



11 Goodwin Street, London N4 3HQ  
020-7281 0297 telephone  
020-7281 4369 fax  
email: [ann@caat.org.uk](mailto:ann@caat.org.uk)  
web: [www.caat.org.uk](http://www.caat.org.uk)

## Response from the Campaign Against Arms Trade to the Consultation on ECGD Support for Foreign Content

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. About 80% of CAAT's funding comes in the form of donations from supporters; the rest in grants from trusts and similar bodies.
2. In most years between a third and half of the Export Credits Guarantee Department support is for military goods. Such exports are controversial, with a lot of people opposed to them. Many other products and projects supported by the ECGD are also questioned on environmental or human rights grounds.
3. The consultation document says that: "Certain of ECGD's customers have stated that, in comparison with most other ECAs, ECGD's policy of support for foreign content is complex, restrictive and inflexible." The document does not say which of its customers have raised this as an issue, nor how many have done so. It is, therefore, impossible to tell whether foreign content is a concern for exporters of all sizes and across all sectors, or a limited number of multinational companies.
4. In what many think is a gross under-estimate, even the Secretary of State for Trade and Industry and the Chief Secretary to the Treasury admitted on 16th March 2005 that: "The UK government has estimated the annual economic cost of ECGD support to be approximately £150 million." Since, therefore, export credits are subsidised by the UK taxpayer, it is essential that the UK economy benefits from any changes to the ECGD foreign content provisions.
5. In Option 2, explicitly, and Option 3, implicitly, there is the suggestion that decisions are taken with regard to the "national interest"; Option 2 going on to define this as "if there is an advantage to the domestic economy in supporting the application." CAAT wonders how the ECGD will make such a decision. At the moment, there appears to be no system by which information necessary to inform it is officially gathered and analysed.

6. For example, Freedom of Information requests by CAAT to the Ministry of Defence and the Department of Trade and Industry have revealed that neither have conducted any studies into the economic impact of Al Yamamah 1 or 2, which, with a £1 billion guarantee, were the largest projects ever to enjoy ECGD support. Looking ahead to the kind of project that has multi-national partners and foreign content, the Defence Procurement Agency has told CAAT, in a letter dated 4th October 2006, that: "The only estimates of Typhoon industrial employment that are available have been generated by industry."
7. Furthermore, when there was research by MoD and independent economists it concluded that the argument about military exports should depend mainly on non-economic considerations as the economic case for them could not be made. This conclusion, in *The Economic Costs and Benefits of UK Defence Exports* (2001), was reiterated in the MoD's *Defence Industrial Strategy* published in December 2005.
8. When official or independent academic economists have done the research, therefore, it seems that there is little in the economic "national interest" to support the subsidy, through export credits, of military products and projects. CAAT does not know whether information about other industries is more systematically gathered, and, if it is, what conclusions have been reached on it.
9. If there is no evidence to support the benefits to the UK economy of export credit support for military goods when the national content is as present, it is even less likely there will be benefits with greater foreign content as more components are likely from overseas. CAAT would, therefore, suggest that it would be unwise to change the current policy.

October 2006