Submission from the Campaign Against Arms Trade to the Business, Innovation and Skills Committee's inquiry into Government support for business

1. The Campaign Against Arms Trade (CAAT) in the UK is working to end the international arms trade. This 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. This submission will focus on Government support for exports and suggest that, in both the UK's economic and security interests, assistance be switched from the military sector to renewable energy.

Military exports

3. The importance of military exports to the UK economy has often been exaggerated as they account for around just 1.5% of total UK exports. (http://bit.ly/11BzvpV) Even then, 40% of their components are imported. Beyond this, however, there have been no official figures on the value of UK military exports, or the employment engendered by them, since 2008. This is when the Defence Analytical Services and Advice stopped producing them as they did not directly support Ministry of Defence (MoD) "policy making and operations".

4. In figures released on 8th July 2014 the UK government's arms sales agency, the UK Trade and Investment Defence and Security Organisation (UKTI DSO), claims that new military export orders worth £9.8 billion were secured in 2013 giving the UK a 22% share of the global market. This allowed the UK to claim it was the world's second largest arms exporter. These figures were supplied by the arms industry itself and it is notable that they are strikingly at odds with other international sources. The Stockholm International Peace Research Institute (SIPRI) ranked the UK 6th in 2013. US Congressional Research Service figures for 2011 arms export orders, the latest available, put the UK in 8th place with 0.47% share of the global market. Each source measures the data differently, but it should be stressed that figures which come from the industry itself are likely to over-estimate its importance to the economy.

5. It should also be stressed that the figures are all based on orders, as distinct from deliveries. As the Ministry of Defence (MoD) itself states: "it should be noted that export orders can subsequently be cancelled, prolonged or changed at any time in the future after the initial order has been placed." (bit.ly/1kDhgbC)

6. What is, however, generally agreed is that the global market for arms is declining. A number of reports, such as those from the RAND corporation, Brookings and Deloitte (RAND, NATO and the Challenges of Austerity, 2012, bit.ly/1qeQyV9; Brookings Institute, The Implications of Military Spending for NATO's Largest Members, 2012, bit.ly/XeYeH5; Deloitte, 2014 Global Aerospace and Defense Industry Outlook,2013, bit.ly/1sxkKZd) have assumed substantial cuts in the arms procurement of the US and European countries. The Deloitte 2014 industry outlook report is even subtitled "Expect another record year for commercial aerospace and continued declines in defense". It considers that the end of prolonged period of armed conflict in Iraq and Afghanistan (meaning large-scale "boots on the ground" military involvement by NATO countries) was leading to lower budgets.
7. Those within the industry have acknowledged this situation. BAE Systems' Chief Executive Ian King said: "The market is completely stagnant." (Defense News, 9.7.12) while Robin Southwell, the then President of trade body ADS described military industry as a "pretty worried" sector: "We are an industry that is flatlining at best". (Observer, 15.4.12)

8. Beyond the US and Europe, there are increasing military budgets in other regions including South Asia, South East and East Asia and the Middle East. The UK is, however, not alone in targeting these remaining markets.

9. There is another problem. Saudi Arabia, the United Arab Emirates, Bahrain and others may still be in the market for weaponry, but they are highly repressive regimes. As it is a buyers' market, they have the power and governments such as that of the UK woo their rulers. A blind eye is turned to human rights abuses.

10. A majority of the UK public is not happy with this. A Populus poll, conducted in December 2013, showed 58% disagreeing with the statement "The UK is justified in selling military equipment to governments that have a poor human rights record" while just 14% agreed. The rest did not have an opinion.

11. Besides playing down their appalling human rights' records, power is handed to the buyers in other ways too. In 2006 the UK government terminated the Serious Fraud Office's investigation into BAE Systems' arms sales with Saudi Arabia. This was ostensibly on national security grounds, but it was clear that the desire to secure a Eurofighter Typhoon contract was central to the decision.

12. Finally, today's military industry is internationalised with most equipment containing components and sub-systems from a variety of companies. The companies may have their headquarters in one country, but may have subsidiaries in several others. The companies exist to maximise profits for their international shareholders and have little, or no, commitment to the UK and UK "defence".

Arms industry subsidies
13. Despite its global nature, the arms industry is 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 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)

Arms export promotion
14. Successive governments have been happy to become arms sellers, promoting the wares of the military manufacturers. There are export controls, but their application is largely a paper exercise while the policy and practice prioritises the promotion of arms sales with little or no regard for the damage they might cause or the wider implications of supplying military goods.

15. Prime Ministers take arms company executives with them on overseas trips or make special visits to promote a deal. When even this fails, the support of the supposedly apolitical royal family is enlisted. For example, when David Cameron's visits in November 2012 and December 2013 did not persuade the Saudi government to agree the pricing for the sale of BAE Systems' Eurofighter Typhoons, Prince Charles and the Duchess of Cornwall went to Saudi Arabia in February 2014, apparently to clinch the deal, which they did successfully. While these visits generate media interest, it is, however, through the day-to-day support for arms sales that the UK tax-payer gives the greatest support to the arms companies.

UKTI DSO
16. Originally set up in 1966 within the MoD, the UK government's arms sales unit, now named UKTI DSO, is now located within UK Trade and Investment. At 1st April 2013 UKTI DSO had 128 staff in post. (Hansard, 8.10.13, col 285w)
17. UKTI DSO 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 assists with 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.

18. Reflecting the huge and disproportionate support given to arms companies, when the arms export agency moved to UKTI in 2008 it employed more civil servants to sell military and security equipment than it provided for sector specific support for every other industry sector combined. No recent figures are available, but it is unlikely much has changed since. The Head of UKTI DSO sits on UKTI's Management Board, a privilege not accorded the Head of any other sector. Since 2012, companies have also received assistance from the MoD's Defence Export Support Group.

UK Export Finance

19. 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.

20. For many years support for arms sales accounted for between a third and a half of all export insurance. In 2008 BAE stopped export credit insurance for its Saudi deals and, since then, there have been huge variations in the annual level of support for arms deals depending on whether or not there was a large deal in the particular year.

21. 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 may have benefited from this, but both the UK and the citizens of the countries concerned, who are still expected to repay the debt, lost out.

Choice of industry to support

22. UK governments have consistently chosen to support arms sales. However, backing for a stagnant and destructive industry could end. A growing sector could be supported instead.

23. The introductory paragraph for a Jane's conference on Energy, Environment, Defence and Security that took place in May 2011 explained: "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."

24. Foreign Secretary Philip Hammond 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." (http://bit.ly/1qvwJqP)

25. The Foreign Secretary's words need to be translated into action. Currently UK government research and development (R&D) expenditure on arms is around thirty times that spent on all types of renewable energy. In 2011/12 UK R&D spending on arms was £1,306million (Department of Business, Innovation & Skills, SET Statistics 2013, bit.ly/1p5m8Gp) while in 2012 R&D for renewable energy was £45.46million. (International Energy Agency, R&D Statistics) This could change.
26. 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 suggested 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.

27. The renewable energy sector is a better choice than the arms industry for both security and economic reasons. The UK government should choose to move its focus from supporting the arms industry to promoting renewable energy and low-carbon technologies. A top priority should be a binding renewable energy target for 2030 to provide the stability required for investment. There should also be increased public funding, in particular for R&D and investment in infrastructure such as ports, as well as a commitment to building the domestic supply chain for renewable energy.

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