

Concept Briefing
Executive Summary
June 2024

EXCESS PROFITS TAX ON THE ARMS INDUSTRY

to fund international climate finance



TIPPING POINT

creative campaigning for global justice



This report is dedicated to the people of Gaza.

In remembrance of over 14,500 children killed. (May 2024)

MILITARY EMISSIONS & SPENDING vs CLIMATE CHANGE & CLIMATE FINANCE

The global military is a major driver of climate change. At UN level it is exempt from compulsorily reporting its carbon emissions despite some countries' militaries being among the largest consumers of fossil fuels in the world. This is a scandal that needs exposing and addressing.

There is a direct correlation between military emissions and military spending. More military spending means more big-ticket fossil-fuel-reliant hardware. Military spending and emissions combined ensure that all human development is harmed in myriad ways. In this era of 'global boiling' we need climate finance to take priority over military spending in order to truly address global human safety.

As a matter of urgency, we need this issue taken up and addressed by the many stakeholders this serious matter falls to for action – from civil society to governments to international institutions including the UN.

Last but not least, policy-makers concerned with *Green New Deal* economic thinking (in the UK, Europe, the USA and elsewhere) must take account of the links between these closely linked issues: military spending & emissions, the green transition and sustainable human safety. We need *peaceful*, green, prosperity.

Excess Profits Tax on the Arms Industry is one of Tipping Point North South's ***Transform Defence*** series of reports and briefings that offer fresh new thinking for addressing military emissions as well as progressively converting military spending into funding for climate finance, strengthening sustainable human safety, and averting climate catastrophe.

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Report written by Dr. Ho-Chih Lin and Deborah Burton.

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Tipping Point North South is a 'for the benefit of community' co-operative, supporting and initiating creative, campaign-driven projects that advance the global justice agenda.

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FOREWORD

For six months, images rarely seen outside nightmares have been coming out of Gaza on a daily basis. Pictures of civilians, the majority children and babies, burnt and mutilated, are seared onto our brains, as we watch a genocide being live-streamed for the first time in history.

What makes these images particularly grotesque, is that they result from deliberate decisions made by politicians, not only in Israel, but in all those countries which are still providing weapons and military services to the Israeli government. The bombing of Gaza by Israel is one of, if not the, most intense bombardment in history, with 300,000 munitions being dropped on or fired in an area a small fraction the size of London.

But impunity reigns. For the most powerful countries, international law seems to have no meaning beyond the rule of the strongest.

Less discussed is the fact that most of the weapons actually being deployed in these war zones have been produced by giant corporations based in the countries providing them. Fed by taxpayer money, these corporations enjoy monopolies over certain weapons of war, and have used this power to turn violent crises into an opportunity to profiteer.

As the world becomes less stable, and violence proliferates from Gaza and Ukraine to Yemen and DRC, these masters of war, are making out like bandits, returning eye-watering dividends to their financiers and shareholders.

This is reason enough to levy an excess profits tax on the arms industry, as this report recommends. But that's before we consider the most serious threat facing humanity as a whole: climate change.

The military-industrial complex is a major polluter. Leaving aside the pollution of war itself, the arms industry is estimated to be responsible for 5.5% of global greenhouse gas emissions. That's far more than the 4% of emissions produced by 1.4 billion people in the 54 countries on the African continent. It's more than emissions generated by civilian aviation and shipping combined.

As major polluters, they should be paying reparations for the damage they have caused, most often to people in countries with no responsibility for the climate crisis. And yet, the international funds needed to deal with and halt climate change are desperately lacking, with potential disastrous consequences for all of us. While our leaders cannot find the money to deal with this existential threat, they can find 30 times as much cash to fight wars and bolster the profits of the arms industry.

Unless we redress this mismatch, the future is bleak. It isn't hard to imagine a dystopian future in which the response to climate change is more inequality, harder borders, more conflict over dwindling resources. That's where world leaders' current spending priorities will lead us.

But it doesn't have to be this way. Tipping Point North South, through its Transform Defence project, has already undertaken ground-breaking work on the interconnected issues of military emissions and spending. In this report, they take the next step, and look at how we could begin to reverse the deadly spiral. At its core is the idea of an excess profits tax, a first step to begin

redressing the misallocation of society's resources and incentives from war and destruction to protection, preservation and equity.

Ultimately, this is about what's right and wrong. How, in the face of catastrophic levels global warming, and with massive shortfalls in climate finance for the most vulnerable countries, can it be right to be lining the pockets of an industry that kills and maims and pollutes?

If we want a habitable world, a world which values the lives of everyone in it, we need to act now. This report provides a clear and compelling way through which, if we mobilise our energies, change can begin.

Nick Dearden

Director of Global Justice Now

29 May 2024

EXECUTIVE SUMMARY

THE TIME IS NOW: PUTTING ARMS INDUSTRY PROFITEERS AND POLLUTERS IN THE CLIMATE FINANCE FRAME.

There is an urgent need for action on one of the most abhorrent business practices imaginable: the excess profits accruing from war, conflict and militarism – activities which are also significant polluters.

As we write this, the world has been witnessing Israel's indiscriminate carpet bombing in Gaza. It is the most destructive of this century and among the worst in history with respect to the size and density of the area, the built environment and the population. In just the first two months the Israeli military campaign has created even more destruction than the razing of Syria's Aleppo between 2012 and 2016, Ukraine's Mariupol, or proportionally the Allied bombing of Germany in World War II.¹ So much ammunition has been used that the total explosive yield was compared to multiple nuclear bombs on an area a quarter of the size of London but as densely populated. All this destruction is not possible without the ammunition supplied by Israel's allies.

Gaza, Ukraine and many other such wars and conflicts be they past, present or future, have the highly profitable global arms industry at their heart.

TPNS's Transform Defence project proposes an excess profits tax on the arms industry to be applied to fund climate finance needs. It estimates that a global excess profits tax on arms companies could deliver \$30 billion dollars every year to fund international climate finance. In times of war, we estimate that an additional punitive excess profits tax on war profiteers could deliver considerably more. Had this war profiteers' tax been applied in 2024 (for Ukraine and Gaza wars), an extra \$52bn would have brought the 2024 annual total to \$82 billion. This tax alone would be more than four fifths of the pledged (but never fully fulfilled) \$100 billion a year climate finance by developed countries to developing countries.

Context:

- The top 100 arms companies accounted for \$592 billion in arms sales in 2021 (*pre Gaza, pre Ukraine*).
- The top 20 arms companies account for two thirds of the total arms sales in the world.
- Those companies come from just a handful of countries: USA, China, Russia, UK, France and Italy.
- The global military and its supply chain – the arms industry – is estimated to be responsible for 5.5% of global greenhouse gas (GHG) emissions. This figure does not include emissions from conflict or post-conflict reconstruction.

¹ <https://apnews.com/article/israel-gaza-bombs-destruction-death-toll-scope-419488c511f83c85baea22458472a796>

WHY AN EXCESS PROFITS TAX?

References to WW3 are becoming ever more prevalent across all news outlets. Wars in Ukraine and Gaza are driving this narrative and, if polls are to be believed, leading to resignation to such a fate. In a recent poll in the UK, 56% thought WW3 was inevitable.²

The profound absence of public engagement with foreign and defence policy-making turns citizens into hostages when it comes to their respective governments war-making decisions.

Meantime, 'Code Red for Humanity' is no longer the urgent matter it should be for the political or media agendas. And recent research from the Guardian showing that 80% of top climate scientists (all from IPCC) believe we are now on course for at least 2.5C of heating above pre-industrial levels – a terrifying scenario – did not secure a fraction of the political, public or media attention it demanded.

To turn the spotlight on the arms industry – especially now, with Gaza and Ukraine dominating news coverage – could help shape a different narrative:



Firstly, given the scale of the climate emergency, we need routes by which to expose and – critically – reverse the appalling ratio of governments' military spending to climate finance for vulnerable countries. Between 2013 and 2020, the richest (Annex II) countries spent \$7.3 trillion on the military compared to an estimated \$243.9 billion on additional climate finance for the world's most vulnerable countries. *At least a quarter (and potentially as high as 50%) of that military spending finds its way to defence contractors – in other words, the arms industry.*

Secondly, it can become an easy-to-understand entry point to the bigger policy-making picture. A route by which to reveal the revolving door relationship of governments to the arms industry, from policy-making to (war) profiteering. Lifting the veil on – often immoral – arms industry profiteering, in peace and war, is a good place to start if citizens are then to appreciate the wider 'eco-system' of military spending, foreign and defence policy-making and the ultimate state action: war-making.

Finally, let's not forget GHG emissions. The brand new Lockheed Martin F-35 fighter jet being sold around the world drinks 5,800 litres of jet fuel per flying hour, will be in service for more than 30 years (beyond net-zero 2050) and costs more than \$100m per jet. The global military and its supply chain – the arms industry – are estimated to be responsible for 5.5% of total global annual GHG emissions. To give context to this, the 1.4bn people of the 54 countries on the African continent are responsible for under 4%. It is also more than civilian aviation and shipping emissions combined. And this 5.5% does not include conflict emissions.

² <https://yougov.co.uk/politics/articles/48527-world-war-3-likely-in-next-5-10-years-think-most-britons>

PAY UP AND DRAIN THE FEEDING TROUGH

The UN Climate Chief, Simon Stiell, is pleading for \$2.4 trillion p/a to keep climate change goals within reach, with the warning that we have 2 years left to save humanity. His plea comes in this same year, 2024, that saw the \$2.4 trillion high peak of annual spending on our militaries and by extension, arms industries.³ That is a very deep \$2.4 trillion feeding trough for arms companies in a sector infamous for corruption (an estimated 40% of all trade corruption)⁴ and with scant regard for human rights.

Arms companies by definition profit from the human, environmental and climate destruction of war. Moreover, many of these companies are also profiting by securing government contracts for border militarisation to manage refugees as part of the militarisation of emergency response to conflict and climate disasters.

Arms companies can *never* make good the profound cost to humanity that they have caused over very many decades. But the time has certainly come to put them in the climate polluter and profiteer frame. It is time for them to pay up.

RECOMMENDATIONS

1. An excess profits tax on top 100 arms companies (ranked by SIPRI). A typical profit margin for an arms company is 10%. A 100% excess profits tax on profits over 5%, i.e. 5% on revenue in this case, will bring the profit margin down to the more reasonable level at 5%.
2. A war profiteers' tax on arms companies' revenue generated by wartime sales. Arms companies greatly inflate their product prices during wartime, taking advantage of scarcity and urgency. Assuming an inflated profit margin of 50%, a 100% war profiteers' tax on profits over 5%, i.e. 45% on revenue in this case, will bring the profit margin down to the more reasonable level at 5%.
3. All excess profit tax revenue to be directed toward the climate finance needs of the most climate vulnerable nations, many of whom have been or are on the frontline of both conflict and climate change, with the former also a contributor to latter, in the form of military/arms trade GHG emissions.
4. Calls for an excess profits tax on the arms industry and cuts to military spending (such as the Five Percent Formula⁵) to be included in all climate finance demands at relevant international climate and finance meetings including annual COP meetings and the Bonn Climate Conferences.
5. Support for UN New Agenda for Peace. Transformation of our collective foreign, security and defence policy-making to rely less on arms and aggression and more on diplomacy and peaceful means. Without change, the oil industry and the arms industry will always be the most influential stakeholders / lobbyists in our governments that inevitably always makes decisions that deteriorate our and the environment's wellbeing while

³ <https://www.sipri.org/publications/2024/sipri-fact-sheets/trends-world-military-expenditure-2023>

⁴ <https://www.sipri.org/yearbook/2011/01>

⁵ <https://transformdefence.org/the-five-percent-proposal/>

profiting greatly from these decisions. [Note that there is no modern military without the arms and oil industries.]

6. Call for the term 'military aid' to be replaced by 'military finance'.

Secretary-General of the United Nations, Antonio Guterres, said on his first visit to Ukraine, 'war is an absurdity in the 21st century'. Civil society needs a much-enhanced understanding of why this is the case in the face of catastrophic climate change. A spotlight on arms industry profiteering and polluting, in peace-time and war, is one way to do this.

