

# Global Investor Statement on the Arms Trade

## Statement calls for a strong, legally binding and comprehensive Arms Trade Treaty.

This statement is supported by 21 investors – both asset owners and asset managers – that collectively represent assets of US\$ 1.2 trillion. All the undersigned investors are signatories to the United Nations-backed Principles for Responsible Investment. Consequently, this group of global investors recognises that environmental, social and governance issues can affect the performance of investment portfolios.

### Background

In 2006, through the United Nations General Assembly, 153 countries voted in favour of resolution 61/89 calling on the Secretary-General to seek the views of Member States on a legally binding Arms Trade Treaty (ATT) aiming to establish “common international standards for the import, export and transfer of conventional arms”. Currently, there is no international framework, convention or treaty regulating the trade and transfer of conventional weapons.<sup>1</sup>

Regional and national regulations provide a good basis for what an international treaty should include, but existing arms export control systems are inadequate to prevent the trade and transfers to irresponsible owners.

While key principles of international human rights and international humanitarian law are of direct relevance to the concerns linked to the irresponsible trade and transfer of conventional weapons, such principles need to be applied through explicit standards.<sup>2</sup>

We agree therefore with the ATT resolution recognising the absence of common international standards on conventional arms as “a contributory factor to conflict, the displacement of people, and crime and terrorism, thereby undermining peace, reconciliation, safety, security, stability and sustainable development.”

### Risks for investors

As large institutional investors we are, in effect, “Universal Owners”.<sup>3</sup> We often have highly-diversified and long-term portfolios that are representative of global capital markets. With our returns impacted by unsustainable

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<sup>1</sup> Policy-making institutions addressing weapons and ammunition do exist at the national and regional level, including: The UN Register of Conventional Arms; the Common Military List of the European Union; Article 1 of the ECOWAS Convention on Small Arms and Light Weapons, Their Ammunition and Other Related Materials; Article 1 of the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives, and Other Related Materials; and the NADI Framework. Moreover, the majority of national control lists contain comprehensive categories of arms and ammunition which can also be used as a basis for developing a comprehensive scope for the ATT.

<sup>2</sup> There are several regional and international standards and agreements aimed at promoting transparency and responsibility in the transfer of conventional arms. See International Committee of the Red Cross, *Arms transfer decisions, Applying international humanitarian law criteria, practical guide*, 2007; Amnesty International, *How to Apply Human Rights Standards to Arms Transfer Decisions*, 2008.

<sup>3</sup> Large diversified institutional investors such as pension funds, mutual funds and insurance companies are “Universal Owners”. The holdings of Universal Owners are broadly representative of the structure of capital markets, which in turn represents a slice of the productive capital of the global economy. Universal Owners have a clear financial interest in the enduring health of capital markets and the economy.

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corporate behavior, we have an interest to reduce financial risk from negative social impacts and protect our reputation linked to investment decisions and practices.

The absence of a global conventional arms control system preventing irresponsible supplies affects our investments by impacting both the global economy and companies in our portfolio. Irresponsible supplies of conventional weapons can:

- contribute to human rights and international humanitarian law violations exposing arms suppliers to the risk of being accused of complicity in those violations;
- increase international and internal conflicts, thereby contributing to political instability, insecurity and lower economic growth. For example:
  - Africa is estimated to lose approximately USD\$18 billion per year due to wars, civil wars, and insurgencies; armed conflict shrinks an African nation's economy by 15 per cent;<sup>4</sup> and
- support unaccountable purchasing practices, corruption and the diversion of public resources. For example:
  - The US Department of Commerce estimates that corruption in the arms trade accounts for approximately 50 per cent of all corrupt transactions globally, despite the fact that the value of arms traded annually does not exceed 1 per cent of global trade. Corruption and bribery leads to higher transactional and hidden costs, often representing a high percentage of the contract total value for companies.<sup>5</sup>

Without a stronger global conventional arms control system, there are clear regulatory and reputational risks for companies in the defense industry and/or arms importing. Companies might be seen as being complicit in violations committed by irresponsible end users or contribute to corruption.

### Recommendations

The ATT is an historic opportunity to better manage these risks. To be useful and effective, we believe the ATT should include a comprehensive list of conventional arms and ammunitions in the agreement and the following commitments by State parties:

- prevent the export, import and transfer<sup>6</sup> of conventional weapons where there is a clear risk that these

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<sup>4</sup> Oxfam (2007) *Africa's missing billions: international arms flows and the cost of conflict*.

<sup>5</sup> Transparency International (UK) 'Preventing Corruption in the Official Arms Trade', 30 April 2006, Update Note 3. For further information on the impact of bribery and corruption, see documentation from workshop with institutional investors available at <http://www.oxfam.org.uk/resources/issues/privatesector/investment-workshops.html#>

<sup>6</sup> During the 2007 UN Secretary-General's consultation, most states identified the following types of transfer should be included in the treaty scope: limports, exports, re-exports, temporary transfers, transshipments (from one carrier to another), transit between an exporting and importing state and re-transfers. In addition, on-going negotiations include the following transactions: State-to-state transfers, state-to-private end-user transfers, commercial sales, leases, transfers of licensed foreign arms production and technology for this purpose, loans or gifts or aid or any other form of transfer of material goods or credit or expertise. Transactions that facilitate the arms trade include: Brokering, acting as an agent, providing technical assistance, training, maintenance and upgrades, transport, freight forwarding and storage, finance and insurance, and security services. Governments generally agree that the following should be excluded: Internal transfers, national ownership provisions and national constitutional protections on private ownership within that

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will be used to commit violations of international humanitarian law, prolong violent conflicts or contribute to regional instability, facilitate organised crime or terrorism or be diverted or resold for these purposes, and seriously impair socio-economic development and poverty reduction strategies;<sup>7</sup>

- prevent the transfer of conventional arms and ammunitions, which are likely to encourage corruption and unaccountable and nontransparent diversion of public spending;
- adopt dissuasive criminal, civil and administrative sanctions that are broadly similar across states; and
- report annually and adequately on all international transfers of conventional arms.

In addition to states, we believe the corporate sector has a role to play in the ATT. We encourage companies and trade associations, when appropriate, to support a strong and comprehensive ATT as stated in this declaration.

Supporting investors (in alphabetical order):

ASN Bank



Calvert Investments



Comité syndical national de retraite Bâtirente



Church of Sweden



Danske Bank



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*State's territory.*

<sup>7</sup> *Recognised guidelines to determine whether violations of international humanitarian law are likely are the ICRC's Practical Guide to Arms Transfers Decisions.*

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Mn Services



North East Scotland Pension Fund



Northern Ireland Local Government Officers' Superannuation Committee



Rathbone Brothers plc



RPMI Railpen Investments



SNS Asset Management



The Co-operative Asset Management



The Joseph Rowntree Charitable Trust<sup>8</sup>



Triodos Investment Management



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<sup>8</sup> Joseph Rowntree Charitable Trust is in support of the establishment of common international standards on the transfers of conventional arms to reduce human rights and international humanitarian law violations; it is the Trust's policy to exclude all companies materially involved in armaments from its investments.

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With support from (in alphabetical order):

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