioritise government resources on those campaigns where it can make the most difference, and where industry is willing to invest its own resources.

22. This suggests that more arrangements like MODSAP are envisaged, but that the taxpayer would fund them, providing even more support to the already privileged arms companies. However, the detail of the changes still unclear, especially with regards to UKTI.

Choice of industry to support

23. Whatever the detail, it seems clear that the Conservative government has chosen to give even more assistance to an industry which already enjoys an amount that is completely disproportionate to the level of its exports.

24. A better choice for the UK and globally would be a shift from supporting the arms industry to promoting sectors where global demand is increasing such as renewable energy and low-carbon technologies. Both the arms and renewable energy sectors are highly skilled. As CAAT's Arms to Renewables briefing, October 2014, (http://bit.ly/1u53Eoc) shows, they have similar breakdowns across broad categories of skill levels and employ many of the same branches of engineering. The expansion of offshore wind and marine energy considered by the briefing would lead to many more jobs than displaced arms workers would need, the skills required would be similar, and there would also be appropriate work available in most areas where arms workers are located.

25. As then Foreign Secretary William Hague told the Prime Minister David Cameron in a letter dated 19th March 2012: “I believe we should reframe our response to climate change as an imperative for growth rather than merely being a way of being green or meeting environmental commitments... The low carbon economy is at the leading edge of a structural shift now taking place globally.” (Guardian, http://bit.ly/1KoRGRy)

26. His successor as Foreign Secretary, Philip Hammond, has also talked of the economic advantages of investment in renewables. He told an audience in Boston on 9th October 2014, renewables would be “critical to reducing our vulnerability to energy supply shocks"
and meeting the climate change challenge. Other benefits would also arise, such as cleaner air, more efficient transport and cities, and better health. He continued: “50 years ago, the US showed how a strategic challenge, putting a man on the moon, could guarantee innovation through economy-transforming investments. Today, we have an opportunity to do that again in response to the challenge of climate change” … “The potential is immense. And by seizing the initiative, we can take first mover advantage.”


27. Unfortunately, the words remain to be translated into action. Currently UK government (R&D) expenditure on arms is, according to the latest figures (http://bit.ly/1xIYmo5) around twenty-five times that spent on all types of renewable energy. This could change if the UK government takes “first mover advantage”. Unfortunately, it is moving in the opposite direction, cutting support for renewables while increasing it for military exports. This needs to change.

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