

THE MISSING LINK IN LABOUR'S FOREIGN POLICY

The case for tighter controls over UK arms exports

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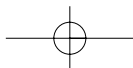
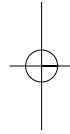
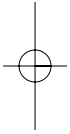
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Executive summary

Arms exports are the missing link in the UK Labour Government's foreign policy. While there are many positive aspects to that policy – for example, the Government's impressive record on global development issues – Labour's approach to arms exports has fallen short of its declared internationalist principles. Nor has it always been consistent with the notion of an 'ethical dimension to foreign policy', as set out by the Government in 1997.

Labour has made some important and positive changes to arms export policy. Weapons of torture and anti-personnel landmines have been banned. The UK was instrumental in getting agreement to a European Union Code of Conduct on Arms Exports. The Government publishes an Annual Report on Strategic Export Controls. Some of the most unacceptable arms exports licensed under the previous Government, such as machine guns and water cannon to Indonesia, used to suppress demonstrations for democracy, have not been repeated under Labour. The Government has also taken some positive initiatives to tackle the spread of small arms in conflict regions.¹

But Labour's overall record on arms exports is nevertheless disappointing, and it is getting worse. Too many controversial arms deals have been agreed in breach of the Government's own declared policy. The Government's wider international policy objectives are also undermined by an unwillingness or inability to effectively control arms transfers.

Post-September 11, 2001, there is evidence of a further weakening of controls, with arms going to countries that are seen as on side in the 'war on terror', even when they have poor human rights records or are very unstable. A short-termist approach to these issues is particularly inappropriate. Recent history demonstrates that 'my enemy's enemy is my friend' is a flawed basis on which to conduct foreign policy. Iraq was armed by the UK Government in the 1980s, on the grounds that the Iranian regime was even worse. In 1991 UK forces went to war against Iraq. In the next few months they may do so again.

This report does not propose an end to all arms exports. Nor does it oppose the large majority of the arms licensed each year by the UK Government. But there are a host of reasons – ethical and self-interested – why governments should impose tight controls over the transfer of

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arms and military equipment. This is especially true in relation to countries where there are serious concerns about human rights, regional stability, the risk of the diversion of the equipment, and the impact on development.

Towards these countries of concern there should be a 'presumption to deny' arms exports. The onus would then be on the UK Government to demonstrate, ultimately to Parliament, why there is a legitimate defence need for this equipment and why this presumption should be overridden. At present, the system is heavily weighted in favour of arms sales.

The report argues that a more restrictive approach to arms exports - which should be introduced even if there are costs associated with it - would actually involve a relatively small economic adjustment. As the former head of the Confederation of British Industry (CBI), Adair Turner, has stated, 'We are not condemned by some economic necessity in a harsh competitive world to sell arms and instruments of torture to dictatorial regimes, or to stay silent about human rights violations, and our attainable rate of employment will not be reduced if we cease doing so.' (Turner 2001)

The report supports the conclusion of a 2001 report by two senior Ministry of Defence economists and two independent academics that, 'the economic costs of reducing defence exports are relatively small and largely one-off'...and therefore that 'the balance of argument about defence exports should depend mainly on non-economic considerations.' (Chalmers *et al* 2001)

The proposals set out in this report do not require a seismic shift in the Government's foreign policy. On the contrary, these proposals would bring UK policy on arms exports more into line with the broad thrust of the Government's approach to global issues. Implementing them would demonstrate greater coherence at the heart of the Government's international policy and give the UK greater moral authority and influence in the world.

Policy recommendations

Strengthening UK arms export controls

The UK Government should:

- Introduce a ‘presumption of denial’ for arms exports towards an agreed list of ‘countries of concern’.
- Agree the list in consultation with the Quadripartite Committee (a joint committee on strategic exports comprising members of the Defence, Foreign Affairs, International Development and Trade and Industry Select Committees, hereafter referred to as the Quad Committee), and publish the list in the Annual Report on Strategic Export Controls.²
- Apply the Consolidated UK and EU Criteria on Arms Exports consistently, with the same standard applied to military components as to finalised military systems (See Appendix 1).
- Agree a common approach to onward export as part of collaborative defence projects with other countries, including the US.
- Not allow the need to take action against terrorism to weaken its arms export controls, particularly in relation to human rights and regional stability.
- Strengthen the commitment to sustainable development in the export licensing process. The word ‘seriously’ should be deleted from Criterion 8 of the Consolidated UK and EU criteria, so that arms deals are judged by whether they would ‘damage the sustainable development of recipient countries’.
- Strengthen the capacity of the Department for International Development to assess export licence applications, and, where appropriate, give a bigger role to the Treasury in judging the adverse economic impact of arms sales on developing countries under Criterion 8.

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- Agree an effective system for judging the cumulative impact of arms sales on sustainable development.
- Publish the values of arms export licences in the Annual Report on Strategic Export Controls to enable MPs and the public to assess the implementation of Criterion 8.
- Introduce a formal system to monitor the end-use of arms exports. End-use monitoring should give priority to those countries and those arms transfers where the risks of diversion or misuse are greatest.
- Make clear to countries which purchase UK arms that breaches of end-use assurances will lead to the immediate termination of that contract, and that it will also refuse licences for comparable equipment to that country for a specified period.
- Implement its manifesto commitment to control arms brokers and traffickers 'wherever they are located'.
- Require British companies who want to license the production of arms overseas to first apply to the Government for a licence for the production deal.

Better government decision-making

The UK Government should:

- Prohibit UK companies from receiving payments from potential customers before an export license has been awarded.
- Publish in its Annual Report on Strategic Export Controls all those licences, approved or refused, for which MoD-led Form 680 approval was sought. (Headed by the Ministry of Defence, the Form 680 process allows companies to seek preliminary advice as to whether a particular export opportunity is likely to receive eventual official authorisation.)
- End the involvement of Government Ministers in export promotion towards those countries listed as 'countries of concern'.

- Phase out public funding for the Defence Export Services Organisation (DESO).
- Phase out all Export Credit Guarantee Department (ECGD) support for arms exports. As an interim measure, the Government should end ECGD support for unproductive expenditure, including arms sales, for all 81 IDA-eligible countries (countries eligible for concessional loans from the World Bank's International Development Association).
- Change the role of defence attachés in British embassies in 'countries of concern', ending their role in arms export promotion, and increasing their involvement in issues like security sector reform and the monitoring of the end-use of arms exports.
- End the public subsidy for defence trade fairs.
- Make the granting of an arms export licence conditional on the presentation by exporting companies of a specific no-bribery pledge.
- Automatically revoke an export licence if evidence emerges that companies have not adhered to this pledge.
- Encourage companies to set up their own codes of conduct on anti-corruption in defence procurement and report regularly on these codes.
- Encourage the Public Accounts Committee and the National Audit Office to undertake regular enquiries into major arms projects.
- Introduce a system of prior parliamentary scrutiny of export licensing decisions.

Strengthening international controls

The UK Government should work with others to:

- Increase transparency in the annual reports on the implementation of the European Union Code of Conduct on Arms Exports.

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- Further develop the EU Code and make it legally binding.
- Strengthen European controls on arms brokering, introducing a standardised licensing system for arms brokers and applying these controls extra-territorially.
- Ensure that EU Accession states effectively implement the EU Code of Conduct by incorporating its provisions into national legislation.
- Include EU Accession states in the EU Code's Information Exchange Mechanism on the Denial of Export Licences.
- Assist EU Accession states to adopt tighter and more effective controls over the movement of arms and associated materials through their territory, controls over arms brokers, and to introduce systems to ensure that exported arms are not misused, diverted or re-exported.
- Encourage EU Accession states to publish annual reports on their arms exports.
- Work for the establishment of an International Arms Trade Treaty based on countries' existing obligations in international law.

Introduction

We use power and influence for a purpose: for the values and aims we believe in. Britain must be a key player on major transnational issues: the environment, drugs, terrorism, crime, human rights and development. Human rights may sometimes seem an abstraction in the comfort of the West, but when they are ignored human misery and political instability all too easily follow. The same is true if we ignore the ethical dimension to the trade in arms.

*Tony Blair, Speech to the Lord Mayor's Banquet,
10 November, 1997*

The more we can control the flow of arms, and the more we can deal with states which are in turn supporting rogue states and terrorists by their own sale and supply of arms, the better it will be for the overall international environment.

*Jack Straw, Foreign Secretary, speaking before the
Quadripartite Select Committee, 21 March, 2002*

The ultimate case for ethical conduct is that it is right to act morally, but the good news is that the cost of ethical conduct in the trade affairs of developed countries is massively less than often supposed. We are not condemned by some economic necessity in a harsh competitive world to sell arms and instruments of torture to dictatorial regimes, or to stay silent about human rights violations, and our attainable rate of employment will not be reduced if we cease doing so.

*Adair Turner, Director General of the Confederation of British
Industry (1995-1999) (Turner 2001)*

The missing link

Arms exports are the missing link in the UK Labour Government's foreign policy. Within days of his appointment as Foreign Secretary in 1997, Robin Cook set out a new Mission Statement for the Foreign Office, in which he famously said that 'foreign policy must have an

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ethical dimension'. Though subsequently much derided, this commitment marked an important and welcome departure. It is a shift in the UK's international policy priorities that has produced some very positive outcomes.

For example, Labour's impressive record on international development – including aid, debt relief, increased investment and fairer trade for the poorest countries – is in part a reflection of the Government's commitment to give greater weight to moral questions in global politics. This is reflected, too, in the Prime Minister's strong commitment to Africa. And it has influenced the Government's response to the humanitarian crises in Kosovo, East Timor and Sierra Leone.

Labour in government has also stressed repeatedly its commitment to active internationalism and the concept of a strong global community. It has asserted that the task of progressive politics is to manage global interdependence to secure greater social justice and stability. This includes an important but reformed role for global institutions like the United Nations, the World Bank, the International Monetary Fund and the World Trade Organisation. It includes a stronger role for international law, including the establishment of an International Criminal Court, to investigate genocide, war crimes and crimes against humanity. It means an active effort to combat poverty and promote democracy, human rights and the resolution of regional conflicts. It also involves a strong commitment to multilateral arms control and the tackling of global environmental problems like climate change.

This report endorses the broad conceptual thrust of this approach to global policy. But the Government's approach to arms exports has fallen short of its declared internationalist principles. While Labour has made some important and positive changes on arms export policy, its overall record has been a disappointment, and it is getting worse.

Too many controversial arms deals have been agreed in breach of the Government's own declared policy, the Consolidated EU and National Arms Export Licensing Criteria (see Appendix 1). Moreover, the Government's wider international policy objectives are undermined by an unwillingness or inability to effectively control arms transfers.

Post-September 11, 2001, there is also evidence of a further weakening of controls, with arms going to countries that are seen as on side in the 'war on terror', even when they have poor human rights

records. A short-termist approach to these issues is particularly inappropriate. Recent history demonstrates that 'my enemy's enemy is my friend' is a flawed basis on which to conduct foreign policy. Iraq was armed by the UK Government in the 1980s, on the grounds that the Iranian regime was even worse. In 1991 UK forces went to war against Iraq. In the next few months they may do so again.

The appropriate response to global terrorism is not to weaken controls over weapons transfers but to strengthen them (not least to prevent those weapons ending up in the hands of rogue states and terrorists), and to work for coordinated international action to address the underlying causes of instability, terror and conflict.

This report does not propose an end to all arms exports or the closing down of the defence industry. Nor does it oppose the large majority of arms licensed each year by the UK Government. But it does argue that there are a host of reasons – ethical and self-interested – why governments should impose tight controls over the transfer of arms and military equipment. This is especially true of countries where there are serious concerns about human rights, regional stability, the risk of the diversion of the equipment and the impact on development.

The report also argues that a more restrictive approach to arms exports – which should be introduced even if there are costs associated with it – would actually involve a relatively small economic adjustment cost. This can easily be accommodated within an economy the size of the UK's.

These proposals do not require a seismic shift in the Government's foreign policy. On the contrary, they require that the Government bring its approach to arms exports into line with its declared objectives in international policy, for example on human rights, conflict prevention, sustainable development, and international law.

Structure of the report

Chapter 1 goes back to first principles, looking at the justification both for arms exports and for tough arms export controls. It considers the scale and changing nature of the global arms industry and export trade and the difficulties this creates for effective export control. It identifies the source of many of the arms that are being used in today's armed conflicts, particularly in developing countries.

Chapter 2 looks at the Labour Government's record since 1997.

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This Chapter highlights a number of arms transfers licensed by the UK Government over recent years that breach its own criteria. Critically, this Chapter also examines the impact of September 11, 2001, on arms export policy, including the relaxation of controls on military transfers to countries seen as supportive in the 'war on terror'. It considers, too, the Government's response to the proposal made by the Quad Committee (a joint committee on strategic exports comprising members of the Defence, Foreign Affairs, International Development and Trade and Industry Select Committees, hereafter referred to as the Quad Committee), to establish a prior parliamentary scrutiny committee on arms exports.³

Chapter 3 examines the justification for arms exports both from the economic and strategic standpoints. It challenges the view that arms exports are essential for the domestic economy as a source of jobs and wealth generation. Drawing on the conclusions from a number of recent reports (including one co-authored by senior Ministry of Defence economists), this Chapter argues that too often the commercial interests of some UK companies have been mistaken as being synonymous with the interests of the UK economy as a whole. This Chapter argues that using arms transfers to secure influence with particular regimes is sometimes immoral, largely ineffective and has the potential to rebound negatively on the exporting country (what we call the boomerang effect).

Chapter 4 outlines a series of policy recommendations. These include immediate changes that the UK Government could introduce in the context of the secondary legislation arising from the Export Control Act (2002). They also include changes that the UK could promote within the European Union, the United Nations and directly towards developing countries to better address the problems that arms cause, from whatever source those arms have come. A particular concern is with the situation in Africa, a continent that suffers more than any other from armed conflict and which the Prime Minister rightly identified as a priority for his second term in office.

The Conclusion calls for greater consistency between the Government's approach to arms sales and its wider international policy. This report also suggests that there needs to be a more nuanced public and political discussion about arms export issues. Too often the debate on arms is artificially polarised, as if the only tenable positions are to be 'for' or 'against' all arms sales. This report rejects this polarisation.

1. Back to first principles

The justification for arms exports

The starting point of this report is not a pacifist one. The report does not advocate the closing down of the defence industry. Nor does it oppose the large majority of UK arms exports as recorded in the Government's annual reports.

Over recent years there has also been a proliferation of United Nations-led and United Nations-authorized peacekeeping and peace support operations. This report supports the principle of internationally-mandated intervention, as an action of last resort. In circumstances of societal breakdown, civil war, or naked aggression, a legitimate military force will sometimes be the only way to prevent further atrocities and uphold human rights. The soldiers participating in such operations require not only clear and achievable mandates, but also appropriate military equipment.

This report also supports the right of states to legitimate self defence, as set down in the United Nations Charter.

The justification for tough arms export controls

Acknowledging that military force is sometimes necessary and legitimate does not mean that weapons transfers are unproblematic. There are a host of reasons why governments should want to exercise tight controls over the transfer of arms and military equipment.

The human costs of irresponsible arms transfers are enormous. Uncontrolled arms flows can increase the destructive impact of war and lead to the violation of human rights and humanitarian law. While arms are not the cause of war, they frequently fuel, exacerbate and prolong them, increasing the levels of human suffering for those caught up in conflict situations. In the 1990s, 3.6 million people were killed in conflicts around the world, most of them civilians (United Nations 2002 p2). Armed conflict is a particular problem in Africa, with 20 per cent of the population of the continent living in conditions of conflict (Department for International Development 2000).

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Violent conflicts, fuelled by the ready availability of arms, can create massive population displacement. By the end of the 1990s, up to 40 million people had been violently forced to leave their homes, either crossing a border and officially documented as a refugee or, more likely, internally displaced within their own borders. The United Nations High Commission for Refugees has stated that armed conflict is now the driving force behind most refugee flows.

Conflict fuelled by the proliferation of arms does enormous damage to development and the prospects for development in the poorest countries. The costs include the destruction of infrastructure, damage to the environment, and the contamination of agricultural land, including by unexploded ordnance.

Development is also damaged by corruption. The particular characteristics of the arms trade, such as unusual levels of secrecy and contract complexity (which make hiding corrupt payments much easier), mean that this sector is especially prone to corruption. The US Department of Commerce Trade Promotion Co-ordinating Committee report of March 2000 claimed that the defence sector accounted for 50 per cent of all bribery allegations in 1994-1999. Of all industries ranked in the 1999 Transparency International Bribe Payers Index, the arms industry was considered the second most likely to involve bribes (Transparency International UK 2002).

Conflict deters economic activity and domestic and inward investment. Excessive expenditure by countries on arms and military equipment also diverts resources from more pressing development priorities. Pakistan, for example, spends around 60 per cent more on defence than on health and education combined (Saferworld 2000).

Irresponsible arms transfers can contribute to regional instability and they create the danger that arms will subsequently be used against our own forces in the context of war and/or peace support operations (see Chapter 3).

The events of September 11, 2001, have also highlighted the need to address the link between arms transfers, terrorism and organised crime. While much of the current international focus is on denying terrorist groups access to weapons of mass destruction (not the focus of this report), the dangers posed by conventional weapons in the wrong hands should not be underestimated. There are strong reasons of self-interest therefore, as well as morality, for tightening controls over arms transfers.

The scale and changing nature of the global arms trade

The International Institute for Strategic Studies – an independent authority on arms control issues – estimates the value of the conventional arms trade in 2000 at around US\$29 billion (IISS 2001). This trade is being affected by wider processes of restructuring in the defence industry. Over recent years, weapons production has become increasingly de-nationalised. Cross-border joint-production arrangements among major weapons producers have become commonplace and cross-border mergers are on the increase.

The UK is very much involved in these processes. For example, in 1997 British Aerospace (which became BAE Systems in 1999) joined the new Lockheed Martin-Northrop Grumman team as part of the Joint Strike Fighter (JSF) combat aircraft programme (seen by many as a new model of transatlantic co-operation on defence procurement). Defence Secretary Geoff Hoon, speaking on defence industrial policy to the Defence Industries Council, on 14 October 2002, commented that ‘the globalisation of the defence business means that nowadays it is less understandable to talk of a “national industry”’, and that the key factor is not ownership but rather ‘where economic value is generated, where the technology is created, where the intellectual property resides, where skilled jobs are created and sustained, and where the investment is made’ (Hoon 2002).

An indication of what this means for the UK is provided in a recent study by two senior MoD economists and two independent academics (Chalmers *et al* 2001). This study estimates that on average 40 per cent of each UK arms export is made up of components imported from other countries. This suggests that by the Defence Secretary’s own measure, only 60 per cent of the economic value of defence exports can now be said to return to the UK. If current trends continue, this contribution is likely to be even lower in the future.

Purchasing countries have understood this trend and now typically use the leverage that a buyers’ market gives them to insist on local involvement in the production and assembly of the weapon systems being purchased. Many major western arms companies, including in the UK, have therefore concluded that their future lies more in design and marketing or in the production of high-technology, niche products (for example for the US military) than in being centres of mass manufacture and assembly.

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For this reason, defence suppliers often seek to establish a supply foothold in local markets, involving an element of local production. This creates a design-production relationship that can be exploited on future occasions. As a result, offset arrangements, licensed production agreements and other local production agreements have proliferated.

The UK is no exception to this trend, with the result that the occasions where a major weapon system is manufactured and assembled in its entirety in the UK before being sold overseas are becoming fewer and further between. A growing proportion of the items licensed for export by the UK, as recorded in the UK's Annual Report on Strategic Export Controls, consist of components and equipment for military systems, rather than the completed weapon systems themselves.

Related to this is the increasing importance of 'dual-use' goods (goods which have both civilian and military application) in defence production. These are typically components. For a number of reasons, dual-use exports greatly complicate the task of strategic export control. Firstly, the classification covers a far wider range of goods than are on the Military List. Secondly, many more companies are involved in their export and import in comparison to the buyers and sellers of purely military items. Thirdly, there is an opportunity, which does not exist in the case of purely military goods, for purchasers to fraudulently convince UK exporters operating in good faith that the products in question are intended for civilian use.

Partly in an effort to manage the sheer volume of licence applications thrown up by the licensing of dual-use goods, the UK Government (and others) has developed systems of open licensing, to be applied to 'non-controversial' licence applications. These goods are then subject to a relatively low level of oversight, theoretically freeing-up resources to be concentrated on more sensitive licence applications. However, this lower level of supervision, coupled with the opportunity for fraud mentioned above, creates the potential for abuse (see Chapter 2).

One consequence of all these factors is that it is much harder to evaluate the implications of many of the export licences that are being issued. If weapon systems are being manufactured and assembled in different places, with components drawn from many different countries, it also complicates the task of identifying the source and end-user of arms that are being used in today's conflicts.

The direct source of arms

The majority of arms circulating in developing countries today were originally produced and supplied by the five permanent members of the UN Security Council: China, France, Russia (formerly the Soviet Union), the UK and the US.

The large-scale supply of arms to developing countries began with the emerging East/West conflict, as the superpowers used arms transfers to strengthen their Cold War allies and weaken their Cold War enemies. For example, in the 1980s the US supplied enormous quantities of weapons to groups in Afghanistan to assist them in their struggle against Soviet occupation. Large transfers were also made to US allies in Central America, such as the regimes in El Salvador and Guatemala and to the Contra forces fighting the Sandinistas in Nicaragua.

Over the same period, the Soviet Union and Cuba sold or donated large quantities of weapons to armed forces and guerrillas in developing countries, for example to groups in Central America and to Ethiopia and Angola. The US and the Soviets also supplied very substantial quantities of military equipment to the Middle East.

For much of the period since the Second World War, the UK has been one of the most significant 'second-tier' arms exporters, behind 'first-tier' states like the US and the Soviet Union. However, since 1990, the UK has been the second largest arms exporter of major conventional arms in almost every year, with its share of the world market over the period ranging from 10 to 18 per cent.

The UK has tended to sell relatively little to Latin America (with the notable exception of Brazil) and sub-Saharan Africa. Traditional markets have been in the Middle East and South and South-East Asia. The Stockholm International Peace Research Institute (SIPRI) identifies Saudi Arabia as the largest customer for UK major conventional arms since 1994, followed by Malaysia, Brazil and the US. The nature of the arms trade makes it difficult to identify trends in the short term; however since 1997, there does appear to have been a lower proportion of exports going to the Middle East and Asia, with Europe and North America playing a relatively larger role.

Following the end of the Cold War, NATO and Warsaw Pact countries undertook a big reduction in their arsenals. One consequence of this was that large stocks of surplus military equipment became

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available for sale to developing countries. Economic hardship and shrinking domestic arms export markets have created strong incentives to export arms, including to regions of conflict.

For example, evidence from a UN Panel of Experts suggests that Bulgaria and Ukraine were important sources of arms exported to UNITA rebels in Angola in 1999. Romania, Slovakia and Belarus have been highlighted elsewhere as sources of arms transferred to areas of conflict and instability in Africa such as Sierra Leone, Sudan, Rwanda and the Democratic Republic of the Congo (DRC).

Alongside traditional suppliers in North America and Europe, China and many of the larger developing countries, like South Africa, Brazil, Malaysia, India, Mexico, Chile and Pakistan, are now significant producers and exporters of weapons and ammunition.

The role of arms brokers and traffickers

In addition to these direct exports, much of the weaponry available and in use in today's conflict zones is transferred there by arms brokers and traffickers. The nature of brokering operations can take a number of forms: they may, for example, consist of UK companies setting up off-shore subsidiaries to handle sales they may be reluctant to arrange from head office. Alternatively they may consist of individuals armed only with phone, fax and laptop. As the 2001 UN Small Arms Survey puts it,

Simply by picking up a telephone, an arms broker in a western European city can negotiate an arms deal, procure large quantities of weapons from one country, arrange for their transportation to a country on another continent, and organise payments through front companies and secret bank accounts in offshore finance or tax havens (UN 2001 p95)

Arms brokers tend to focus mainly, though not exclusively, on small arms and light weapons. While small arms and their associated ammunition account for around five per cent of the total value of global arms exports, more than 80 per cent of contemporary conflicts are fought with them. Many of these transferred deals by arms brokers are illegal, or operate on the fringes of legality – the part of the market that is often most destructive. "The illicit trade accounts for 10-20 per cent of

the total trade in small arms but is the prime culprit in fuelling crime, civil conflict and corruption.' (UN 2001 p167)

Following the end of the Cold War, brokers have few problems in obtaining supplies of military equipment for their clients. Eastern Europe and the former Soviet Bloc – where massive stocks of arms were dumped onto the private market – are often used by brokers as sources of arms for transfer to clients in Africa.

Arms brokers and their intermediaries also obtain weapons directly out of conflict situations. For example, weapons from the seventeen-year civil war in Mozambique have been recycled by brokers to forces in Angola and the Democratic Republic of the Congo. Similar processes have been in play in the Balkans, with arms recycled from one Balkan conflict to the next.

There is also some evidence that arms brokers have been involved in supplying arms to terrorists. It is alleged that the notorious Russian arms dealer, Victor Bout, supplied millions of dollars worth of arms to the Taliban in Afghanistan, some of which ended up with Al-Qa'ida (van Niekerk and Verloy 2002). Bout is already accused by the UN of supplying contraband weapons to rebel movements in Angola and Sierra Leone and to the rogue regime of Charles Taylor in Liberia. UN reports also suggest that Bout and his networks have been active in Cameroon, Central African Republic, Democratic Republic of Congo, Equatorial Guinea, Kenya, Libya, Congo-Brazzaville, Rwanda, South Africa, Sudan, Swaziland and Uganda.

Arms brokers do not limit themselves to trading in small arms. According to a report by the UN Panel of Experts on the Illegal Exploitation of Natural Resources in the Democratic Republic of Congo, John Bredenkamp, UK-based businessman, is an active investor in a brokering company called Aviation Consultancy Services, in which capacity 'he has offered to mediate sales of British Aerospace military equipment to the Democratic Republic of the Congo. Mr Bredenkamp's representatives claimed that his companies observed EU sanctions on Zimbabwe, but British Aerospace spare parts for ZDF [Zimbabwe Defence Forces] Hawk jets were supplied early in 2002 in breach of those sanctions' (Final Report of the UN Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of the Congo, S/2002/1146, 16 October 2002, para 56).

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The regulation of arms brokers and traffickers – and dealing with the illicit arms trade – is one of the major contemporary issues in conventional arms control. It is a particularly crucial issue for Africa. Many of the arms transfers to the worst affected regions and human rights crisis zones on the continent are organised by arms brokering agents.

The UN Secretary General, Kofi Annan, has argued that, 'Particularly close attention needs to be paid to the role of private arms merchants in supplying weapons to actual or potential conflicts. The goal of public identification of international arms merchants and their activities has proved elusive, but perhaps no other single initiative would do more to combat the flow of illicit arms to Africa' (UN 1998 para 28)

The G8 Africa Action Plan from the 2002 Kananaskis Summit in Canada committed G8 governments to 'better regulate the activities of arms brokers and traffickers and to eliminate the flow of illicit weapons to and within Africa' (Foreign and Commonwealth Office 1997). It is essential that this commitment be carried through. This is an area where the UK Government could make a real difference, helping to reduce the supply of arms to conflict zones and to groups that abuse human rights.

2. Labour's record since 1997

Labour has made some important and positive changes to arms export policy since 1997, and its record is a significant advance on that of the previous Government. Within the first few months of their election, Labour introduced a ban on the export of equipment designed primarily for torture, such as electric shock batons, stun guns and leg irons. The most unacceptable arms exports licensed under the last Government, such as machine guns and water cannon to Indonesia that were used to suppress demonstrations for democracy, and tanks to Nigeria after the killing of Ken Saro-Wiwa, have not been repeated under Labour. In 1998, the Government introduced a ban on anti-personnel landmines and was one of the first European countries to ratify the Ottawa Treaty.

Foreign Secretary Rt Hon Robin Cook MP set out new criteria governing arms export licences in July 1997. He also promised to introduce an annual report on arms exports, arguing that, 'an informed public debate is the best guarantee of responsible regulation of the arms trade.' (FCO 1997) This year saw the publication of the fourth of these reports.

During the British Presidency of the European Union in the first six months of 1998, the UK pressed energetically and with success for an EU-wide Code of Conduct on Arms Sales. This was agreed on 8 June, 1998. The aim of the Code was to set high common standards across all EU member states. It was also specifically designed to counter the argument that 'if we don't sell other countries will', by setting up a consultation mechanism to prevent undercutting.

In 2000, the national criteria and the EU Code were brought together in the Consolidated Export Criteria (See Appendix 1). The eight Consolidated Criteria highlight various areas of concern about arms sales. These include the impact of arms on conflict and regional security; human rights; the attitude of the buyer country towards terrorism and international law; the risk that the equipment will be diverted or re-exported under undesirable conditions; and the sustainable development of the buyer country.

Most recently, Labour has passed the Export Control Act (2002), belatedly honouring a pre-1997 pledge to modernise the UK's archaic system of export control, which dates back to the 1939 Import, Export and Customs Powers (Defence) Bill.

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Despite these positive developments, Labour's overall record on arms exports has been a disappointment. The Government's approach over the last eighteen months has given rise to particular concern. The Export Control Act was a missed opportunity. The legislation contains a large number of loopholes. Moreover, a number of recent licensing decisions suggest that the Government has adopted a more permissive approach to arms exports. This trend has been further reinforced since September 11, 2001. There appears to be a clear trend towards the supply of arms to countries seen as on side in the 'war on terror', even when they have poor human rights records.

Exports of concern 1997-2000

Saferworld publishes an Audit of the Government's Annual Report on Strategic Export Controls. The aim is to assess whether the Government has been following its own criteria when granting export licences. Over the past five years a large number of concerns about licences to particular countries and their consistency with the Consolidated Code have been raised. In this report IPPR and Saferworld highlight a small number of examples in detail.

Maintaining the Hawk contract with Indonesia: concerns raised under Criterion 4 (regional peace, security and stability).

The most high-profile arms exports issue facing the incoming Labour Government in 1997 was that of Hawks to Indonesia. Sixteen Hawk jets to Indonesia had been licensed under the previous Conservative Government in November 1996, but not yet supplied. The Government was put under considerable pressure to revoke the licence – on the grounds that the Hawk aircraft might be used in East Timor – but it refused. The Government claimed it had legal advice preventing it from cancelling the contract. On a similar basis, existing contracts for armoured cars and water cannons were allowed to proceed.

This legal advice has never been published and its basic premise is widely disputed. It was eventually acknowledged by the Indonesian Government that Hawks were used to intimidate the local population in East Timor in July 1999. Nevertheless, despite the imposition of a four-month arms embargo on Indonesia from September 1999 to January

2000, the UK Government continued to support existing contracts, even extending the suspended licences for another four months to allow deliveries to be completed.

Spare parts for Hawks to Zimbabwe: concerns raised under Criterion 4 (regional peace, security and stability)

Following Zimbabwe's intervention in the conflict in the Democratic Republic of the Congo (DRC) in August 1998, the UK Government announced a 'very clear change of policy', in which they indicated that no equipment would be licensed which might be used for 'aggressive ends'. However, the Government did not apply this policy consistently. Despite Zimbabwe's continuing involvement in the DRC, the Government issued seven licences for sales of Hawk aircraft spare parts to Zimbabwe in February 2000. No restrictions were placed on the end-use of those items. Moreover, this took place two weeks after the Prime Minister had announced a tighter regime on arms exports to Zimbabwe.

The Quad Committee was informed that despite misgivings the licences were granted because of the contractual obligations of the supplier (BAE Systems) to provide spare parts and the potential harm to BAE Systems' commercial standing that revocation of export licences might cause. It was not until May 2000, following worsening violence within the country, that a full arms embargo on Zimbabwe was put in place and the UK's existing export licences were suspended. Throughout this time (1998-2000), Amnesty International recorded serious human rights violations within Zimbabwe.

Guns for Morocco: concerns raised under Criterion 4 (regional peace, security and stability)

Morocco has been engaged in a long-running conflict with the Polisario movement in Western Sahara, since its occupation of that territory in 1975. In January 1998, Royal Ordnance, now part of BAE Systems, applied for an export licence to refurbish 30 105mm field guns used by the Moroccan armed forces in Western Sahara and to supply them with six new guns. The licence applications were originally turned down by UK Ministers on the basis that the deal could breach Criterion 4 of the EU Code. BAE Systems appealed, arguing the terms of the UN ceasefire

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allowed for refurbishment. In July 1999, the UK Government accepted the company's appeal in relation to the refurbishment of the existing guns. This would appear to be a clear breach of Criterion 4 that states that weapons should not be licensed where this would be used to enforce a territorial claim.

Exports of concern 2001-2002

Parts for F16s destined for Israel: concerns raised under Criteria 3 and 4 (the internal situation in the country of final destination and the preservation of regional stability)

In a parliamentary answer from the Foreign Secretary on 8 July, 2002, it was revealed that UK components for F16 fighter aircraft had been licensed for export to the US, for the US to then sell to Israel. This would appear to be a clear breach of Criteria 3 and 4 of the Consolidated Code, which refer to concerns about the internal situation in the country of final destination and the impact on regional peace, security and stability.

The decision on the F16s was taken despite Israel's regular use of these aircraft for attacks on Palestinians in the Occupied Territories and despite the Israeli Government's admission in March that UK Centurion Tanks have been used against Palestinians, which was in breach of Israel's own assurances to the UK Government.

It appears that the Government relied almost exclusively on this assurance when agreeing to license further equipment for export to Israel, discounting the fears expressed by independent observers that equipment sold from the UK might be used in the Occupied Territories. The UK Government has now stated that it will no longer take account of Israel's November 2000 written end-use guarantee when making licensing decisions.

Arms to India and Pakistan: concerns raised under Criterion 4 (regional peace, security and stability)

It was revealed in June 2002 that arms were licensed for export to India and Pakistan throughout the period of acute tension between these two nuclear-armed states.⁴ This was happening when Tony Blair and other world leaders were desperately urging both sides to pull back from the

brink of a military confrontation. Criterion 4 of the Consolidated Code states that export licences should be refused where there is a risk that the arms exports could be used for external aggression. The Quad Committee strongly criticised these sales stating

we conclude that if the situation in India and Pakistan in the spring of this year did not fully engage Criterion 4, it is difficult to conceive of circumstances short of all out war which would do so. The stand off over Kashmir should in our view have led to its application with very great rigour (Quad Committee 2002, p28:61)

It is also well known that British Ministers have been actively lobbying the Indian Government to buy 60 Hawk fighter jets (worth £1 billion) from BAE Systems. The Hawk is capable of delivering a comprehensive array of air-to-air and air-to-surface weaponry with pinpoint accuracy. They are also trainer jets that the Indian airforce plan to use to train pilots to fly jets that can carry nuclear weapons. The export of Hawks to India, while it remains locked in an extremely dangerous stand-off with Pakistan over Kashmir, is likely to increase rather than reduce tension in the region. Rather than pushing for this contract, the UK and other members of the international community should be using all their diplomatic, political and economic influence to urge both sides to de-escalate and enter into negotiations. This case also raises serious questions about the export licensing process and the role of Government Ministers in export promotion (see Chapter 4).

An Air Traffic Control (ATC) system for Tanzania: concerns raised under Criterion 8 (sustainable development)

In December 2001, a license was awarded for a BAE Systems Air Traffic Control System for Tanzania, one of the world's poorest countries. The decision to grant this licence was widely criticised as a breach of Criterion 8 (the sustainable development criterion).

Tanzania is one of the poorest countries in the world, with a *per capita* income of just \$270 per annum. The Government agreed an export licence for this equipment although two independent reports had condemned the system as prohibitively expensive and inadequate for

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Tanzania's needs. The equipment will cost Tanzania £28 million.

The reports suggested that Tanzania could purchase an effective air traffic control system for between a quarter and a tenth of that cost. They also added that the technology involved in the system was in danger of becoming obsolete, and that additional resources would be required for the system to function effectively as a civil system.

Criterion 8 of the consolidated criteria states that the Government will take account of independent assessments from the World Bank, IMF and other independent sources. But as the Quad Committee stated in its report

it is not at all clear why a decision on the licence application was made on the 21 December 2001, before the results of the discussions between the Government of Tanzania, the World Bank and the International Civil Aviation Organisation on whether the BAE System best met Tanzania's needs were known. (Quad Committee 2002 , p47:126)

The decision to award this licence in the face of this criticism suggests that short-term commercial interests were allowed to trump the Government's sustainable development objectives.

The export of small arms: concerns raised in relation to Criterion 2 (human rights), Criterion 3 (internal situation) and Criterion 6 (respect for international law)

The Government has taken a lead role internationally in addressing the problems associated with the proliferation of small arms, and was an active and constructive player at the UN Conference on the Illicit Trade in Small Arms and Light Weapons in July 2001.

However, despite this, there are still a significant number of countries to which the UK Government has recently exported small arms, which give cause for concern. For example, in 2001, small arms were licensed to Bahrain, Honduras, Nepal, Nigeria, the Philippines and Sri Lanka. These are all countries where the internal situation or a history of human rights abuse raises serious questions about the wisdom of such exports.

The risk of re-export and diversion

Over recent years the Government has also issued a substantial number of licences for exports where there is a risk of diversion within the buyer country or re-export under undesirable conditions. For example, UK arms sales to Jordan have increased, from £12 million in 2000 to £55.5 million in 2001. This includes licences for anti-tank ammunition, assault rifles and heavy machine guns. In October 2002 it was revealed that the UK Government was gifting Jordan over 400 surplus Challenger tanks. This is despite the fact that Jordan was named as a key conduit for arms to Iraq in the Scott report, and has recently been widely reported as fulfilling a similar role in recent Iraqi efforts to bypass the UN arms embargo (Evans *et al* 2002; Cornford and Johnson, 2002).

A surprisingly high number of licences have also been issued for small arms to the Channel Islands, San Marino and the Bahamas, territories where it is hard to understand how legitimate domestic demand would be sufficient to meet this supply. In 2001, small arms licences were also agreed for Hong Kong, although there is a danger of diversion to China.

The impact of September 11 on arms exports and military assistance

This report believes that there are serious inconsistencies between some of the observations and arguments made in the Government's Annual Human Rights Reports and the Government's record on arms exports, as recorded in its Annual Report on Strategic Export Controls. This has become particularly clear since September 11, 2001.

Post-September 11, 2001, there is evidence of a loosening of UK controls on arms exports, with a greater willingness to supply arms to countries seen as on side in the war on terror, even when they have poor human rights records. Yet there are concerns that some governments will use 'the war on terror' to justify cracking down on internal dissent.

Despite highly critical human rights assessments by the UK Government in the 2001 Foreign Office Human Rights report, wide-ranging 'open' arms export licences have been granted to Tajikistan, Turkmenistan and Uzbekistan. The Government has not explained the rationale for these exports. Although open licences are supposed to be

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for countries with which the UK has a long diplomatic relationship, a British Embassy was only established in Tajikistan in December 2001.

The human rights record of Uzbekistan is particularly dire. Human Rights Watch has noted that, 'Torture and other abuses in Uzbek prisons and police precincts remain commonplace.' There have been 11 deaths in 'highly suspicious circumstances in custody in the past 16 months'. One of the bodies 'bore burn marks that could only have been caused by immersing him in boiling water'. There have been 'many other deaths and countless reports of torture', including 'rape and sexual assault.' (See www.hrw.org/campaigns/uzbekistan/uzbek-update.htm for details.)

Unlike standard individual export licences, open individual export licences permit an unlimited quantity of goods to be exported to a range of destinations with no specified end-user. These particular open licences give authority for a UK exporter to deliver unlimited quantities of an extremely wide range of equipment including small arms and light weapons, light and heavy artillery, armoured vehicles including main battle tanks, combat aircraft and helicopters and selected rocket systems and missiles.

Similar open licences were granted in 2001 to Jordan, Kuwait, Oman, Pakistan, Qatar, Saudi Arabia and the United Arab Emirates. This is despite the fact that there are concerns about the observance of human rights in all of these countries, they are all in regions of instability, and there are concerns in some cases about the possible diversion of military equipment to other destinations, including Iraq.

In the last year, the UK Government has also allowed significant weapons transfers to the Government in Nepal, although there are real concerns about the human rights record of that Government and about the stability of the country. (The Nepal case is examined in more detail at the end of Chapter 3.)

Earlier this year the Foreign Affairs Select Committee stated that the

Government should not lose sight of the need to criticise and address human rights abuses which take place in countries which are our allies and address human rights abuses which take place in countries in the international coalition against terrorism, although we understand that in emergencies there will be an earnest debate on where to find the balance between security and liberty. (Quad Committee 2002 p42:107)

It appears that the Foreign Affairs Select Committee's warnings notwithstanding, concerns about human rights are being subordinated to the 'war on terrorism'.

Concerns over policy, legislation and scrutiny

New criteria on licensing military components

The 8 July, 2002 Statement about the supply of parts for F16s to the US for onward export to Israel included a parallel announcement of a more 'liberal' policy on transfers of military components. The Government justified its new policy on the basis that the Consolidated Criteria 'do not provide specific guidance on what approach should be adopted in these incorporation cases, (yet) many export licence applications are for goods which are to be incorporated in defence equipment in a second country, which thereafter may be exported to a third country'(see Appendix 2).

In Chapter 1 it was pointed out that there is a growing trend towards the export of components rather than finalised military systems, and that this creates difficulties for the export licensing process, particularly in being clear about the intended end-user of arms exports. But while the trend is clearly upward, the phenomenon itself is not new. There have almost certainly been other instances in which components for, say, the US have been licensed for export, incorporated into finalised military systems there, and then sold on to a third country – where the licence would not have been issued if the equipment was being directly exported from the UK. It is also likely that those processing the licences for components would have had a pretty good idea where those components would finally end up. At the very least, therefore, the Foreign Secretary's statement of 8 July, 2002 brings this into the open.

But the Government's response to this issue has fallen well short of what is required. The new policy on transfers of components sets an extremely dangerous precedent. It opens up a large potential loophole in the export licensing system and exposes the Government to charges of inconsistency. Although the existing eight Consolidated Criteria remain, the Government has announced that five additional criteria will also be considered (Appendix 2). Amongst other things, these consider the importance of the UK's defence and security relationship with the

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incorporating country and the effectiveness of the export control system of the incorporating country.

The relationship between these new criteria and the Consolidated Code remains very unclear. However it would appear that as a result of this new policy, exports of equipment could now be permitted that would not be licensed under the EU Code of Conduct or the Consolidated Criteria. For example, it is highly improbable that the Government would license the sale of components for F16 jets directly to Israel, although in effect it is now doing so indirectly.

There is a further confusion within the five new criteria themselves. As the Quad Committee points out, applying these new criteria on a case by case basis would suggest, 'that the more insignificant a component is to a finished product, the more likely it is to be approved for export, while at the same time the more significant a component is to a finished product, the more likely it is to be approved for export.' (Quad Committee 2002 p52:139) Either way the Government will argue that the licence should be awarded.

The Export Control Act (2002)

There are a number of positive aspects to the Export Control Act: for the first time Ministers will have the power to control the intangible transfer of technology, the provision of technical assistance overseas, and the brokering and trafficking of arms on UK soil or by UK passport-holders; and the Act makes the publication of an Annual Report on Strategic Export Controls a statutory obligation.

Nevertheless, in many ways the legislative process has been a missed opportunity for the Government. During the passage of the Bill through Parliament, the Government blocked many sensible proposals that would have strengthened UK controls over arms transfers and ensured greater consistency between declared policy and practice. Furthermore, the published draft secondary legislation reveals that the Government does not intend to fully exercise the powers provided for in the main Act.

Notably, the Government has made no reference in either primary or secondary legislation to controlling licensed arms production overseas, developing a system of end-use monitoring, or providing for prior parliamentary scrutiny of selected arms export licence applications. Of particular concern is the fact that although the Act gives the Government

the power to regulate the arms brokering activities of UK passport-holders wherever located and despite a manifesto commitment to this effect, the draft secondary legislation will not control offshore brokering of most conventional weapons transfers by UK persons.

Moreover, the two main weaknesses of the old legislation identified by Sir Richard Scott during the 'Arms to Iraq' enquiry – that no legislative limits were placed on the purposes for which export controls could be applied and that the Government could change export policy without effective parliamentary oversight – have been largely untouched by the Export Control Act. Earlier versions of the Bill contained a Schedule of 'Purposes of Export Controls', for example to prevent arms being exported which would damage regional stability or lead to the abuse of human rights. However, by the time the Bill received Royal Assent this formulation had been dropped.

Meanwhile, a clause on 'Guidance' was introduced and progressively strengthened, which gives the Government extensive powers to change arms export policy subject only to the condition that Parliament be informed retrospectively. The extent of this power is graphically illustrated by the new and far less restrictive guidance on the licensing of military components made public on 8 July, 2002.

Prior parliamentary scrutiny

While Labour has made progress in opening up UK export licensing to parliamentary and public oversight, at present this is entirely retrospective, with Government policy scrutinised only after export licences have been granted. Since it was set up in 1999, the Quad Committee has argued that there is a useful role for a Parliamentary committee in assessing export licensing decisions before they are granted, in order to provide advice to Ministers in difficult cases. Recent controversies have led the Quad Committee to call more vigorously for such a system to be introduced. As they said in their latest report, 'We conclude that several of the cases that we have focused on in this report starkly illuminate the shortcomings of retrospective scrutiny of licensing decisions.' (Quad Committee 2002 p55: 147)

Over 300 MPs have also signed an Early Day Motion in Parliament in support of prior parliamentary scrutiny. But the Government has refused to agree to such a system.

3. Challenging the defence exports lobby

This report is not opposed to the large majority of the arms exports licensed by the UK. But it does argue that arms should not be exported in circumstances where they might violate human rights, fuel conflict, contravene international law or damage the development of poor countries.

Saferworld produces an Audit of the Government's Annual Report on Strategic Export Controls. In its analysis of the 2000 report, Saferworld highlights concerns about a minority of exports granted to 46 countries (the UK exports to 159 countries in total). However, even if all of the standard individual export licences (SIELs) granted to those 46 countries were revoked, this would still represent approximately one third by value of all SIELs issued in 2000.

Looked at in the context of Britain's total arms exports, the size of the reduction would be even smaller. Many of the arms exports to other democracies get transferred under open export licences. A reduction of a third of the value of standard individual licences is therefore much less than a third of the value of British arms licences as a whole. At an approximate estimate, the exports of concern account for no more than 20 per cent of British arms exports. The economic adjustment involved in this would be relatively small, and could easily be accommodated in an economy the size of the UK's.

This Chapter challenges the four core arguments used by the defence export lobby in support of their trade. Firstly, the argument that if the UK didn't sell arms, then somebody else would. Secondly, the view that defence exports sustain large numbers of high-tech jobs, that they are good for national prosperity, and that exporting arms reduces the cost of domestic procurement. Thirdly, the assertion that selling arms to particular regimes gives the UK influence over them. Fourthly, there is the argument that arms exports can be the lesser of two evils.

If we don't sell, others will

There are several responses to this. First, there is the question of consistency. This is not an argument that the UK Government accepts in relation to other issues, like the sale of drugs or child pornography. On these matters, it says it would be wrong to sell even if others do.

Second, the UK is a signatory to various international human rights agreements. Arms should never be supplied if they would be used to violate human rights in contravention of undertakings given as part of these agreements. The Government therefore has a clear and legally-binding obligation in such circumstances not to supply weapons, even if others are willing to do so. The fact that some countries are not willing to accept these legal responsibilities does not make them any less binding on the UK.

There is a third objection to the 'if we don't, others will' position. It suggests a Dutch auction of ethical values in a headlong rush for commercial advantage. A more appropriate response to the danger of losing out economically to less scrupulous competitors is to work for high common standards of export controls. Indeed, this is the very approach that the Labour Government championed when it was elected in 1997. The Government was instrumental in getting agreement to the EU Code of Conduct, one of the purposes of which was to set high common standards across Europe and prevent the more progressive countries from being disadvantaged by the least progressive. In his speech to the Labour Party Conference in 1998, the then Foreign Secretary, Robin Cook, hailed the EU Code and said: 'No longer will European countries compete for contracts at the expense of human rights' (Cook 1998).

The economics of the arms trade

A number of economic arguments are made in support of defence exports. For example, it is claimed they bring significant employment benefits to the economy as part of an overall defence industrial sector which, in the words of Defence Secretary Geoff Hoon, 'contributes to our economy, to our balance of trade, to our technological base, and to high-value employment' (Hoon 2002). It is asserted that arms exports are vital to the health of the overall defence industrial base. National demand alone is not enough to sustain the sector, and exports, it is said, help to keep down the unit costs of production and therefore reduce the cost of procuring equipment for our own forces.

But this 'conventional wisdom' is open to considerable dispute. Adair Turner, former Director General of the CBI, and Samuel Brittan, the distinguished economics commentator and *Financial Times* journalist, have both criticised this approach, arguing that it is based on

a mercantilist understanding of economics which has been broadly discredited in almost all other areas of economic activity.

Employment

November 2001 saw the publication of a major report on the economics of the arms trade: *The Economic Costs and Benefits of UK Defence Exports*. This report was authored by Neil Davies and Chris Wilkinson, senior Ministry of Defence (MoD) economists, as well as two independent academics, Malcolm Chalmers and Keith Hartley.

The report was published by the York University Centre for Defence Studies (and has been described subsequently as the York report) (Chalmers *et al* 2001). An updated version of this report was recently published in *Fiscal Studies*, the journal of the Institute for Fiscal Studies (Chalmers *et al* 2002).

According to the York report, the UK defence industry employs around 175,000 people directly, with the jobs of a further 170,000 dependent on it indirectly. It is thought that 97,000 of these jobs depend on export sales. UK defence exports, made to almost every part of the world, were in 1998 and 1999 worth about £6 billion annually (Chalmers *et al* 2001)

Their report estimated the economic effect of a 50 per cent reduction in arms exports (the 50 per cent figure was chosen purely as a basis for economic calculation, not because any of the authors were advocating a reduction in defence exports of that scale). The report concluded that a halving of defence exports from the average 1998/99 level (which they calculated to measure approximately £6 billion per annum) would result in the loss of nearly 49,000 jobs in the defence sector, many of which would be at relatively high wages. However, this would be offset by the creation over a five-year period of around 67,000 new jobs (at lower wages, on average) in non-defence employment, with most of these jobs created in the first two years.

The York report also illustrated the very limited scale of adjustment that might be required. As they put it, 'the estimated reduction in direct and indirect employment on defence exports would account for less than one fifth of one per cent of total UK employment in the baseline period.' (Chalmers *et al* 2001)

This supports the position long-advanced by Samuel Brittan that there is a fallacy at the heart of the 'economic case' for arms exports:

that is the myth that somehow defence workers are not employable anywhere else. As he puts it, 'Well over three million people leave the unemployment register each year even in a recession. Indeed, it is almost certainly easier for arms workers, many of whom have a wide range of valued skills, to find new jobs than it was for miners, whose training was far more specific.'(Brittan 2000)

This conclusion is further supported by examining recent trends in defence employment. The York report notes that employment supported by defence exports had already fallen by 100,000 from 1996 to 1999. According to the official UK Defence Statistics, average defence exports during 2000 and 2001 were almost 20 per cent lower than in 1998/99 (comparing single-year figures, exports for 2001 were more than 30 per cent down on 1998).

There has been no suggestion in mainstream economic debate in the UK that these reductions in employment and/or defence exports have had a significant macroeconomic impact. Neither does there appear to have been widespread concern over the particular jobs that have been lost, perhaps because those job losses have been relatively easily absorbed by the wider UK economy.

This is not to downplay the impact of restructuring on the individuals and communities concerned. Problems tend to be concentrated on a small number of local economies dependent on larger defence companies, such as Bristol and Preston. Regional strategies and initiatives need to address these concerns. The best existing ones do so.

For example, following the announcement of 400 job losses at Vickers in September 1998, Vickers, Leeds City Council and the Employment Service established a strategic planning partnership, through which 80 per cent of those made redundant secured a 'positive outcome' within twelve months. The majority of them had gained employment, with others starting full-time education or training, or becoming self-employed.

Moreover, recent trends suggest that regardless of Government support for exports, the number of UK jobs supported by defence exports will continue to fall. The current buyer's market in defence equipment means that the purchaser frequently has the whip hand in contract negotiations, and this is now typically being used to insist on an element of local production and/or assembly. For example, BAE Systems is involved in supplying South Africa with military aircraft, but

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the South African Government set as a condition of the purchase that elements of the production would take place in South Africa. This in effect creates an alternative production centre, with lower labour costs than in the UK.

National income and balance of payments

It is also claimed that arms exports make a significant contribution to overall national income and that a reduction in such sales would have a direct bearing upon our prosperity. Such an assertion fails on two counts. Firstly, the contribution made to national wealth by defence exports is, in macroeconomic terms, insignificant. The York report estimates that a 25 per cent reduction from the 1999 level of defence exports would amount to a fall in net exports of £915 million, which is only just over 0.1 per cent of UK GDP in 1999 (Chalmers *et al* 2001, p44) Based on this method, a fall in defence exports of 20 per cent –would equate to just over 0.08 per cent of UK GDP. Extrapolated from figures used by Adair Turner, this would represent around only three weeks of GDP growth.⁵

Secondly, it is mistaken to assume that exports per se are the essential source of wealth on which all other sectors rely. In fact, as Adair Turner argues,

the key to the prosperity of developed economies lies in productivity growth in all sectors of the economy, traded and untraded, and in the intensity of trade, capital and ideas flows between them... Tight restrictions on arms exports to brutal regimes would lead to a sectoral shift from arms production to other sectors of the economy (Turner 2001)

In any dynamic market economy resources are constantly reallocated, and this will inevitably involve some adjustment costs. The argument that the costs associated with reducing defence exports require ongoing Government support would only be valid in the event that those costs were exceptional. The finding in the York report that 'at the end of the five-year period, overall national income would be substantially the same as it would otherwise have been without the loss of defence exports', suggests that this is not the case. (Chalmers *et al* 2001)

Critically, the York report concludes by saying, 'the economic costs of reducing defence exports are relatively small and largely one-off...and that 'the balance of argument about defence exports should depend mainly on non-economic considerations.' (Chalmers *et al* 2001)

Implications for domestic procurement

It has long been maintained that for the UK to continue 'punching above its weight', it must retain a substantial defence industrial base, in part to ensure security of supply for our own armed forces. Without being able to sell overseas, so the argument goes, this industrial base would be put at risk, due to UK-based producers facing substantially higher unit costs of production. As these would have to be passed on to the MoD, the Government would be increasingly inclined to buy from overseas. This dependence on overseas suppliers could undermine the security of supply to our troops in emergency situations because we would be reliant on other governments to license us crucial exports.

There are a number of problems with this line of argument. First, there is an implicit presumption that any tightening of policy would result in an end to all defence exports. This report does not propose this. Its proposals would affect at most 20 per cent of UK defence exports. The overwhelming majority of arms exports would not be threatened.

Second, even if all defence exports were halted, the impact on the unit costs of production for contracts to supply the MoD would be relatively insignificant. The York report calculated that if defence exports were to fall by 50 per cent, the overall increase in the cost of domestic procurement to the MoD 'would average around £80 million a year: equivalent to 0.8 per cent of the total MoD equipment procurement budget.' (Chalmers *et al* 2001) Clearly, such an increase is insignificant in terms of total MoD procurement.

This is because prices to the Government are often already structured to cover all the costs, including fixed costs, associated with the deal and therefore do not depend upon additional (export) sales to generate a profit. When the terms for a new defence contract are discussed with the UK Government, there is also typically no guarantee that any export orders will follow. In addition, the nature of the arms market is such that any export orders will frequently include unique specifications and hence potentially significant additional development and retooling costs.

Third, fears about possible impacts on security of supply are based on an outdated view of defence procurement. While the UK is capable of producing a wide range of military equipment, a proportion of the components that make up those systems will almost inevitably be sourced from non-UK suppliers. The York report estimated that on average 40 per cent of each UK arms export is made up of components imported from other countries. The import content of equipment produced in the UK for our military can be expected to be roughly equivalent. As the Oxford Research Group and Saferworld put it in a report in July 2001, 'the battle to maintain a truly independent UK defence industrial base...has been expensive, and was lost some time ago.' (Ingram and Davies 2001)

The UK Government has effectively accepted this fact, and already premises much of its procurement policy on the basis of mutual dependence with states with whom the UK shares values and has deep and close relationships, for example other EU member states. As Adair Turner argues, the logic of this is that we should work for 'greater integration of the European defence and aerospace industries to achieve economies of scale' (Turner 2001). This is a much more sensible approach than locating production in states with whom relations have a less solid foundation or where values are not shared.

There are also questions about the security of supply even when the UK does go it alone. There are a number of cases where UK-produced military equipment has come in way over budget and behind schedule and/or has not performed to MoD specifications. For example, the SA-80 rifle has been dogged by technical problems and has undergone a number of expensive modification programmes. There are still unanswered questions about the weapon's reliability and it is widely believed in military circles that the MoD would have been far better advised to have simply bought off-the-shelf from another country, for example the M-16 from the US.

Export promotion

The Government is actively involved in arms export promotion, including to countries where there are concerns about human rights, regional stability and the impact of arms exports on development. Government Ministers, for example, are often involved in lobbying for

arms contracts, well before a licence has been awarded. This has been the case in relation to the Hawk contract with India, in a way that is highly damaging to the integrity of the export licensing process. It is almost inconceivable that Ministers would fail to provide this licence having been so actively involved in promoting the contract.

Government agencies and credit departments also directly subsidise arms exports. The Defence Export Services Organisation (DESO) has the specific remit of promoting arms sales. The Defence Assistance Fund has export promotion as one part of its remit. Defence attachés, and in some cases, Ambassadors, are also heavily involved in promoting arms exports. In 1999/2000 it was estimated that the total public cost of supporting these activities was some £23 million (Chalmers *et al* 2002). The UK Government also subsidises defence trade fairs and the use of the armed forces in demonstrating equipment. The use of public resources in this way further distorts the integrity of the export licensing process. Government Ministers are unlikely to refuse to license arms deals that UK public bodies have been actively promoting.

Government support for arms exports is also provided through the Export Credits Guarantee Department (ECGD), which underwrites the cost of exports against the risk of non-payment by the purchasing country. The Fiscal Studies paper by the York report's authors states that, 'Defence exports account for a substantial proportion of total ECGD export guarantees. During the five years 1994/95 to 1998/99, defence accounted for 26 per cent of total ECGD cover' (Chalmers *et al* 2002).

In January 2000, the Chancellor of the Exchequer, Gordon Brown, announced a new Government policy on the use of export credits for unproductive expenditure, including arms sales. He stated that in future ECGD credits would not be provided for unproductive expenditure for the 63 IDA-only countries (countries which can only borrow on highly concessional terms from the International Development Association of the World Bank).

Strategic influence and the boomerang effect

It is argued that exports of arms and military equipment give the UK real strategic influence over the countries to which we sell. The nature of that influence is rarely spelled out in detail, but it is generally assumed

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to involve wider economic and commercial benefits and some sway over the internal and regional politics of the state concerned.

A number of the countries to which the UK has sold arms over recent years are not democratic, are responsible for serious human rights violations and/or have a record of regional aggression. The supporters of arms sales to these countries clearly believe that the value of the influence these sales secure for the UK, or their use in pursuing UK strategic goals, outweighs any ethical or other concerns.

This report disputes this analysis. Drawing on some recent examples – UK arms exports to Iraq (1980s), UK arms sales to Saudi Arabia (1980s and 1990s), and US arms transfers to Afghanistan (1980s and 1990s) – it can be shown that in most cases the perceived geo-political benefits of arms exports are outweighed by the costs.

This Chapter shows that in a number of instances arms transfers have produced a 'boomerang effect' (policies that rebound negatively and unpredictably on those who prosecute them). This includes arming potential enemies, with exported weapons then used against our own forces; and the risk of diversion, with arms exports ending up in the hands of rogue states or terrorists.

Arms to Iraq

At the time of writing (November 2002) there is a growing prospect of military action against Iraq. It is timely to recall, therefore, UK policy on arms sales towards Iraq in the 1980s and the consequences that flowed from that policy. The UK and other major arms exporting nations played a major role during that decade in building up the Iraqi military machine.

Following the outbreak of war between Iran and Iraq in 1980, the UK Government declared its neutrality and pledged that it would not supply lethal equipment to either side. In 1984 this policy was formalised in a set of guidelines. Towards the end of the 1980s, for reasons of geo-political influence, concerns about Iran, and commercial advantage, the UK Government secretly relaxed those guidelines, allowing military equipment to be transferred to Saddam Hussein's Iraq. This policy was pursued despite Iraq's appalling human rights record. This continued even after Saddam had used chemical weapons against Iraqi Kurds in Halabja in 1988, killing over 5,000 of his own citizens.

In 1990 when Iraq invaded Kuwait, UK forces sent to the region to help reverse this aggression, as part of an Allied coalition, faced an Iraqi military force supplied with UK military equipment over the previous decade. UK Government Ministers who had calculated that equipment exported to Iraq would give them political influence and commercial advantage proved to be seriously mistaken. UK forces faced an Iraqi military strengthened by the supply of UK military equipment and the UK taxpayer picked up a bill for £700 million, Iraq's unpaid debts to the ECGD for this equipment (Hansard 1992).

Al-Yamamah and the arming of Saudi Arabia

Since the mid-1980s, the UK Government has been a major supplier of arms to Saudi Arabia. In 1985, the two countries signed what was at the time the world's biggest arms agreement, named Al Yamamah. Al Yamamah 2, a major extension of the original agreement, was signed in 1988. The equipment that formed part of the deal included Tornado fighters, Hawk ground attack/trainer aircraft, helicopters, mine hunters, missiles and spares. Estimates of the value of Al-Yamamah vary between £20 and £30 billion.

This deal was signed, and has been supported by subsequent Governments, despite the fact that Saudi Arabia is a feudal monarchy with a very poor human rights record. The 2002 Amnesty International report says of Saudi Arabia:

Grave and widespread human rights violations continue to be reported. They are perpetuated by the strictly secretive criminal justice system and the government policy of barring political parties, trade unions and independent human rights organisations; and international human rights NGOs are not allowed access to the country... Hundreds of teenagers have been flogged. Women continue to face severe discrimination... And last year (2001) at least 79 people were executed. (Amnesty International 2002)

While there are legitimate reasons for wanting to maintain some influence with the Government of Saudi Arabia, it is far from self-

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evident that large-scale arms sales to the Saudi regime are a sensible strategy for securing and maintaining that influence.

While for many years the West, particularly the US, has acted as a security guarantor for Saudi Arabia, hostility to the US and the West in general has risen dramatically. Large elements of Saudi society, including elements within the regime, oppose the presence of foreign troops on their soil. There is also a growing radicalised, fundamentalist movement, sympathetic to Osama Bin Laden, as evidenced by the fact that many of the hijackers involved in the September 11 attacks were Saudis. This movement threatens to destabilise if not depose the current Saudi regime, just as the Ayatollahs did to the Shah of Iran in 1979. When the Shah was ousted in Iran, the Ayatollahs acquired the huge stocks of weapons supplied by the West over the previous decade. There is a real risk that something similar could happen in Saudi Arabia.

UK arms to Saudi Arabia also illustrate another phenomenon. Far from the exporting country securing real influence over the customers of its military equipment, in a buyer's market, it is often the buyers who end up wielding the influence, with the exporting country's international (and sometimes domestic) policy priorities distorted by the desire to win or sustain arms contracts. One example of this was the attempts of the Home Office in 1996 to expel Mohammed al-Mas'ari, a prominent critic of the Saudi regime, in response to pressure from the Saudi Government. Not only have arms deals with Saudi Arabia inhibited the UK from criticising the Saudi's human rights record; they also led the previous UK Government to act in ways that contravened its own laws on immigration and asylum.

Despite concerns over Saudi Arabia's stability and human rights record, The Observer reported that BAE Systems is now in talks with the Saudi government about selling the kingdom up to 50 Typhoon fighter jets. This deal is estimated to be worth more than £1.5 billion (*The Observer* 2002).

Afghanistan

In the 1980s, following the Soviet invasion of Afghanistan in 1979, the US supplied large quantities of weapons to Mujahideen groups fighting the Soviets. Much of this equipment was channelled via the Pakistan Inter-Services Intelligence Agency (ISI). This US aid continued openly

until 1991, despite the very poor human rights record of the Mujahideen, who were responsible for large numbers of killings of Afghan civilians.

These transfers illustrate the dangers of the 'boomerang effect'. US and UK forces operating in Afghanistan against the Taliban and Al-Qa'ida almost certainly faced some weapons which the US themselves had originally transferred to the region. And some of these weapons may still be with Al-Qa'ida.

The lesser of two evils

Supporters of arms exports will concede that some of the recipients of UK arms have poor human rights records. But they will seek to defend these exports on the basis that while the current regime in Country X may be bad, the alternative would be far worse.⁶

There are some interesting parallels between what is being said today about the 'war on terror' and the policy of the UK Government towards Iraq in the 1980s. The UK Government supplied military equipment to Saddam Hussein because, brutal though he was, the Iranian fundamentalist regime was seen as far worse. Today, UK Government Ministers justify arms sales to regimes with poor human rights records on the basis that the alternatives would be poorer still.

A version of this argument is used to justify arms sales to regimes seen as supportive in 'the war on terror'. This includes countries listed as recipients of arms under open licenses, mentioned in Chapter 2.

This report recognises the necessity for action against terrorism. It also acknowledges that in 'tough neighbourhoods' there are often very difficult judgements to be made. This report rejects the view that supplying unstable, undemocratic and frequently repressive regimes with arms is necessarily the best way of curbing terrorism or preventing a still worse regime from coming to power.

The appropriate response to international terrorism is not to weaken controls over weapon transfers but to strengthen them, not to transfer weapons to unstable and repressive regimes, but to help stabilise and democratise them. Above all, an effective anti-terrorism strategy should involve broadening the security agenda and addressing some of the underlying causes of terror and political violence. That includes inter alia action to help resolve regional

conflicts and to tackle poverty and underdevelopment; and support for democracy, governance reform (including of the security sector), and post-conflict reconstruction.

The Government has used similar 'lesser of two evils' arguments to justify military transfers to Nepal. In 2001 the UK licensed 6,780 assault rifles to Nepal. This year the Government used £6.7 million of funds from the Global Conflict Prevention Pool to purchase two military helicopters for the Nepalese Government. This report does not dispute that the Nepalese Government faces a serious insurgency from Maoist opposition groups. But it is far from clear that supplying that regime with weapons is the best way of stabilising the complex and volatile situation in Nepal or encouraging a transition to a more democratic and liberal regime. The UK Government's (2002) Human Rights report states that, 'in Nepal the conflict has escalated dramatically' and 'human rights concerns continue to fuel the conflict.' While Amnesty International has provided evidence of 'unlawful killings, disappearances, torture and arbitrary arrest and detention by police and army personnel.' (web.amnesty.org.ai.nsf)

This report also challenges whether it is appropriate to be using funds from the Government's Global Conflict Prevention Pool to purchase military equipment to give to other countries. A more appropriate response to countries like Nepal would be to help build up their political and legal institutions, reform the security sector (army and police), and support for inclusive economic development. Only in this wider context should consideration be given to providing direct military assistance.

4. Next steps: the new policy agenda

Where should UK policy on arms exports go next? The Export Control Act has received Royal Assent. The Government plans to consult on some of the delegated or secondary legislation arising from the Act. Some of the measures proposed here could be adopted by the Government in the context of this secondary legislation, other steps can and should be taken independently of the new legislative framework.

Strengthening UK arms export controls

Rethinking exports to countries of concern

Government policy is to assess export licences on a case-by-case basis against the Consolidated UK and EU Criteria. However, this approach is not proving adequate to effectively control arms exports to countries of concern.

The Government has already acknowledged the need to move beyond simply case-by-case assessments for arms sales to developing countries. In an answer to a Parliamentary Question on 26 September, 2002, Patricia Hewitt, Secretary of State for Trade and Industry, announced a new, two-stage process for assessing the impact of relevant proposed exports on sustainable development as defined in Criterion 8.

First, a non-exhaustive list of countries identifies those where sustainable development is most likely to be an issue. Second, in cases involving exports to those countries, the Government will look in more detail at the possible impact of relevant proposed exports on the economy or the sustainable development of the recipient country... Those countries eligible for concessional loans from the World Bank's International Development Association (IDA) have been chosen for these purposes as representing the world's poorest... The Government will keep the list of countries under constant review to take account of changing circumstances. The list will be published on the DTI website. (Hansard 2002a)

The identification and publication of a list of countries where sustainable development concerns are relevant to arms export decisions is welcome. There is a strong case for developing a wider list of 'countries of concern', including countries where there are concerns about human rights, conflict, terrorism, diversion and regional stability, as well as development.

Towards these countries there should be an initial 'presumption of denial' of licences for arms export applications. This presumption can be overridden if the Government can demonstrate, ultimately to Parliament, that there is a legitimate defence requirement for the equipment in question and that it poses no problem for any of the export criteria. This assessment should be based on information received from the recipient government, the UK Embassy and other governmental and non-governmental sources.

The Government already uses this approach for exports of small arms and light weapons to West African countries. The 15 countries in the Economic Community of West African States (ECOWAS) have agreed a Moratorium on the import, export and manufacture of small arms. In respect of the Moratorium, the UK will only license small arms exports to ECOWAS countries 'where the goods are to meet legitimate security needs' (FCO 2001) This is, in effect, a presumption of denial.

A 'presumption of denial' towards 'countries of concern' would not affect the Government's decision on the large majority of arms exports. However it would help to tighten controls and increase the level of scrutiny of export applications to sensitive destinations.

The UK Government should:

- Introduce a 'presumption of denial' for arms exports towards an agreed list of 'countries of concern'.
- Agree the list in consultation with the Quad Committee and publish the list in the Annual report on Arms Exports.

Rigorous application of the Arms Export Criteria

Beyond establishing a 'presumption of denial' for export licence applications to 'countries of concern', the Government needs to rigorously apply its own criteria as set out in the Consolidated Code. The 8 July, 2002 announcement on military components sets a

dangerous precedent, treating the export of components less strictly than that of finalised military systems. Another concern is that the Government is adopting a more permissive approach to the export of arms to regimes seen as on side in the 'war on terror', regardless of wider concerns about human rights and regional stability.

The basic premise of the UK export licensing regime should be that it seeks in all circumstances to minimise the risk that transfers of controlled goods or technology, over which the UK Government can exercise authority, will have any of the consequences addressed by the Consolidated Criteria. This should be regardless of whether the controlled goods in question are components, sub-assemblies or complete systems; whether the transfers will lead directly or through a further transfer to inappropriate use; and irrespective of how committed the intended recipient is to fighting international terrorism.

The UK Government should take steps to ensure it will not license the sale of components for incorporation into systems for onward export where it would not issue a licence for a direct sale of the components or the complete system. It is understood that in the case of the F-16 fighter aircraft to the US for incorporation and subsequent sale to Israel, the Government was concerned that the UK's reputation as a reliable arms-producing partner to the US was at stake. The concern overrode concerns about the end-uses to which the equipment would be put.

Interestingly, the US takes a much more restrictive approach to the weapons and military equipment it exports. Under US law any recipient of controlled goods from the US (be they components or complete systems) must seek the permission of the US Government before re-export. This report recommends that the same practice be adopted by the UK Government. In addition, for each collaborative defence project, the UK Government should seek to agree with its partners, including the US, a common approach to onward export. Provision for such an arrangement already exists under the Framework Agreement, a collaborative defence arrangement between six European states where 'White Lists' of permitted export destinations are agreed.⁷ The development of a common approach should be based on the consolidation of best practice as opposed to the lowest common denominator.

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The UK Government should:

- Apply the Consolidated UK and EU Criteria on Arms Exports consistently, with the same standard applied to military components as to finalised military systems (see Appendix 1)
- Agree a common approach to onward export as part of collaborative defence projects with other countries, including the US.
- Not allow the need to take action against terrorism to weaken its arms export controls, particularly in relation to human rights and regional stability.

Strengthening the commitment to sustainable development in arms export licensing

The controversy over the BAE Systems Air Traffic Control system for Tanzania has served to highlight the inadequacy of existing arrangements for dealing with sustainable development concerns in the export licensing process. Since Labour introduced its new arms export criteria in July 1997, including the development criterion, not a single export licence has been refused purely on sustainable development grounds.

Part of the difficulty has been the existing wording on development. Despite the damage that arms sales often do to development, the threshold for contravening Criterion 8 is far higher than for the other criteria such as human rights and regional stability. The other criteria state that exports will not be licensed if there is a 'risk that they could have a particular damaging consequence'. However, Criterion 8 requires evidence that a proposed export would 'seriously undermine the economy or seriously hamper the sustainable development' of the recipient country. This higher threshold for sustainable development is unreasonable.

Another difficulty has been that the role of the Department for International Development (DFID) has been marginalised, and that the Treasury, which potentially has a great deal to add on the economic impact of arms sales, are outside the export licensing process.

This is particularly significant in relation to the cumulative impact of arms sales to developing countries, which the Government has conceded is a legitimate factor in the context of Criterion 8. The

Government is right that to make a judgement on this depends on considerable information about arms sales to the country from other suppliers over a number of years. However, it has refused to publish information on the value of export licences that could help MPs and the public to assess this.

Under considerable pressure from parliamentarians in both the House of Commons and the House of Lords, as well as pressure from NGOs, the Government agreed to amend the Export Bill. The words 'sustainable development' now appear on the face of the Bill. However, it is unclear to what extent this will influence future decision-making on individual arms export licence applications (whether, for example, it would prevent a future Tanzania ATC-type case from being given a licence). This is the real test of whether this change is substantive or merely cosmetic.

The UK Government should:

- Strengthen the commitment to sustainable development in the export licensing process. It should delete the word 'seriously' from Criterion 8, so that arms deals are judged by whether they would 'damage the sustainable development of recipient countries'.
- Strengthen the capacity of the Department for International Development to assess export licence applications, and, where appropriate, give a bigger role to the Treasury in judging the adverse economic impact of arms sales on developing countries under Criterion 8.
- Agree an effective system for judging the cumulative impact of arms sales on sustainable development.
- Publish the values of arms export licences in the Annual Reports to enable MPs and the public to assess the implementation of Criterion 8.

Monitoring the end-use of UK arms exports and preventing diversion

Over the last decade, there have been a number of prominent cases where arms of UK origin have been diverted away from their intended country of destination or used in ways that breached guarantees given in

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the end-use certificate. For example, the Scott Report revealed how military equipment licensed for export to Jordan in the 1980s was diverted to Iraq. Hawk aircraft exported to Indonesia and Hawk components exported to Zimbabwe were also used in contravention of end-use undertakings. More recently, in March 2002, the Foreign Office admitted that UK-supplied weapons were being used in the occupied territories, contrary to assurances given by the Israeli Government.

While the Government has acknowledged that it is important to prevent diversion to unintended and undesirable end-users and uses, the Export Control Act does not propose any specific measures for monitoring controlled goods after export.

The US Government, by contrast, is strengthening its end-use monitoring system to ensure that where there are concerns checks are made on the end-use of equipment. Teams comprising weapons and technology experts will conduct random in-country spot checks on foreign government use of selected US exports.

The UK Government should:

- Introduce a formal system to monitor the end-use of arms exports. End use monitoring should be prioritised for those countries and those arms transfers where the risks of diversion or misuse are greatest.
- Make clear to countries that purchase UK arms that breaches of end-use assurances will lead to the immediate termination of that contract and that it will also refuse licences for comparable equipment to that country for a specified period.

Tightening controls over UK arms brokers and traffickers

This report has highlighted the role that is played by many arms brokers and traffickers in fuelling armed conflict, particularly in Africa. The new Export Control Act provides the Government with a general power to control UK arms brokers, but the Government has backed away from its General Election manifesto commitment, 'to control the activities of arms brokers and traffickers wherever they are located' (Labour Party 2001).

Under the Government's existing proposals, brokering conventional weapons to destinations not subject to a UN embargo will require a licence only where part of the deal takes place in the UK.

Full extra-territorial controls on brokering will only be imposed for deals that involve transfers to embargoed destinations, or transfers of equipment used in torture and long-range missiles. As a result, UK dealers could continue to transfer weapons to countries that violate human rights or threaten regional stability (but where no embargo is in place) simply by going across the Channel to conduct their arms brokering deal.

During the Third Reading stage of the Export Control Bill in the House of Lords, Peers moved an amendment to extend full extra-territorial controls to the brokering of small arms, light weapons and ammunition. The Government rejected this, arguing that it would be impractical and difficult to enforce.

However, the Government has not explained why it is practical to enforce extra-territorial controls on the trafficking of long-range missiles and instruments of torture but not on small arms. Nor has it explained why it is feasible to have extra-territorial controls on terrorist activity (in its Anti-Terrorism, Crime and Security Act) but not on small arms. Trafficking in arms, drugs, and human trafficking are typically interconnected, as criminals and terrorist groups use established routes to branch out into different illicit commodities. Action to deal with brokering would help in the fight against terrorism and international crime.

The UK Government should:

- Implement its manifesto commitment to control arms brokers 'wherever they are located'.

Better controls over licensed production overseas

This report has already identified that there is an increasing trend for UK companies to license the manufacture of arms by companies in overseas countries. For example, Jaguar fighter aircraft are currently being produced in India under licence from the UK. There have been recent reports that these aircraft are being upgraded with Israeli avionics to make them nuclear capable, and that the Indian Ministry of Defence is negotiating with BAE Systems for 'spares and critical integration parts that would enable the Indian Jaguars to carry nuclear weapons' (Pinto 2002).

India are also insisting that, as part of the currently-negotiated deal to buy Hawk jets from BAE Systems, a large number of the aeroplanes

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must be manufactured under license in Delhi. In September 2002, the Foreign Secretary was forced to write to MPs to say that, contrary to his previous assurance, parts for the manufacture of Hawk Jets were in fact licensed for export to India last year. Foreign Office officials had apparently failed to spot the licence going through.

A way forward would be for British companies, wanting to license the production of weapons overseas, to first apply to the UK Government for a licence for the whole production deal. The Government has rejected this, arguing that it does not need to license the deals itself and the most effective method of control is to license exports of component parts from the UK. However, this latest case shows why additional controls are needed.

The UK Government should:

- Require British companies who want to license the production of arms overseas to first apply to the Government for a licence for the production deal.

Better government decision-making

More effective decision-making within Whitehall

The controversy surrounding a number of recent export licence decisions has exposed some of the weaknesses and contradictions in the UK's existing system for dealing with arms export licences.

The Tanzania ATC case drew attention to a little-known informal pre-licensing procedure, the Ministry of Defence Form 680. Headed by the MoD, the Form 680 process allows companies to seek preliminary advice as to whether a particular export opportunity is likely to receive eventual official authorisation. In this case, the MoD gave preliminary clearance for the export in August 1997. The Department for International Development was not consulted and was not even aware that the company had approached the Government, although Tanzania is a desperately poor country and a major recipient of UK aid.

Earlier this year, in response to the Tanzania ATC case, the Government confirmed that DFID would henceforth see all relevant F680 applications and consider them against Criterion 8, just as they consider normal licence applications for specific developing countries.

But serious problems remain with the licensing process. For example in the Tanzania case, the Government and the company were hugely committed to the contract well before an export licence had even been applied for. As Norman Lamb MP put it during a Parliamentary debate on Tanzania on 25 June, 2002, 'The F680 clearance led to the signing of a binding contract, the finalising of a subsidised loan from Barclays, the building of most of the equipment and the payment of at least \$15 million to BAE Systems before the application for an export licence was considered.' (Hansard 2002b)

The UK Government should:

- Prohibit UK companies from receiving payments from potential customers before an arms export licence has been awarded.
- Publish in its Annual Report on Arms Exports all those licences, approved or refused, for which MoD-led Form 680 approval was sought.

Regulating export promotion

While each individual export licence application is supposed to be judged impartially and objectively against the Consolidated Code, there are a whole series of ways in which the system is weighted in favour of licences being approved. As we pointed out in Chapter 3, Government Ministers are often involved in lobbying for arms contracts, well before a licence has been awarded. This has been the case in relation to the Hawk contract with India, in a way that is highly damaging to the integrity of the export licensing process. The Government also subsidises arms exports through the Defence Export Services Organisation (DESO), the Defence Assistance Fund, Ambassadors and Defence Attachés, the ECGD, and through public subsidy for defence trade fairs.

The ECGD's Statement of Business Principles assert that, 'We will ensure our activities take into account the Government's international policies including those on sustainable development, environment, human rights, good governance' (www.ecgd.gov). However, it is hard to square this statement with continuing ECGD credits for arms deals to developing countries.

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The UK Government should:

- End the involvement of Government Ministers in export promotion towards those countries listed as 'countries of concern'.
- Phase out public funding for the Defence Export Services Organisation (DESO).
- Phase out all Export Credit Guarantee Department (ECGD) support for arms exports. As an interim measure, the Government should end ECGD support for unproductive expenditure, including arms sales, for all 81 IDA-eligible countries (countries eligible for concessional loans from the World Bank's International Development Association).
- Change the role of defence attachés in British embassies in 'countries of concern', ending their role in arms export promotion and increasing their involvement in issues like security sector reform and the monitoring of the end-use of arms exports.
- End the public subsidy for defence trade fairs.

Tackling corruption

Chapter 1 noted the links between the arms trade and corruption and the damage this does both to the development of poor countries in particular, and good business relations in general. This is an area where the good performers in the defence industry have a strong interest in exposing their less reputable competitors.

This report welcomes the fact that the UK Government has incorporated the OECD Convention on the Bribery of Foreign Public Officials into UK law in February 2002, as part of the Anti-Terrorism Bill. But there are further measures that could be taken to crack down on corruption in arms exports and defence procurement.

The UK Government should:

- Make the granting of an arms export licence conditional on the presentation by exporting companies of a specific no-bribery pledge.
- Automatically revoke an export licence if evidence emerges that companies have not adhered to this pledge.

- Encourage companies to set up their own codes of conduct on anti-corruption in defence procurement and report regularly on these codes.
- Allow the Public Accounts Committee and the National Audit Office to undertake regular enquiries into major arms projects.

Greater Parliamentary oversight

Greater transparency is key to better decision-making. While Labour has made progress in opening up UK export licensing to parliamentary and public oversight, at present this is entirely retrospective, with Government policy scrutinised only after export licences have been granted. Since it was set up in 1999, the Quad Committee has argued that there is a useful role for a Parliamentary committee in assessing export licensing decisions before they are granted, in order to provide advice to Ministers in difficult cases.

The Government has refused to agree to such a system arguing that it would compromise confidentiality, create legal difficulties and cause delays, without necessarily improving the quality of decisions. These arguments were strongly rejected by the Quad Committee in their most recent report. They stated:

when we examine the arguments put forward by the Government to support their rejection of our predecessors' proposals for prior parliamentary scrutiny of certain licence applications we find many of them to be either ill-founded or exaggerated. We recommend that the Government come forward with proposals for an experimental scheme for prior scrutiny, so that their concerns can be tested against experience. (Quad Committee 2002)

During the debate on the Export Control Bill, a member of the House of Lords, Dale Campbell Savours, proposed the creation of a Defence Export Services Committee, modelled on the Intelligence Services Committee. This would be appointed by, and report to, the Prime Minister. It was proposed as a way of assuaging some of the Government's concerns while still allowing for advance sighting by MPs of export licence applications. The Government has indicated

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that it will respond to these proposals but has yet to provide a definitive response.

The UK Government should:

- Introduce a system of prior parliamentary scrutiny of export licensing decisions.

Strengthening international controls

Enhancing the EU Code of Conduct

The Labour Government can take considerable credit for the EU Code of Conduct on Arms Exports, with its introduction in 1998 owing much to UK pressure. The Code appears to have provided a useful framework within which discussions about licensing decisions can take place between member states. However, there are also weaknesses in the Code which need to be addressed, not least a lack of transparency in some reports. Published annual reports are key to governments, parliaments (including the European Parliament) and European civil society being able to evaluate the implementation of the EU Code, and the extent to which national approaches to arms export issues are converging.

The UK Government should work with EU partners to:

- Increase transparency in the annual reports on the implementation of the European Union Code of Conduct on Arms Exports.
- Further develop the EU Code and make it legally binding.
- Strengthen controls on arms brokering, introducing a standardised licensing system for arms brokers and applying these controls extra-territorially.

Strengthening export controls in the EU Accession states

It now looks likely that a significant number of the 10 applicant states may join the EU in 2004. This will potentially have major consequences for arms export policy. The applicant states have already signed up to the EU Code of Conduct and the EU Joint Action on controlling the proliferation of small arms but it is clear that many of them do not yet

have the legal framework or the law enforcement capacity to implement controls effectively.

This has resulted in a series of controversial exports being granted. For example last year Bulgaria supplied six artillery systems to Chad (possible breach of criteria 2, 3 and 7) and the Czech Republic supplied 25 tanks to Sri Lanka (possible breach of criteria 2 and 3), 10 Howitzers to Zimbabwe (breach of criteria 2, 3, 4, 6 and 7) and 100 tanks to Yemen (possible breach of criteria 4, 6 and 7).

Concerted action is now needed by the UK and other EU member states to ensure that EU enlargement does not undermine the credibility of the EU Code and lead to a reduction of export standards across the Union.

The UK Government should work with EU Partners to:

- Ensure that EU Accession states effectively implement the EU Code of Conduct by incorporating its provisions into national legislation.
- Include EU Accession states in the EU Code's Information Exchange Mechanism on the Denial of Export Licences.
- Assist EU Accession states to adopt tighter and more effective controls over the movement of arms and associated materials through their territory, controls over arms brokers, and to introduce systems to ensure that exported arms are not misused, diverted or re-exported.
- Encourage EU Accession states to publish annual reports on their arms exports.

Working for an International Framework Convention on Arms

The agreement of international controls is the best answer to the argument that 'if we don't sell, others will'. An international grouping of NGOs has developed a draft Arms Trade Treaty. The draft Treaty sets out the terms and conditions under which arms transfers should be prohibited. This is based on countries' existing obligations under international humanitarian and human rights law.

The UK Government should:

- Work for the establishment of an International Arms Trade Treaty based on countries' existing obligations in international law.

5. Conclusion

A more responsible approach to arms exports is not a question of political and economic loss versus moral gain. Tighter controls over weapons transfers to dubious regimes and destinations is morally right, but also in our interests.

The Labour Government's very real achievements in international policy – on aid and debt relief, human rights and conflict prevention – are being undermined by a permissive approach to the export of arms and military equipment. Hawks to Indonesia and Hawk parts for Zimbabwe; arms to India and Pakistan when both sides were on the verge of war; components for F16s, sold to the US to be sold on to Israel; Tanzania ATC – these cases have undermined the UK's international standing and influence on issues of human rights, conflict prevention and development.

This report has shown that the economic benefits that these exports are alleged to bring to the UK economy are hugely overstated, with the most recent research suggesting that there would be only limited and short-term adverse effects on the UK economy from a reduction in defence exports. It has also shown how a permissive approach to arms exports can rebound negatively on the supplying country, arming potential enemies and feeding instability.

Too often the debate about arms exports is artificially polarised as if the only tenable positions are to be 'for' or 'against' all arms exports. This report rejects this polarisation. The export of military equipment can be legitimate, but there are a host of reasons why it is important to maintain tight arms export controls. Far from being a woolly compromise, this position is both ethical and practical.

This is also a position that appears to find resonance with the majority of British people. UK public opinion is not pacifist, but it does want tighter controls over arms exports. For example, 82 per cent of the UK public in a recent poll said that the Government should do more to control weapon sales to governments that abuse human rights.⁸

The proposals set out in this report do not require a completely new direction for UK foreign policy. On the contrary, these proposals would bring UK policy on arms exports more into line with the broad thrust of the Government's approach to global issues. Implementing them would demonstrate greater coherence at the heart of the Government's international policy and give the UK greater moral authority and influence in the world.

Endnotes

- 1 The Government has established a £19.5 million fund from the Global Conflict Prevention Pool to support activities to tackle the proliferation and illicit trafficking of small arms and light weapons in conflict regions. The UK also played an important role in the 2001 UN Conference on the Illicit Trade in Small Arms and Light Weapons in All Its Aspects.
- 2 The Quad Committee consists of representatives from the Defence, Foreign Affairs, International Development and Trade and Industry Select Committees. It was established in 1999. Its role is to scrutinise the Government's policy on arms exports.
- 3 See note above on Quad committee.
- 4 Revealed in a letter from Jack Straw to John Redwood. A copy of the letter was included in First Joint Report of Session 2001/02 Quad Committee.
- 5 Adair Turner calculated that a 35-40 per cent fall in defence exports would be worth approximately six weeks of GDP growth (see Turner 2001, page 362).
- 6 At an International Question Time fringe meeting at the Labour Party Conference in 2001, Ben Bradshaw, the then Minister responsible for arms exports in the Foreign Office, questioned whether it was right to refuse weapons to Algeria, Indonesia and Sri Lanka, as they were elected governments facing internal terrorist threats.
- 7 The Framework Agreement Concerning Measures to Facilitate the Restructuring and Operation of the European Defence Industry was signed by France, Germany, Italy, Spain, Sweden and the UK in 2000. Under the Agreement, ultimate responsibility for issuing a specific export license rests with the country of final assembly, which may still refuse a request for export to a country which is on the relevant White List based upon application of the EU Code of Conduct criteria.
- 8 Poll conducted by Taylor Nelson Sofres during March 2002, questioning 1,023 people aged 16 or over.

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Appendix 1 The consolidated EU and national arms export licensing criteria

26 October 2000 – HC 199-203W

An export licence will not be issued if the arguments for doing so are outweighed by the need to comply with the UK's international obligations and commitments, by concern that the goods might be used for internal repression or international aggression, by the risks to regional stability or by other considerations as described in these criteria.

Criterion one

Respect for the UK's international commitments, in particular sanctions decreed by the UN Security Council and those decreed by the European Community, agreements on non-proliferation and other subjects, as well as other international obligations.

The Governments will not issue an export licence if approval would be inconsistent with, inter alia:

- The UK's international obligations and its commitments to enforce UN, OSCE and EU arms embargoes, as well as national embargoes observed by the UK and other commitments regarding the application of the strategic export controls;
- The UK's international obligations under the Nuclear Non-Proliferation Treaty, the Biological and Toxin Weapons Convention and the Chemical Weapons Convention;
- The UK's commitments in the frameworks of the Australia Group, the Missile Technology Control Regime, the Nuclear Suppliers Group and the Wassenaar Arrangement;
- The Guidelines for Conventional Arms Transfers agreed by the Permanent Five members of the UN Security Council, the OSCE Principles Governing Conventional Arms Transfers and the EU Code of Conduct on Arms Exports;
- The UK's obligations under the Ottawa Convention and the 1998 Land Mines Act.
- The UN Convention on Certain Conventional Weapons

Criterion two

The respect of human rights and fundamental freedoms in the country of final destination.

Having assessed the recipient country's attitude towards relevant principles established by international human rights instruments, the Government will:

- Not issue an export licence if there is a clear risk that the proposed export might be used for internal repression;
- Exercise special caution and vigilance in issuing licences, on a case-by-case basis and taking account of the nature of the equipment, to countries where serious violations of human rights have been established by the competent bodies of the UN, the Council of Europe or by the EU.

For these purposes, equipment which might be used for internal repression will include, inter alia, equipment where there is evidence of the use of this or similar equipment for internal repression by the proposed end-user, or where there is reason to believe that the equipment will be diverted from its stated end-user and used for internal repression. The nature of the equipment will be considered carefully, particularly if it is intended for internal security purposes. Internal repression includes, inter alia, torture and other cruel, inhuman and degrading treatment or punishment; summary, arbitrary or extra judicial executions; disappearances; arbitrary detentions; and other major suppression or violation of human rights and fundamental freedoms as set out in relevant international human rights instruments, including the Universal Declaration on Human Rights and the International Covenant on civil and Political Rights.

The Government considers that in some cases the use of force by a Government within its own borders, for example to preserve law and order against terrorists or other criminals, is legitimate and does not constitute internal repression, as long as force is used in accordance with the international human rights standards as described above.

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Criterion three

The internal situation in the country of final destination, as a function of the existence of tensions or armed conflicts.

The Government will not issue licences for exports which would provoke or prolong armed conflicts or aggravate existing tensions or conflicts in the country of final destination.

Criterion four

Preservation of regional peace, security and stability.

The Government will not issue an export licence if there is a clear risk that the intended recipient would use the proposed export aggressively against another country or to assert by force a territorial claim. However a purely theoretical possibility that the items concerned might be used in the future against another state will not itself lead to a licence being refused.

When considering these risks, the Government will take into account inter alia:

- The existence or likelihood of armed conflict between the recipient and another country;
- A claim against the territory of a neighbouring country which the recipient has in the past tried or threatened to pursue by means of force;
- Whether the equipment would be likely to be used other than for the legitimate national security and defence of the recipient;
- The need not to affect adversely regional stability in any significant way, taking into account the balance of forces between the states of the region concerned, their relative expenditure on defence, the potential for the equipment significantly to enhance the effectiveness of existing capabilities or to improve force projection, and the need not to introduce into the region new capabilities which would be likely to lead to increased tension.

Criterion five

The national security of the UK, of territories whose external relations are the UK's responsibility, and of allies, EU Member States and other friendly countries.

The Government will take into account:

- The potential effect of the proposed export on the UK's defence and security interests or on those of other territories and countries as described above, while recognising that this factor cannot affect consideration of the criteria in respect of human rights and on regional peace, security and stability
- The risk of the goods concerned being used against UK forces or on those of other territories and countries as described above;
- The risk of reverse engineering or unintended technology transfer; the need to protect UK military classified information and capabilities.

Criterion six

The behaviour of the buyer country with regard to the international community, as regards in particular to its attitude to terrorism, the nature of its alliances and respect for international law.

The Government will take into account inter alia the record of the buyer country with regard to:

- Its support or encouragement of terrorism and international organised crime;
- Its compliance with its international commitments, in particular on the non-use of force, including under international humanitarian law applicable to international and non-international conflicts;
- Its commitment to non-proliferation and other areas of arms control and disarmament, in particular the signature, ratification and implementation of relevant arms control and disarmament conventions referred to in sub-para b) of Criterion One.

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Criterion seven

The existence of a risk that the equipment will be diverted within the buyer country or re-exported under undesirable conditions.

In assessing the impact of the proposed export on the importing country and the risk that exported goods might be diverted to an undesirable end-user, the following will be considered:

- The legitimate defence and domestic security interests of the recipient country, including any involvement in UN or peace-keeping activity;
- The technical capability of the recipient country to use the equipment;
- The capability of the recipient country to exert effective export controls.

The Government will pay particular attention to the need to avoid diversion of UK exports to terrorist organisations. Proposed exports of anti-terrorist equipment will be given particularly careful consideration in this context.

Criterion eight

The compatibility of the arms exports with the technical and economic capacity of the recipient country, taking into account the desirability that states should achieve their legitimate needs of security and defence with the least diversion for armaments of human and economic resources.

The Government will take into account, in the light of information from relevant sources such as United Nations Development Programme, World Bank, IMF and Organisation for Economic Cooperation and Development reports, whether the proposed export would seriously undermine the economy or seriously hamper the sustainable development of the recipient country.

The Government will consider in this context the recipient country's relative levels of military and social expenditure, taking into account also any EU or bilateral aid, and its public finances, balance of payments, external debt, economic and social development and any IMF or World Bank-sponsored economic reform programme.

Appendix 2: Government statement on new criteria on the export of military components. Reply to a parliamentary question, 8 July 2002

House of Commons Hansard

Paddy Tipping: To ask the Secretary of State for Foreign and Commonwealth Affairs how the Government considers applications for export licences for the supply of military equipment for incorporation into final products for possible onward export; and if he will make a statement. [67534]

Mr Straw: In recent years there have been far reaching changes in the defence industry in the United Kingdom, the rest of Europe and the United States. Against the background of the end of the Cold War and the resulting reduction in defence budgets world wide, the defence industry has been subject to massive rationalisation. One consequence of this change is that increasingly defence goods are manufactured from components sourced in several different countries.

This restructuring of the defence industry presents new challenges for the Government's approach to export licensing. Many export licence applications are for goods which are to be incorporated in defence equipment in a second country, which thereafter may be exported to a third country.

The Consolidated EU and National Arms Export Licensing Criteria set out in a statement by my Right Hon Friend the Member for Neath (Mr Hain), Official Report, column 199–203W on 26 October 2000, make clear that they 'will not be applied mechanistically' to decisions on export licence applications, but rather 'on a case-by-case basis, using judgment and common sense'. The criteria do not provide specific guidance on what approach should be adopted in these 'incorporation' cases.

Other EU and NATO member states face the same rapidly changing environment for their defence industries as the UK. Enquiries by Her Majesty's Government suggest, however, that while as yet there is no common policy in such cases, many of our European partners recognise the need to adopt a special approach towards cases involving incorporation for onward export.

8 Jul 2002: Column: 651W

After very careful consideration, Her Majesty's Government has, therefore, decided that it is necessary to set out how it will in future approach licence applications for goods where it is understood that the goods are to be incorporated into products for onward export. The Government will continue to assess such applications on a case by case basis against the Consolidated Criteria, while at the same time having regard to, inter alia, the following factors:

- the export control policies and effectiveness of the export control system of the incorporating country;
- the importance of the UK's defence and security relationship with the incorporating country;
- the materiality and significance of the UK-origin goods in relation to the goods into which they are to be incorporated, and in relation to any end-use of the finished products which might give rise to concern;
- the ease with which the UK-origin goods, or significant parts of them, could be removed from the goods into which they are to be incorporated; and
- the standing of the entity to which the goods are to be exported.

Against this background the Government has considered its response to a number of applications for the export of parts, subsystems and components to the USA for incorporation into equipment eventually destined for other countries. These include Head Up Display units (HUDs) for incorporation in F-16 aircraft scheduled for delivery to Israel in 2003. The UK content in F-16s is less than one per cent. in value, but the supply of HUDs is part of a long-standing collaboration in this US programme. Any interruption to the supply of these components would have serious implications for the UK's defence relations with the United States.

The Government continues to be seriously concerned about the situation in Israel and the Occupied Territories. There has to be a break to the cycle of violence, which has brought so much misery to both peoples, and a resumption of the peace process. We are working closely with partners including the US to reduce the level of tension and to bring about a sustainable and peaceful settlement through negotiation.

The United States Government maintains a strong and effective export licensing system. The Quadripartite Committee has noted that the United States' conventional arms transfer policy 'does not appear to differ in any important way from the EU Code or the UK national criteria. In some respects...it is an improvement' (HC 467 xxix 73 (25 July 2000)). Appropriate use of arms exported to Israel by the US is the subject of regular dialogue between the two countries, and when the US have concerns they make these known to the Israelis (as required by Congressional legislation). The State Department has been monitoring Israeli actions carefully and will continue to do so.

At the same time the Government carefully takes into account the importance of maintaining a strong and dynamic defence relationship with the US. This relationship is fundamental to the UK's national security as well as to our ability to play a strong and effective role in the world. The importance of this role has been demonstrated repeatedly in recent months. There are also wider benefits to the UK's national security of maintaining a strong indigenous defence industrial capability.

8 Jul 2002: Column: 652W

Taking account of all these considerations, the Government considered that the applications should be approved, and my right hon. Friend the Secretary of State for Trade and Industry has today granted licences for the export of the HUDs, and other equipment to the USA. The Government will apply similar considerations to similar applications in future.