Submission from the Campaign Against Arms Trade to the Defence Committee on the impact on UK Defence of the Proposed Merger of BAE Systems and EADS

1. The Campaign Against Arms Trade (CAAT) in the UK, established in 1974, works to end the international arms trade, which has a devastating impact on human rights and security, and damages economic development. CAAT believes that large scale military procurement and arms exports only reinforce a militaristic approach to international problems.

2. As the largest UK-based arms company and exporter of military equipment, BAE Systems in its current and previous forms has always been a focus for CAAT’s research and campaigning. Likewise, EADS and its predecessors have attracted the attention of CAAT’s counterparts in continental Europe.

UK and BAE interests are not the same

3. More than two decades after the end of the Cold War, it is generally agreed that a conventional military threat to the UK itself from another nation state or a coalition of them is unlikely. The 2010 National Security Strategy identified the Tier One threats to the UK as international terrorism, cyber attacks, a major accident or natural hazard (for instance, flooding or a flu pandemic), and international military crisis into which the UK could be drawn.

4. Despite this, lobbying by BAE and the other military companies as well as their friends in Government, has left the UK committed to heavy expenditure on large items of military equipment including aircraft carriers, fighter aircraft and Trident. These purchases do not address today’s security challenges and are questioned even by some within the military.

5. One reason for BAE’s effective lobbying efforts is the belief that BAE is "British" and has the UK’s interests at heart. Large advertisements featuring the union flag encourage this view. The reality is that BAE is a global company with five “home markets” in Australia, India, Saudi Arabia, the UK and the USA. The last-mentioned contributed 47% of the company’s global sales in 2011, far the largest proportion. Fewer of the company’s employees are based in the UK than in the USA.

6. A merged BAE and EADS might bring greater recognition of the true situation, that BAE is a company focussed on achieving profits for its global shareholders. It is "British" only when it suits its wider purposes. By ending the false conflation of BAE and "British" interests, UK governments may be better able to concentrate on the real security challenges.

7. This summer the Committees on Arms Export Controls (CAEC), of which your Committee is part, acknowledged 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.” The support given to authoritarian regimes by UK governments through their
participation in the sales efforts of the arms companies, particularly those which now form BAE, might be examined more objectively if the link between the company and "British" interests were questioned.

**Enjoying Government support**

8. Since 1966, the UK's arms exporters have enjoyed the support of a dedicated Government arms sales unit. This is now the UK Trade and Investment Defence and Security Organisation (UKTI DSO) with approximately 150 staff. CAAT made a Freedom of Information request regarding the meetings of one of UKTI DSO's staff, Alan Malpas, Director of the Africa, Middle East, Central & South West Asia. This revealed a string of contacts with BAE and discussions regarding the company's products, a pattern likely to be replicated in the diaries of many of his colleagues. This is all paid for by the taxpayer.

9. The relationship between the UK government and BAE is particularly important to the massive Saudi Arabia contracts. These are government-to-government deals with the UK government having a second contract with BAE as prime contractor. The Ministry of Defence Saudi Armed Forces Project within the UK Ministry of Defence has around 200 staff, both military and civil, based in the UK and Saudi Arabia. The costs are met by the Saudi government, giving one of the world's most authoritarian regimes a foothold in Whitehall. It is unclear what the impact of a BAE-EADS merger would have on these arrangements.

10. Over the years, BAE has also been a major customer of Export Credits Guarantee Department (ECGD), now UK Export Finance (UKEF). However in 2008 BAE stopped the cover on its arms deals with Saudi Arabia just before the publication of a highly critical report from the Organisation for Economic Cooperation and Development. The report said that the Serious Fraud Office (SFO) had handed the ECGD evidence of misrepresentations by BAE to the ECGD in connection with the issuance of insurance, but that the ECGD had done nothing about it.

11. While BAE has not, to the best of CAAT's knowledge, made use of UKEF support more recently, Bob Keen, Head of Government Relations at BAE, told the Business, Innovation and Skills Committee on 1st February 2011: "ECGD support is absolutely essential to BAE Systems in a number of markets."

12. BAE and the other military companies stress the high-tech nature of their work and the benefits of their research and development (R&D) spending. However, this is heavily supported by the taxpayer. BAE's 2011 R&D expenditure was £1,149million, of which just £222 million was funded by the Group (BAE Annual Report 2011, p.110). The other 80% came from its "customers" - governments worldwide funded by their taxpayers.

**Employment**

13. To justify this Government support, the companies frequently stress the number of highly skilled jobs they provide. However, this can hide a more cavalier attitude to its workforce as was illustrated at the BAE's Annual General Meeting in May 2012 when BAE workers from Brough on Humberside facing factory closure were repeatedly told that global financial targets and the "long-term sustainability of the business" were more important than their jobs. This is unlikely to change after a BAE-EADS' merger.

14. The *Financial Times*, on 2nd September 2009, said: "Spending on defence is no better at creating jobs than support for other sectors. Defence R&D may produce spin-offs, but so too may R&D with civilian applications." The same point was made more recently, with
15. Governments have chosen to allocate taxpayers’ money to support arms exports and production, and, in consequence, jobs in these fields. However the introductory paragraph for a Jane’s conference on Energy, Environment, Defence and Security that took place in May 2011 commented: "The defense market worldwide is worth a trillion dollars annually. The energy and environmental market is worth at least eight times this amount. The former is set to contract as governments address the economic realities of the coming decade; the latter is set to expand exponentially, especially in the renewables arena." Ending the support for military exports and the spending on prestige procurement projects would release resources to help other sectors that might be more efficient and innovative, more likely to grow rather than decline, more likely to support secure employment.

A new opportunity
16. BAE’s desire to merge with EADS is an acknowledgement of the decline of military industry, and that the former made a mistake by concentrating its production on arms. The UK government could see the proposed merger as an opportunity to rethink its industrial support and subsidy - to move this from the problematic arms industry towards renewable energy technologies.

17. Dr Sandy Wilson, the President of General Dynamics UK and also Vice President-Defence of A|D|S told your Committee on 8th September 2010 that: "... the skills that might be divested of a reducing defence industry do not just sit there waiting to come back. They will be mopped up by other industries that need such skills. We are talking about high-level systems engineering skills, which are often described as hen's teeth. It is an area in which the country generally needs to invest more. You can think of the upsurge in nuclear and alternative energy as being two areas that would mop up those people almost immediately."

18. It is clear that the skills required for renewable technology are very similar to those in the arms sector, and there is an engineering skills shortage. According to BIS, 13th July 2011, "At present the demand for skilled engineers far exceeds supply."

19. Since climate change and energy security are both major current threats, far greater than those massive military spending is aimed at addressing, it would seem to be a win-win situation to use the skills of current arms industry workers as well as those seeking employment to tackle these. This needs a redistribution of resources and support.

20. In addition to the economic and environmental benefits, transferring Government support to the renewal energy sector should bring other benefits to the UK. It will help provide energy security without the current reliance on authoritarian regimes, and remove any motivation for intervention to protect oil supplies. If the UK government does stop courting these the authoritarian rulers as potential arms purchasers, and condemns their human rights abuses, that in turn is likely to lessen the terrorist threat against the UK.

Corruption
21. Both BAE and GPT, a UK subsidiary of EADS, have been the subject of SFO investigations with regards to corruption. In 2004 the SFO started looking into BAE Systems' deals with respect to Chile, the Czech Republic, Hungary and Austria, Qatar, Romania, Saudi Arabia, South Africa and Tanzania. The UK government halted the Saudi investigation in
December 2006. The formal end to the other investigations came when the SFO announced a "plea bargain" deal in February 2010. BAE would pay £30million and plead guilty to failing to keep reasonably accurate accounting records in relation to its activities in Tanzania. No action would be taken in respect of the allegations with regards to the other countries.

22. In March 2010 BAE pleaded guilty in the United States District Court in Washington DC to "conspiring to defraud the US by impairing and impeding its lawful functions, to make false statements about its Foreign Corrupt Practices Act compliance program, and to violate the Arms Export Control Act and International Traffic in Arms Regulations". The company was fined $400 million, one of the largest criminal fines in the history of the US Department of Justice's effort to "combat overseas corruption in international business and enforce US export control laws".

23. The US court documents showed that BAE had provided "substantial benefits" to an official in Saudi Arabia who was in a position of influence regarding fighter jet contracts. BAE also caused the filing of false applications for export licences for Gripen fighter jets to the Czech Republic and Hungary by failing to disclose a payment of £19million made to an intermediary "with the high probability" that it would be used to influence the tender process in favour of BAE.

24. In August 2012 the SFO announced it was investigating allegations of corruption regarding Saudi Arabia and GPT which has a project known as SANGCOM, said to be worth £2billion a year. Two former employees, said that payments totalling £14.5million have been made by GPT to two Cayman Islands-registered companies and that these payments were irregular as no actual work was done. The SFO investigation into GPT continues.

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