

FOREIGN SECRETARY'S STATEMENT ON INCORPORATION ISSUES, 8TH JULY 2002

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.

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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:

- (a) the export control policies and effectiveness of the export control system of the incorporating country;
- (b) the importance of the UK's defence and security relationship with the incorporating country;
- (c) 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;
- (d) 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
- (e) 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 1 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.

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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.