Submission from the Campaign Against Arms Trade to the Business, Innovation and Skills Committee's inquiry into Rebalancing the Economy: Trade and Investment

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. In September 2010, CAAT made a submission to your Committee's earlier inquiry into Government assistance to industry, concentrating on the role of the Department for Business, Innovation and Skills (BIS) in providing support for exports in one industry. CAAT drew attention to the problems engendered by the arms trade; pointed out that its promotion by the Government is controversial, not apolitical; said that the supposed economic and employment benefits to the UK are far from proven; and proposed that the support given to the arms companies be redirected to newer industries tackling climate change, with benefits to both the economy and security.

3. Unaware that the Committee would shortly be holding this more specific inquiry, CAAT's September submission focussed on UK Trade & Investment (UKTI) and the Export Credits Guarantee Department (ECGD). The key points CAAT made about these two bodies are summarised below.

4. Additionally, in this submission, CAAT looks at the measurement of "success" with regards to Government support for trade. More military exports should not be counted as a "success". However, there is certainly room for much improvement to be made in reporting and general transparency, to allow a wider and more informed discussion when policy is being formulated.

UK Trade & Investment

5. UKTI gives hugely disproportionate support to military exports. There are about 160 staff in UKTI's 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. (The rest of UKTI's staff provide support for all sectors of industry, both military and civil.) This is despite military equipment being only 1.5% of total UK exports, and the fact that, even then, 40% of the content of these exports is comprised of imports.

6. UKTI DSO is not discriminating about the records of Governments to which it promotes arms. Its priority markets for 2010/11 include Algeria, with a poor human rights
record; regional rivals India and Pakistan; unstable Iraq; recent "pariah" Libya; and repressive Saudi Arabia. (Hansard, 28.6.10 Col 418/9W) The only criteria for inclusion on this list appears to be the willingness and ability to pay for the equipment.

7. Globalisation is also an issue that needs consideration when UK governments use taxpayers' money to promote exports. There is a real danger of the interests of big companies and those of the UK people being mistakenly conflated. As an example, CAAT pointed out in its September submission that according to notes of a meeting on 16th April 2008 between Alan Garwood, Marketing / Business Development Director of BAE Systems, and the acting Head of UKTI DSO the former asked about UKTI support for a BAE project where the manufacture took place in the US. He was told that this was worth discussing if a specific opportunity arose.

**Export Credits Guarantee Department**

8. For many years support for arms sales accounted for between a third and a half of all government export insurance through the ECGD. 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 (FoI) 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 to exclude support for military goods.

9. The ECGD has more formally 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%.

**Measuring “success”**

10. Your Committee's examination of the Government's measurement of "success" in its support for trade and investment is most welcome. In the case of military goods, this does not mean increased exports as such sales can have negative ramifications in terms of security, corruption, human rights and economic development. However, there is an urgent need for more reliable figures in this sector and CAAT has made a number of Freedom of Information (FoI) requests in this area.

11. On 23rd July 2010, UKTI DSO issued a press release with the headline: “UK second most successful global defence exporter”. New military export orders were said to be over £7billion, as against £4.2billion in 2008. CAAT made a FoI request for the working papers on which the figures were based and was sent some rather vague graphs and pie-charts, plus an explanation that other figures had been based on a survey of military companies and that this was being withheld under the FoI Act's commercial interest exemption.

12. CAAT went back to UKTI DSO and asked for the sources used to calculate the non-UK figures and, with regards to the UK, the methodology used. In response, for the non-UK figures, UKTI DSO did not provide a list of sources, but stated that it made "use of a range of information published by governments, periodicals, published reports and websites." With regards to the UK, CAAT was told: “…there is no documented methodology as such. Companies that have agreed to take part in our annual survey provide figures covering new orders won for the calendar year in question. The survey
return includes information on overseas customers, the product or service to which the order relates, and its value.” (Letter from UKTI DSO, 25.11.10) It is notable that UKTI DSO's figures are strikingly at odds with other international sources The US Congressional Research Service figures for 2009 arms export orders, put the UK in 8th place with 2.6%.

13. UKTI DSO's figures are, in any event, unsatisfactory as an authoritative measurement. Firstly, although announced by Government, these “official” figures are not the result of Government or independent research, but instead a compilation of figures provided by industry. UKTI, the industry and the individual companies within it all have a vested interest in the figures looking as good for them as possible.

14. Secondly, to base the figures on orders, as distinct from deliveries, can be misleading for several reasons. Export orders can be announced several times. In which year, or years, would this deal be counted within the figures? Orders can also be cancelled or amended, how is this accounted for in the figure? A particular headline deal might contain components from other companies - what is done to stop “double counting”?

15. Thirdly, with a global industry, how do the figures account for a deal announced by a UK company, but where most of the production is taking place overseas? For instance, the £700million BAE Systems Hawk deal with India, announced in July 2010, will support only 200 UK jobs. Will the whole £700million be added to the 2010 UK military exports figure or just the proportion of that which might actually feed in to the UK economy?

16. There are now even fewer official military export figures than used to be the case. Until 2007, the UK Annual Reports on Strategic Exports used to include a table on the value of exports of military equipment. Even this was produced with the qualification that it was only indicative as customs classifications did not match the list of exports needing military export licences. From 2008 even these indicative figures have not been produced. Likewise, the annual figures provided by Defence Analytical Services and Advice on employment generated, directly and indirectly, by military exports ceased with the 2007/8 figures included in the 2009 report. The reason given for deciding not to continue to produce the figures was that “the data do not directly support MOD policy making and operations.”

17. Despite frequent speeches by ministers and others, such as, recently, Prime Minister David Cameron saying: "I strongly support our defence industrial base, which is one of our great industries and a great export earner for our country. We should support it." (Hansard, 19.10.10, Col 80) these assertions of the benefits of military industry do not appear to be based on any analysis. In fact, there appears to be a general unwillingness by Government to investigate military industry and the economic justifications used to support it. For example, in 2005 CAAT made FoI requests to the Ministry of Defence and the then Department of Trade and Industry regarding the UK’s largest arms deal, the Al Yamamah arms sales to Saudi Arabia. The responses revealed that neither department had conducted any studies into the economic impact of the deals.

18. Even when BIS claims to have carried out some analysis this cannot be taken as fact. Towards the end of the Labour government a parliamentary response said: "The
Department's analysis is that a minimum of 8,600 jobs should be directly sustained in the UK by the commitment to Tranche 3 of the Eurofighter Typhoon procurement."

(Hansard, 26.10.09, Col 117/8W) CAAT made a FoI request for the analysis. It seems that BAE Systems, Rolls-Royce and Selex Galileo were asked for the figures of the job losses which would occur a) directly and b) in the supply chain if Tranche 3 were to be cancelled. The "analysis" was limited to adding the six figures together.

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