



Submission by the Campaign Against Arms Trade in response to the Export Credits Guarantee Department Review of its Mission and Status

1. The Campaign Against Arms Trade (CAAT) welcomes the fundamental review of the workings of the Export Credits Guarantee Department, and, in particular, that the Secretary of State for Trade and Industry wants the review to look at how the ECGD can help the government achieve its wider, sustainable development commitments.
2. In making the UK's Mauritius Mandate commitments, the Chancellor of the Exchequer said that he would "ensure that export credits for poor, high indebted countries will only support productive expenditure." (HM Treasury press release, 16.9.97) Arms purchases are the ultimate non-productive expenditure, absorbing resources that the buying country might otherwise use for productive, civil projects.
3. CAAT is opposed to all military exports, but recognises that, despite their negative effects on development, human rights, security and the economy, the trade in them will not end overnight. However, CAAT is seeking an immediate end to Government assistance, including the support given by Export Credit Guarantees, for the export of military equipment. It is against this background that CAAT makes this submission.
4. The ECGD aims to operate on a break even basis, but, in the last resort, any shortfall would come from the UK tax-payer. This makes the ECGD's activities a matter of proper concern to UK citizens.
5. Many people question the UK's involvement in military exports. An independent survey prepared for the Ministry of Defence in July 1998 showed that 62% of those interviewed felt that the UK should sell military equipment only to close allies. The same survey showed that 41% of the public are opposed to all arms exports, a figure which rises to 47% amongst women. The percentage opposing arms exports would almost certainly be greater if it

were not commonly, but erroneously, believed that such sales are necessary to boost employment in the UK.

6. The Centre for Defence Economics at the University of York (Defence Committee Second Report into "The appointment of the new Head of Defence Export Services", 24.3.99) has estimated that the financial benefits of arms exports to the UK economy amount to £203 million a year, while the subsidy costs £431 million, a net cost to the tax-payer of £228 million. The subsidy includes an estimated £239 million for ECGD costs attributable to arms exports. This figure is based on £823 million average annual net cost (including losses) of ECGD activities over the last ten years, and assumes that the 29% of ECGD business that related to the arms trade also represented the proportion of ECGD military-related costs.

ECGD's Mission and business

7. Currently, the ECGD exists "to help exporters of UK goods and services to win business, and UK firms to invest overseas, by providing guarantees, insurance and reinsurance against loss." The criteria for assessing potential business are purely financial. This results in projects, including military ones, which have a negative impact on development, environment, human rights and security being supported.
8. The percentage of Export Credit Guarantees given in respect of military exports far exceeds the percentage of such exports to the total of all exports.

	Total ECGD cover	Military exports as percentage of total visible exports	Military ECGD cover as percentage of total	Total military ECGD cover
1997/8	£3.4 billion	2.7%	22.4%	£763 million
1996/7	£2.6 billion	2.0%	14.4%	£374 million
1995/6	£4 billion	1.4%	21.0%	£841 million

(ECGD Annual Reports; Letter from House of Commons Library, 16.6.99)

This can, in large part be explained by the nature of military exports, which comprise comparatively few, high monetary value, contracts for items such as aircraft and tanks.

	Aircraft	Ancillary equipment	Artillery / missiles	Naval vessels	Communications / radar	Vehicles
1997/8	31.0%	1.3%	16.4%	0.3%	15.0%	36.0%
1996/7	58.2%	5.8%		1.0%	12.2%	22.8%

1995/6	71.0%		16.0%			
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(ECGD Annual Reports)

9. In the financial year 1997-98, British Aerospace received cover for military contracts with Saudi Arabia and Qatar totaling £2,132 million. The total cover for the top ten companies was £3,630 million, and this included another £94 million for Matra BAe Dynamics' military exports to South Korea and Kuwait. This means that companies in the BAe group accounted for 61% of the cover awarded the top ten companies in that year. (Hansard, 21.4.99)

10. The regional breakdown of ECGD support for military exports is:

	Americas	Asia	Europe	Far East	Middle East
1997/8	7.8%		3.5%	14.2%	74.5%
1996/7		6.0%	.4%	38.3%	55.3%
1995/6	Balance			53.0%	27.0%

11. The destination of all UK military exports was:

	Latin America and Caribbean	NATO and other Europe	Asia and Far East	Middle East and North Africa	Other Africa
1998	1.0%	44.0%	9.0%	45.0%	1.0%
1997	3.0%	32.0%	8.0%	56.5%	.5%
1996	3.0%	31.0%	18.0%	47.0%	1.0%

(MoD's UK Defence Statistics 1999)

12. Although the regions are not defined in the same way in the two above tables, it can, nonetheless, be seen that the Export Credit Guarantees, which are already disproportionately supporting military exports as against all exports, are further concentrated on assisting sales to the Middle and Far East.

13. The following tables detail the amount guaranteed to military exporters in the last three financial years on a country-by-country basis. Many of these countries are of concern to those working on development and human rights issues.

Country	Amount guaranteed in £million
<i>1996-97</i>	
Bahrain	1.4
Indonesia	143.6
South Korea	13.6
Lithuania	1.5
Qatar	5.5
Saudi Arabia	225.0
Singapore	18.6
Turkey	2.0
<i>1997-98</i>	
Egypt	8.8
Greece	18.7
Indonesia	16.5
Italy	2.7
South Korea	62.4
Kuwait	55.7

Country	Amount guaranteed in £million
<i>1997-98 continued</i>	
Oman	.9
Qatar	222.9
Saudi Arabia	225.0
Thailand	27.3
Turkey	35.6
United Arab Emirates	9.8
USA	58.3
<i>1998- 20.1.99</i>	
Brazil	29.3
Brunei	580.0
India	14.3
Indonesia	5.8
Italy	1.5
Oman	21.1

Sweden	4.1
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(Hansard, 25.1.99 & 26.1.99)

USA	6.9
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Iraq

14. Following the 1988 cease-fire in the war between Iran and Iraq, the ECGD considered that the UK needed to be in a position to take advantage of what was expected to be a rebuilding of the Iraqi economy, and that exports credits should be provided. The ECGD said that "sales of large defence equipment should not be exported at the expense of projects for civil business." However, the ECGD wanted to continue "the present arrangement whereby up to 20% of .. credit facilities may be used in respect of non-sharp arms business". (Report of the Inquiry into the Export of Defence Equipment and Dual-Use Goods to Iraq and Related Prosecutions, D3.172) "Non-sharp is presumably what the then Government described as "non-lethal" weaponry.
15. On 21st June 1990, just before Iraq invaded Kuwait, the then Secretary of State for Trade and Industry, Nicholas Ridley, told Prime Minister Margaret Thatcher that the ECGD's exposure in Iraq was £1 billion. (as above, D3.184)
16. After the 1991 Gulf War, Iraq was certainly not going to pay its debts, and the "Sunday Times" reported on 7th July 1996 that the ECGD had persuaded a number of UK banks to issue 25 writs claiming more than £400 million from the Iraqi government. At that time, the UK government confirmed that about £26 million was outstanding in respect of equipment with a military application, particularly communications equipment, the export of which was underwritten between 1987 and 1990.
17. The experience with Iraq shows clearly the financial risks, as well as the dubious morality, that is inherent in the underwriting of exports to military dictators.

Indonesia

18. In 1993 the ECGD underwrote the sale of 24 British Aerospace Hawk aircraft to Indonesia. In 1996 it provided cover for a further 16 Hawk jets. The sale of these aircraft was always controversial, as the Indonesian government's human rights record was abysmal and it remained in occupation of East Timor which it had invaded in 1975.
19. The then Conservative government justified the sale on the grounds that the Hawks were simply training aircraft, and that the Indonesian authorities had given assurances the jets would not be used for internal repression. This was despite numerous eyewitnesses accounts of Hawks in action against villages in East Timor. Indeed, Robin Cook, then Shadow Foreign Secretary, stated in the House of Commons in 1994: "Hawk aircraft have been observed on bombing runs in East Timor in most years since 1984."

20. In July 1999, reports, subsequently confirmed by both the UK Labour government and the Indonesian military, told of a Hawk being flown over Dili in the build up to the UN referendum on independence. The UK government sought fresh assurances that the Hawks would not be used in East Timor.
21. The export licence for the 16 Hawk aircraft was announced in November 1996, but delivery did not begin until April 1999. In September 1999, the deal was suspended for four months by the UK government following the Indonesian military-inspired violence which erupted in East Timor following the vote for independence. At the time of writing about eight of the Hawks remain in the UK.
22. In September 1998, following the economic crisis in the Far East, the UK and Indonesia's other major creditors agreed to reschedule Indonesia's debt. The bilateral debt agreement between the UK and Indonesia covered £260 million worth of debt, 75% of which related to military contracts signed prior to 1st July 1997. (Hansard 11.11.98)
23. A year later, the ECGD said that Indonesia has remained up-to-date with its interest payments on all contracts. The ECGD is paying claims in respect of the amounts of deferred principal, but the rescheduling agreement had allowed for the recovery of this. £48 million had been paid out for military claims by the end of July 1999, and more payments were expected during the following 9 months. (Letter from the ECGD Director, External Relations, 28.7.99)
24. If the suspension of the Hawk sale becomes permanent, it is likely there would be major financial ramifications for the ECGD and, potentially, the UK tax-payer.
25. CAAT would argue, however, that even if Indonesia does eventually repay the principal, and there is no cost to the UK tax-payer, the ECGD should not have underwritten this deal. From the start, it has been controversial on human rights grounds and has brought the ECGD and the UK government into disrepute. The financial wisdom of it would also appear questionable.

South Africa

26. Despite reductions from the originally announced order, in September 1999 the South African government confirmed major arms purchases from European companies. These include 8 British Aerospace / SAAB fighter aircraft, and 12 British Aerospace Hawk 100 fighter trainers.
27. The arms were largely sold to South Africa on the promise of offsets, that is, the European companies investing in South Africa and generating 65,000 jobs there. About 20% of the offsets would be in military production, the rest in civil industry. There is considerable scepticism about this, particularly from

academics studying similar arrangements elsewhere. The experience is that such schemes do not produce anything like the number of jobs promised.

28. It is worth noting, in passing, the seeming contradiction that UK export credits will be supporting a deal which, ostensibly, is creating jobs overseas. The ECGD is set up to support UK business, but it could be inferred that this support is for the shareholders in UK companies, and not UK workers.
29. The South Africa government is likely to have been further persuaded by generous financial arrangements. The payments will extend over a long period, in some cases 14 years. The terms of the loans are said to be "highly attractive to the South African government." In the UK these are being underwritten by the ECGD. (Jane's Defence Weekly, 22.9.99)
30. A number of organisations within South Africa, including church, human rights and gun control groups, have formed the Coalition for Defence Alternatives. They believe their Government's massive weapons procurement programme will further aggravate the poverty of most South Africans. The South African organisations say the purchase will severely undermine their country's economy, and most especially its economic and social development.
31. By under-writing the South African arms deal the ECGD is supporting a non-productive investment, something it has been suggesting to its overseas counterparts should not be done, see International Aspects below. The scale of this project may also limit opportunities for UK civil exports to South Africa.

Debts

32. There have been a number of claims made relating to military guarantees. According to the ECGD (Letter from the Director, External Relations, 28.7.99), besides the Indonesia claim mentioned above, claims have been made for £253 million from Jordan, £88 million from Algeria and £46 million from Egypt. All are said to be in respect of business underwritten a number of years ago, and their recovery is being pursued through the Paris Club of official creditors.
33. Additionally, since 1986-87 the Ministry of Defence has made contributions to the ECGD to provide interest rate support for military exports to Jordan. Additionally, in the years 1986-87, the MoD made payments to provide similar support for Oman. The contributions totaled £10,553,000 between the years 1986-87 and 1997-98. Further payments totaling £141,000 are forecast for the years 1998-99 and 1999-2000, after which the contributions will cease. (Hansard 18.1.99) It is not clear what the arrangements with Jordan and Oman are, and whether or not they will refund the monies to the MoD at any stage.
34. Some of the recent Export Credit Guarantees have been issued to support military to debtor countries. Brazil which owes £523.7 million for military and

civil goods is particularly noteworthy in respect. It would be interesting to see the financial justification for providing cover for £29.3 million of military exports in 1998-99, when it owes so much from the past. (Hansard, 25.1.99 & 26.4.99)

Coherence with other Government departments

35. Chancellor of the Exchequer, Gordon Brown, told "Channel 4 News" on 11th June 1999 that governments granted debt relief have "got to use the money for economic development, for education, for health and not waste it on corruption or bureaucracy or military arms ...". Clare Short, the International Development Secretary, in a speech launching "Security Sector Reform and the Elimination of Poverty" on 9th March 1999, said that it is "important that developed countries - such as the UK - do not encourage excessive levels of military spending, either by an irresponsible approach to the export of arms or by irresponsible use of export credits."
36. CAAT has welcomed these recent acknowledgements by members of the Government that arms purchases cost money that should be used for sustainable development. Furthermore, when the weapons are actually used, they can set back development by decades.
32. The inter-departmental Export Guarantees Committee considers the political, economic, financial and commercial factors that relate to markets where the ECGD might provide support. It is not clear whether these factors, as described, include development, environment, human rights, and security issues.

Principles of good governance: accountability, transparency and prevention of corruption

Lack of accountability

37. The ECGD is accountable to parliament and the public through the Secretary of State for Trade and Industry
38. The members of the ECGD's Advisory Council, according to its own Annual Report "are drawn from senior levels of the banking, commercial and industrial sectors". This is a very narrow circle, and many members have links with companies which receive ECGD support. There are no representatives of development, human rights or environmental organisations who might bring a different perspective to the Council's deliberation.
39. The Advisory Council's minutes are not made public.

Secrecy

40. Despite the UK government's commitment to open and transparent government, the ECGD remains one of the most secretive and unaccountable of all UK government departments.
41. Even parliamentarians seeking information have gone without answers. For example, Cynog Dafis MP requested a complete list of ECGD export credits and insurance agreements since 1995. In response, the Minister for Trade said: "ECGD does not report individual guarantees without consent of the firms concerned and, in view of the number of guarantees involved, disproportionate cost would be involved in obtaining this." (Hansard, 11.2.99)
42. The information that, to date, is in the public domain is inadequate for informed debate. This is unacceptable for a public body.
43. The obsessive secrecy sometimes rebounds on the ECGD. Headlines claiming, erroneously for the moment, that the public is paying for sales to Indonesia would be less likely to occur if the processes of the ECGD, and greater detail about specific underwriting arrangements, were in the public domain.

Prevention of corruption

44. The UK has signed the Organisation for Economic Co-operation and Development's 1997 Convention on Corruption and Bribery. This obliges signatories to adopt national legislation which makes it a crime to bribe foreign public officials.
45. The World Bank has instituted measures to crack down on bribery. It has adopted guidelines pledging to "declare a firm ineligible, either indefinitely or for a stated period of time, to be awarded a bank-financed contract" if the firm is found to have "engaged in corrupt or fraudulent practices in competing for, or in executing, a bank-financed contract."
46. Currently, the ECGD does not appear to have a policy on action to be taken against companies found to have bribed overseas officials.

International aspects

47. The UK government has pressed overseas Export Credit Agencies (ECA) to agree not to support "non-productive" investments, which CAAT assumes would include arms sales. It has stopped short of taking unilateral action on this.

48. There are campaigns in other industrialised countries pressing their governments to include development, environment, human rights and security criteria when considering applications for export credit guarantees. Such campaigns, which include those working to end the international arms trade, are growing in momentum, and have led to ECA reforms now being placed firmly on the international policy agenda. No less a figure than Michael Camdessus, Managing Director of the International Monetary Fund, has expressed his support for "abolishing the provision of export credit for military purposes." (Speech, Washington DC, 28.9.99)
49. Unilateral changes in the ECGD's conditions for support are, therefore, unlikely to adversely affect UK competitiveness. On the contrary, UK companies would be at an advantage as they would be able to plan for the future under a clear framework that included the non-financial guidelines which will, sooner or later, also encompass their competitors.

Recommendations

- a) **Mission Statement** The current Mission Statement should be amended so that its aims are not purely financial. A possible wording is: "The ECGD's mission is to support the export of UK goods and services and investments overseas that meet the highest standards consistent with environmentally sustainable and equitable development, adherence to human rights and the promotion of good corporate governance. The provision of guarantees, insurance and reinsurance against loss will be made in an open, transparent and publicly accountable manner. No support will be given for non-productive exports."
- b) **There should be no ECGD cover for military equipment or goods.** No ECGD cover should be made available for goods being purchased by overseas military or security forces, or armaments-manufacturing bodies. This would include cover for the construction of military bases.
- c) **The Export Guarantees Committee should have a clear remit to include development, environment, human rights and security concerns.** It should check that projects to be given Export Credit Guarantees are not indirectly assisting overseas military or security forces, or armaments-manufacturing bodies.
- d) **The ECGD must be made more accountable** by:
 - broadening the base of the ECGD's Advisory Council, to those with an expertise development, environment, human rights and security issues. The members of the Advisory Council should be approved by the Trade and Industry Select Committee;
 - requiring the ECGD to report annually to the UK parliament, and for the government to hold a debate on the report.
- e) **The ECGD must be made more transparent** by:
 - advance notification of pending applications, detailing the type of project, the amount guaranteed, the companies involved, the country involved and likely development, environment, human rights and security impacts;
 - release of all documents relevant to the development, environment, human rights and security impacts of ECGD-supported projects and the dissemination of translations in the languages of project-affected people;
 - a presumption in favour of disclosure, as against the commercial confidentiality of companies;
 - a requirement on the ECGD to consult with affected communities and interested public interest groups prior to any decision being taken on approval of a project and to demonstrate how account has been taken of the issues raised.

Such greater transparency would enable parliament and the public to monitor Export Credit Guarantees to ensure that no military exports were covered.

- f) **The ECGD must make greater efforts to prevent corruption** by:
- considering the past development, environment, human rights and security record of companies applying for ECGD credits and investment guarantees;
 - requiring UK companies receiving ECGD support to agree to meet the same environmental, labour and development standards in other countries as they would be expected to observe in the UK;
 - canceling all cover for companies which have been proved to have been involved in bribery or corrupt practices and disbarring them from future support for a minimum period of 10 years;
 - requiring the ECGD to ensure that the contracts which it supports have been awarded through an open tendering processes.
- g) **The UK government should press Export Credit Agencies overseas to adopt high common, mandatory development, environment, human rights and security standards.** It should call on them not to give export support for military and security goods as in b) above, but international agreement on this should not be a precondition for unilateral action by the UK.

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The Campaign Against Arms Trade was set up in 1974 to work for an end to all arms sales, starting with UK exports, and for the reorientation of the UK economy from military to civil production.

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