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Submission from the Campaign Against Arms Trade to the Defence Committee for its inquiry on Procurement and Prosperity

1. The Campaign Against Arms Trade (CAAT) in the UK is working to end the international arms trade**.** This trade 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 inquiry into the role of military industry and the UK economy is welcome, but the issue needs to be approached with an open mind. First, it should be asked whether the goods being produced by UK military industry are the right ones to provide protection and security. Second, and the focus of this submission, is whether military industry is a route to economic prosperity. With this second point in mind, the transparency and quality of the available data will also be discussed.

Are the goods being produced the right ones to provide security in the UK and globally?

3. National security is the main official justification for the support UK governments have given the arms industry. However, this assumes that national security is a military problem with military solutions. It marginalises many major security threats including climate change, environmental degradation, economic marginalisation and energy insecurity as well as, currently very pertinent, pandemics. It also encourages the overseas military interventions which further undermine security.

4. While both the 2010 National Security Strategy and the 2015 Strategic Defence and Security Review identified most threats to UK security as being non-military in nature, the allocation of resources has not matched the identified threats. Instead, the status quo has prevailed, suiting the armed forces and arms companies. They have successfully argued for military spending of 2% of Gross Domestic Product (GDP), without any explanation as to how such spending enhances security. Inside that budget, equipment costs have been prioritised over personnel, suggesting the influence of arms company lobbying.

5. Protecting skilled manufacturing jobs is the other main reason cited for supporting military industry. However, UK governments could choose to transfer the support to the growing manufacturing in the renewables and low-carbon sectors, thus making a commitment to tackling climate change. Such a move would not only make the world a safer place by addressing a real cause of insecurity, it would also support sustainable jobs in growing sectors.

What is considered in assessments of “prosperity” and “value for money” in procurement?

6. As explained above, CAAT questions the assumption that military procurement, or the arms industry in general, is central to UK or global security. Likewise, CAAT would argue that a strong Defence Industrial Base is not necessary for the UK’s prosperity and economic well-being and could undermine it.

7. Arguments for the economic importance of the arms industry, and in particular Ministry of Defence (MOD) procurement, are frequently circular in nature: it is noted that the UK government spends £X billion on goods and services from the UK arms industry. As a result, it can then be said that the

industry “contributes” £X billion to the UK economy. This is used to argue that the government should spend more on this economic sector.

8. However, all UK domestic government spending contributes to GDP, and generates economic activity, including wages and company profits, while supporting employment. This is true of military spending, including procurement spending, as well as other areas including health, education, housing, social services, environmental spending, policing, criminal justice.

9. As public resources are finite, however, to assess the contribution to the economy of military spending and the industrial sectors it supports, it is necessary to consider the relative impact of different areas of spending. The fact that military spending generates industrial turnover and employment is not in itself an argument for its contribution to prosperity, as the same would be true of wholly wasteful spending, such as the classic example of digging holes and filling them in again.

Transparency and quality of the data

10. Analysis of the economic impact of military procurement is severely impeded by the poor quality of available data. The MOD currently provides annual estimates of spending and direct employment generated with UK industry, broken down by region and by broad industrial groupings. (“MOD Regional Expenditure with UK Industry and Commerce and Supported Employment”, https://www.gov.uk/government/publications/mod-regional-expenditure-with-uk-industry-and-supported-employment-201819/finance-and-economics-annual-statistical-bulletin-mod-regional-expenditure-with-uk-industry-and-commerce-and-supported-employment-201819) However, it does not provide estimates of indirect employment in the supply chain.

11. Moreover, the breakdown by industry is highly aggregated, severely limiting its analytical value. In particular, the largest single category for both spending and jobs, “Technical and Financial Services, Business Activities, Education, Health, and Other Service Activities excluding those industries itemised below”, includes activities under ten separate main industrial groupings (K to T). This category accounted for 42,200 of the 119,000 direct jobs sustained by MOD spending with UK industry and commerce in 2018/19 (table 11 in the bulletin), almost twice as many as the second largest category, aircraft and spacecraft (22,000). For expenditure (table 6), it accounted for £4,494 million of spending out of a total of £19,234 million, considerably higher than the aircraft and spacecraft category at £3,338 million.

12. This category would appear to include a range of non-military-specific services, such as financial services, but may well also include highly technical and military-specific services such as the research and development services provided by QinetiQ, and the management of the Atomic Weapons Establishment at Aldermaston. Another substantial category, “computer services”, likewise does not distinguish between general IT services provided to the MOD that are otherwise of a similar nature to services provided to civilian customers, and dedicated military IT systems.

13. The consequence of this is that we have no clear picture of how much of MOD spending and supported employment is with industries providing military-specific equipment and services, and that likewise develop and rely on military-specific technology and know-how, what might be broadly called the arms industry.

14. The data picture is even worse for the arms industry as a whole, including employment within the MOD supply chain (indirect employment), and employment related to arms exports.

15. A reasonable estimate of turnover from arms exports is provided by the annual Department for International Trade Defence and Security Organisation data, based on a survey of companies. This is estimated (by the data producers) to capture around 90% of the value of arms export contracts each year, including, in the case of large government-to-government agreements, only those contract actions taking place within the year in question. However, there is very little disaggregation provided for this data: for customers the data is only given by region, and for industries only by “domain”, that is land, naval, and aerospace. This makes the data of little value for analysing the industrial and employment impact of these exports. Also, as it is contracts data, excepting the annual contract actions on government-to-government deals, the data does not give a clear picture of actual revenue in a given year.

16. Furthermore, it does not distinguish between export contracts for activities carried out in the UK and those carried out in client countries, especially Saudi Arabia. Based on BAE Systems' Annual Reports, the revenue generated from its service and support contracts in Saudi Arabia (in some years reported separately under the category of Platforms and Services – International, or similar), is very substantial, perhaps of the order of £2 billion a year, a significant proportion of total UK arms exports. While this provides revenue and profit to the company, it does not generate economic activity or (directly) jobs in the UK, although it provides some employment for expatriate UK citizens.

17. The other main source of data on UK arms exports, the figures for export licences, only covers exports carried out under Single Individual Export Licences (SIELs), which excludes a very large proportion of arms exports carried out under open licences or services carried out in the client country. For example, between 2009 and 2018, the value of SIELs approved for exports to Saudi Arabia amounted to £11 billion, while the revenue for BAE Systems alone from sales to the Kingdom of Saudi Arabia Ministry of Defence and Aviation (from its annual reports), not including its equity stake in sales by MBDA, amounted to £29 billion. Thus, export licensing data is of no use for assessing the size of UK arms exports.

18. A final source of data on the arms industry, and the only one that purports to cover the sector as a whole, is an annual factsheet produced by the industry organisation ADS, using research by Oxford Economics. (https://www.adsgroup.org.uk/wp-content/uploads/sites/21/2019/05/ADS-Industry-Facts-and-Figures-2019.pdf) This puts the total turnover of the UK "Defence sector" in 2018 at £22.7 billion, with 135,000 direct employees. However, no information is provided as to the definition or boundaries of the "Defence sector", or the methodology used. As an industry organisation publication, it can also not be regarded as a disinterested source. The data provides no disaggregation, and there is no figure for value added, as opposed to turnover, which would allow comparison with GDP and other key economic measures.

19. To conclude, the poor quality and transparency of data on the UK arms industry, and the complete lack of data in some areas, severely impedes any analysis of the economic role and impact of the industry within the UK economy, aside from concerns related to the transparency of UK arms exports. CAAT would urge your Committee to press the UK government to produce more detailed, robust and transparent data on MOD procurement and on the UK arms industry, to allow both policymakers and the public at large to have a more informed understanding of the size and role of military industry in the UK economy.

The arms industry in the UK economy

20. In terms of its overall importance within the UK economy, while (as noted above) this is highly uncertain due to lack of data, if the ADS estimate of 135,000 employees within the arms industry is accepted, this represents just 0.44% of UK employment in 2018. (Employment data 2018 Office for National Statistics, https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/industry235digitsicbusinessregisterandemploymentsurveybrestable2) While this is not an insignificant number of jobs, it is hardly the linchpin on which the UK economy turns.

21. In 2018/19, MOD expenditure with industry and commerce supported 119,000 direct employees. Supposing a ratio of indirect to direct employment of 1:1 (slightly higher than the last estimates, which were published by the MOD in 2007/08), this would represent 0.8% of UK employment. As noted, however, only a portion of this is with military industry. If we restrict attention to spending in industrial categories clearly related to military procurement (weapons and ammunition; data processing equipment; other electrical engineering; electronics; precision instruments; motor vehicles and parts; shipbuilding and repairing; aircraft and spacecraft), this comes to 37,300. With the same 1:1 indirect estimate, this would represent 0.2% of total UK employment, and 3.5% of UK manufacturing employment.

22. Many other areas of government spending have far more direct impact both on well-being and on the productive capacity of the economy than military spending, and arms procurement in particular. Health and education spending are obvious examples. In terms of spending on industry, including science and technology, the area of spending that would have the most powerful long-term impact

on UK and global prosperity and well-being is investment in renewable energy, energy efficiency, sustainable public transport infrastructure, and other areas aimed at achieving the goal of net-zero Greenhouse Gas emissions by 2050 or sooner.

23. UK governments have chosen to support the arms industry. A better choice for the UK and globally would be a shift from supporting the arms industry to promoting sectors where global demand is increasing such as renewable energy and low-carbon technologies. 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 considered 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, including tens of thousands of supply chain jobs which could be located anywhere in the country.

24. Another area where additional spending would have positive impact on prosperity and well-being is medical and public health research and development, as well as the industrial capacity necessary to face future pandemics swiftly and effectively. This needs to be properly planned, so that desperate scrambles for ventilators and Personal Protective Equipment are never seen again.

25. The classic argument that government spending on military research, development, and procurement generates important spin-offs for civil technology, in so far as it may ever have been valid, appears less and less so today. The cutting edge of technology lies clearly within the far larger civilian domain, with military technology rather depending on spin-ins from civil technology, especially in areas such as information and communications technology, and materials science. It can be argued that military research and development (R&D) has become an inefficient means of generating broader technological innovation, due to a) the highly specific focus of military R&D on military missions, reducing the potential for dual use; b) the restricted nature of military technology, often leading to a significant lag before it can be applied to the civilian sphere; c) even where civilian applications exist, the process of development to commercially viable products can be a long one, and d) military R&D may crowd out civilian R&D. (Carlos Martí Sempere (2017) A survey of performance issues in defence innovation, Defence and Peace Economics, 28:3, 319-343)

26. Overall, available evidence on the long-term impact of military expenditure on economic growth is highly mixed, with more studies showing a negative than a positive, and many showing no effect either way. In most cases, the effects are small.

27. In summary, whatever the arguments for military expenditure, and procurement expenditure in particular, as a provider of security (which CAAT strongly questions; see https://www.caat.org.uk/resources/publications/government/fighting-the-wrong-battles-feb2020.pdf), the argument that such spending should be pursued as a driver of prosperity is not supported by the evidence. There is, in particular, no evidence that military spending has particular unique properties that make it a more effective creator of employment, innovation, and general economic well-being than other areas of government spending. If anything, the reverse is true.

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