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Submission from the Campaign Against Arms Trade to the Committees on Arms Export Controls on the Government's Strategic Export Controls reports

1. The Campaign Against Arms Trade (CAAT) is working for the reduction and ultimate abolition of the international arms trade, together with progressive demilitarisation within arms-producing countries.
2. More than a decade has now passed since the Labour government first introduced arms export criteria in July 1997. These have had negligible effect on the UK's military exports, leading to the conclusion that export controls allow Government to create the appearance of restraint whilst drawing attention away from the dominant policy which is to support the arms companies in their bid to sell to virtually anyone.
3. This overriding Government policy of support for the arms trade has led to it continuing to propagate the myth of economic benefit, the allocation to military exports of a wholly disproportionate amount of the resources of United Kingdom Trade & Investment (UKTI) and the Export Credits Guarantee Department (ECGD), the continuance of sales to Saudi Arabia and Israel even though these undermine other stated foreign policy objectives and the failure to be tough on corruption.
4. In addition, this prioritisation of support for commercial companies can partly explain the failure of Government to tackle the growing problem of corporate mercenaries, or, as they are more politely known, private military and security companies. Whilst the broader issue here might be more appropriately dealt with elsewhere, developments are rendered even less transparent by the export licensing process.

"Good for economy" myth repeated

5. The four Secretaries of State, in their Foreword to the 2007 Annual Report, say that: "As highlighted in the Government's Defence Industrial Strategy, the manufacture and export of defence equipment ... makes an important contribution to our economy." As CAAT has pointed out to your Committees in submissions in earlier years, this is not the case. Military industry is heavily subsidised, especially through export credits and research and development spending.

6. In fact, the Defence Industrial Strategy, published in 2005, actually says: "Arguments for supporting defence exports in terms of wider economic costs and benefits e.g. the balance of payments, are sometimes also advanced. A group of independent and MoD economists (M Chalmers, N Davies, K Hartley and C Wilkinson - *The Economic Costs and Benefits of UK Defence Exports*. York University Centre for Defence Economics, 2001) examined these, by considering the implications of a 50% reduction in UK defence exports. They concluded that the 'economic costs of reducing defence exports are relatively small and largely one off...as a consequence the balance of argument about defence exports should depend mainly on non-economic considerations.'"
7. The desire for exports can also influence purchases for the UK's armed services, making them more costly. In 2003 the RAF bought BAE Systems (BAE) Hawk trainer aircraft without open competition, largely to persuade the Indian government to buy the Hawks for its air force. The Treasury did not believe the Hawks offered value for money.
8. The subsidies and preferential treatment given to arms deals, and the Government mindset which always gives priority to military-industrial solutions to problems, means that tackling urgent threats such as climate change receive a lower priority. If a substantial proportion of the money that is put into arms were to be invested in alternative technologies, it would be likely to create more jobs and better long-term employment prospects. It would also remove those threats to global security engendered through arms deals as well as improving security through an increase in the effort towards combating climate change.
9. It is also likely that giving priority to tackling climate change would encourage more students to study the science and engineering. From conversations with students, it seems that a good number are put off such subjects since much of the employment for which their degree would qualify them is in the destructive military field to which they have ethical objections.
10. Quentin Davies MP, Defence Equipment Minister, has questioned the idea that producing military equipment is the way to stimulate the economy. He told the Defence Committee on 16th December 2008 that: ".. to use your money for maximum impact you need to spend it on goods and services which are labour-intensive rather than capital intensive in their manufacture so that the benefits flow through into pay packets rather than into rewards for providers of capital - banks and shareholders and so forth who would inevitably have a very high propensity to save and a low propensity to consume. Ideally you need these wages to flow through to people who are relatively low-paid. This is not the case with defence; defence is capital-intensive rather than labour-intensive." Another factor was "quite a high leakage into imports in defence, inevitably, and that is not the case, for example, if you are repainting schools or putting new roofs on schools."
11. It is also worth noting that, in some of deals most trumpeted by the UK government, the bulk of the assembly is likely to take place in the buyer country. India is buying 66 Hawk aircraft. BAE is building 24 of these in the UK whilst the remaining 42 are being manufactured under licence in India by Bangalore's Hindustan Aeronautics Limited.

Likewise, of the 72 Eurofighter Typhoons sold by BAE to Saudi Arabia, the first 24 will be built in Warton, Lancashire, but the remaining 48 are likely to be assembled in Saudi Arabia. This is good neither for jobs in the UK, nor for countering proliferation.

12. CAAT thinks that, unless it can produce evidence to the contrary from economists independent of the arms industry, it is misleading for any member of the Government to espouse the myth that arms exports are important to the UK economy.

UKTI Defence & Security Organisation

13. As the Foreword to the 2007 Annual Report points out, responsibility for the promotion of military exports passed from the Ministry of Defence (MoD) to UK Trade & Investment (UKTI), which is responsible both to the Foreign and Commonwealth Office (FCO) and the Department for Business, Enterprise and Regulatory Reform (DBERR).
14. Part of the preferential treatment given by the Government to arms companies is illustrated by the disproportionate support UKTI gives to military exports. These make up about 1.5% of total UK exports with arms export employment accounting for 0.2% of the UK workforce and just 2% of manufacturing employment. Yet UKTI DSO has a staff of 170, as against a total of 129 staff covering all industries in the Sectors Group which undertakes UKTI's other industry-specific trade promotion. Even if ethical questions are put to one side, there can be no justification of such disproportionate support for one industry.
15. One of the tasks UKTI DSO has taken on from the MoD's former Defence Export Services Organisation is the organisation of the UK presence at arms fairs where buyers and sellers of any country can meet and arrange deals. One recent example of this was the November 2008 International Defence Exhibition and Seminar in Pakistan which was billed as showcasing "a wide variety of technology, ranging from equipment used in third world countries to the most sophisticated systems from the West." These arms fairs continue to give lie to any pretence that the UK has a responsible arms export policy.

ECGD

16. The Annual Reports of the Export Credits Guarantee Department (ECGD) show that, yet again, one business benefits more than any other - the arms business. Even though arms account for just 1.5% of total UK exports, in 2006-7, 42% of all export credits were for military goods and, in 2007-8, the figure was even higher, 57%. This export credit support is given for very few deals. In the earlier year, the whole 42% was accounted for by BAE's arms sales to Saudi Arabia. At £750million this was also by far and away the ECGD's biggest liability in 2007-8, with VT Shipbuilding International's Offshore Patrol Vessels to Trinidad & Tobago coming second.
17. The 2008 report of the Organisation for Economic Cooperation and Development (OECD) anti-bribery working group says that the Serious Fraud Office (SFO) gave the ECGD evidence regarding allegations involving misrepresentations made by BAE when the insurance cover was obtained. It expressed serious concern that nothing was done by the ECGD to follow up this up.

18. Instead, the ECGD provided cover to BAE Systems (Operations) Ltd with a single contract of indemnity in respect of all the BAE business with Saudi Arabia. This comprised the residue of Al Yamamah (now called the Saudi British Defence Co-operation Programme) and the new Salam Project for the Eurofighter Typhoon aircraft. The application for cover to include the Salam Project was made in June 2006, with the contract of cover entered into on 12th September 2006. The cover with respect to the SBDCP was terminated on 1st September 2008.
19. As the Government noted in its response to your Committees' last report, the ECGD is due to report on its anti-bribery and corruptions procedures in 2009. CAAT hopes that report will be studied by parliamentarians and any unanswered questions about the ECGD's support for BAE's Saudi deals pursued.

Saudi Arabia

20. The problems that arise when a government tries to promote arms exports as well as control them are nowhere more obvious than in the case of BAE's sales to Saudi Arabia.
21. The current situation is that Air Defence Variant Tornados supplied under the Al Yamamah contracts of the mid-1980's are being replaced by 72 Eurofighter Typhoon aircraft under the Project Salam. This was agreed in outline between the UK and Saudi governments in December 2005 with a more detailed contract signed in September 2007. The UK MoD complements this with a contract with its main contractor, BAE.
22. The remaining Saudi Tornados are not being replaced, but will continue to be upgraded and serviced under what is now called Saudi British Defence Co-operation Programme (SBDCP). Whilst the original Al Yamamah purchases were paid for in oil, both Project Salam and the SBDCP are now being paid for out of the Saudi Defence Budget.
23. These sales are co-ordinated by the Ministry of Defence Saudi Armed Forces Project within the MoD. It has 200 employees in the UK and Saudi Arabia. These are UK civil servants and military personnel whose salaries are paid for by the Saudi government - whose human rights record makes it a "country of concern" for the FCO - to work on a project which benefits a private company.
24. Your Committees, in the "Scrutiny of Arms Export Controls (2008)", paragraph 121, recommend that the Government should consider how it could improve the transparency of the Salam Project and that the Public Accounts Committee should think of publishing all the reports to it from the National Audit Office in respect of it. CAAT was pleased by this recommendation and disappointed, though hardly surprised, by the Government's response. It seems that, once again, despite the reiteration of the commitment to being as transparent as possible made by the Secretaries of State in the Foreword to the 2007 Annual Report, the need to appease the Saudi government's desire for secrecy takes precedence.

25. The unwavering support given to BAE-Saudi deals and the ending of the SFO inquiry led to a damning report, about as strong as it could be given the diplomatic language used, from the OECD Working Group on Bribery. It criticised the lack of progress on anti-corruption legislation, the failure to consider alternatives to pulling the investigation and the delay in responding to the United States' request for Mutual Legal Assistance with regard to its Department of Justice investigation into Al Yamamah.
26. The backing given by successive UK governments to BAE, and its predecessor companies, has meant that succour has been given to the autocratic Saudi regime and global efforts to eradicate corruption have been undermined. It has brought into question the integrity of UK business more generally.

Israel

27. The failure of the UK government to implement a full arms embargo on Israel at a time when that country's armed forces are again on the offensive, with little or no regard for human life, is shameful. In recent years the UK has licensed arms exports to Israel worth between £10million and £25million a year. The figures available for 2008 show that, only half way through the year, the sale of arms costing over £24 million had already been approved (figures for the second two quarters have not yet been published).
28. In addition, components, including those for Apache helicopters and F-16 aircraft, have been supplied to US companies for incorporation into equipment destined for the Israeli armed forces.
29. On 12th January 2009, the Foreign Secretary, David Miliband MP, told the House of Commons that export licences were not granted if there was "a clear risk that armaments would be used for internal repression or external aggression". However, once the equipment has been supplied to Israel, it is just not credible to believe that it is isolated from other equipment and has not been used in Lebanon, Gaza and the West Bank. The onus is on UK government to show that UK-supplied equipment has not been so used. The only way to be sure that UK equipment is not so used is for the UK government to immediately stop licensing exports either directly or for incorporation in third countries. Such an embargo would also convey the message that actions of the Israeli armed forces are unacceptable.
30. The situation with regards to Israel is yet further evidence that the UK government puts the commercial interests of the arms companies before humanitarian concerns. The UK's own "Consolidated EU and National Arms Export Licensing Criteria" are supposed to assess the impact on regional peace, security and stability and the human rights record of the recipient.
31. However, in July 2002, the UK government approved the export of components for F-16 fighters being made by the US company Lockheed Martin and sold to Israel. Then Foreign Secretary Jack Straw justified the sales saying: "The Government has judged that the UK's security and defence relationship with the US is fundamental to the UK's national security ... Defence collaboration with the US is also key to maintaining a strong defence industrial capacity." He went on "Any interruption to the supply of these components would have serious implications for the UK's defence relations with the

United States." The commercial relationship between BAE and US companies such as Lockheed Martin was judged more important than the lives of Palestinians then, and for the UK government remains so today.

Corruption

32. Although it stopped its investigation into the BAE Saudi arms deals in December 2006, ostensibly on the grounds of national security, the SFO continues to investigate allegations of corruption regarding BAE deals with six other countries. One of them is the Czech Republic, which in 2001 bought BAE Saab Gripen fighters for £1.1 billion in a deal that was later cancelled. At the end of October 2008, the SFO interviewed the Viennese Count Mensdorff-Pouilley and Julian Scopes, a former Ministry of Defence civil servant, now working for BAE and recently appointed as head of its Indian operation.
33. Later, in December 2008, the Swiss authorities gave the SFO, which wanted help over Euro1 million payments going through companies in the British Virgin Islands and Panama, access to bank files.
34. At the end of November 2008 a judge in Pretoria issued search warrants, allowing the South African police to raid the offices of BAE and two individuals in connection with allegations regarding the sale of military aircraft to South Africa in the late 1990's and early 2000's. The warrants said there was a "reasonable suspicion" that BAE had made payment to agents "to seek to obtain undue advantage over its competitors in the bidding process".
35. Despite all these investigations, the UK government continues its "business as usual" approach in its support for BAE arms sales overseas. By doing so, it undermines the credibility its demands on other governments to wipe out corruption.
36. CAAT supports your Committees' recommendation, made in your last report, that as a first step the Export Control Organisation require those applying for export licences to provide an anti-corruption declaration. It is disappointing that the Government is not immediately implementing this recommendation as it would complement the other transparency and governance initiatives whilst not being dependent on them.

Licensing exports to Private Military and Security Companies

37. Interpreting information about export licences remains problematic, especially as it is not possible to know whether the equipment is going to the armed forces of the recipient, a media organisation or national park. Of particular concern to CAAT is that there is no indication when equipment is being exported to a private military and security company (PMSC). There does not seem to be any way of monitoring which companies have been acquiring equipment from the UK, possibly building considerable stocks.
38. As the number and activities of PMSCs continues to grow, the Quarterly Reports need to reflect this by making transfers to such companies transparent. The Reports should list the licences issued by company, saying in each case in which country it is to be used.

39. It is CAAT's understanding that if such a company wants to move UK-supplied equipment from, for instance, Iraq to Afghanistan, it needs a Trade Control Licence. However, it currently appears to be impossible for interested parties to monitor this, further undermining claims to transparency.

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