

Scottish Affairs Committee

Oral evidence: [Defence in Scotland: Military shipbuilding, HC 81](#)

Monday 13 June 2022

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Members present: Pete Wishart (Chair); Andrew Bowie; Deidre Brock; Wendy Chamberlain; Sally-Ann Hart; John Lamont; Douglas Ross.

Questions 1 - 52

Witnesses

[I](#): Ian Waddell, General Secretary, Confederation of Shipbuilding and Engineering Unions; Kevin Craven, Chief Executive Officer, ADS Group; and Richard Powell OBE, Chairman of the Maritime Defence and Security Group Council, Society of Maritime Industries.

Examination of witnesses

Witnesses: Ian Waddell, Kevin Craven and Richard Powell OBE.

Q1 Chair: Welcome to the Scottish Affairs Committee. Today is our further evidence session on military shipbuilding in Scotland. We are delighted to have such a stellar cast to help us out and answer our questions. I will let them introduce themselves.

Richard Powell: Good afternoon, Chair, ladies and gentlemen. It is a great privilege to be here representing the Society of Maritime Industries. I am the Chair of the Maritime Defence and Security Group Council within the Society of Maritime Industries. The Society of Maritime Industries, which I will refer to as SMI, represents the maritime engineering and technology sector—over 150 companies—and comments today are based on the view of those companies, not just one company. The council itself has 26 members from across the maritime defence sector, from the large primes to SMEs, so you will get a broad-ranging view from me.

Kevin Craven: I am the CEO of ADS, the trade association for the aerospace, defence, security and space sectors, with around 1,100 members.

Ian Waddell: I am the General Secretary of the Confederation of Shipbuilding and Engineering Unions, which is a federation of four unions: Unite, GMB, Prospect and Community. We hold many bargaining agreements across the shipbuilding, engineering, aerospace and defence sector. I am here to represent the views of the workers.

Q2 Chair: Thank you all very much for your concise introductions. This is the second of our inquiries into defence-related issues in Scotland, and we are about to conclude and agree a report later this afternoon, once we have finished this session with your good selves. We have concluded that the defence sector in Scotland is in pretty good shape. There seem to be regular orders and increased investment, and it all seems reasonably good news. Have we missed anything? Have we got those assumptions right? Tell us what your views are of the current situation, particularly when it comes to military shipbuilding in Scotland.

Ian Waddell: I think that the current state of affairs reflects investment and work that has been undertaken over the last decade, if not longer, notably the construction of the two aircraft carriers, which was completed at Rosyth, with blocks built on the Clyde and elsewhere and integrated at Rosyth. It was a hugely successful contract. If you look at the global market, to be able to put to sea two world-class carriers for £6 billion meets any international benchmark. Of course, that was the peak in the demand for skills, and the biggest undertaking that the UK shipbuilding exercise has ever carried out, I think.

Following on from that, we have built offshore patrol vessels and now have Type 26 and Type 31 under build, Type 26 on the Clyde and Type



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31 at Rosyth. Those contracts have some legs still to go—it is an eight-ship contract for Type 26, and there is potentially Type 32 to follow Type 31. From that point of view, the current workload is extremely encouraging. It is not without problems elsewhere. You will be well aware of the problems at Ferguson Marine, which I am sure we will touch on at some point today.

Shipbuilding is an extremely long-term business. It takes a very long time to take a ship from design through to build and entry into service. Traditionally in our industry, we have had peaks and troughs of work. We have had boom and bust, feast to famine—choose whichever cliché you want from those. It has been a particular problem for the UK industry. Potentially, we could be looking at the same issue again if we do not get the distribution of work correct and the right drumbeat of contracts going through the yards.

Q3 Chair: How do we avoid that? I listened to you very carefully in the Defence Select Committee session. What would you suggest and propose to us who are looking at this, and who realise how important it is for Scotland to not get another famine following quickly from this feast? We are in a good situation. What do we do to ensure that this revitalisation continues?

Ian Waddell: My frustration with this is that all the pieces of the jigsaw are on the table in front of us, and it would not take too much to connect them to make a proper picture. We have the 30-year pipeline of work, which we have been campaigning for for a long time. Having that visibility of all Government-owned or operated vessels is a big step forward. It is something that every other shipbuilding nation does as a matter of course, but to have the transparency of the Government's plans is a welcome step forward. The missing link is to take that pipeline of work and turn it into a drumbeat of work for UK yards. That all rests on the Government's procurement policy, and I am sure we will spend some time talking about that today. If there was a very clear signal to BAE Systems on the Clyde and Babcock at Rosyth that they could be guaranteed, with a reasonable degree of certainty, a drumbeat of work stretching out for the next few decades, you would see an enormous amount of investment in skills, facilities and technology in those yards.

It is a very simple equation. If businesses are faced with uncertainty, they do not invest. If they are faced with certainty and can guarantee a reasonable level of return on their investment, they will put the investment in. It is honestly as simple as taking that pipeline of work and turning it from a theoretical pipeline into a real pipeline by guaranteeing that the procurement will be in Scottish yards.

Q4 Chair: Is that your view, Mr Craven? What do we need to do? Do we need certainty, for example on the Type 32s and the Type 83s? Do we need to know now that these will be in place on the order books? What do we have to do to ensure that this golden age in investment in shipbuilding will be maintained and continued in Scotland?



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Kevin Craven: You will not be surprised to hear that I agree with much of what my colleague said around that.

The defence industry in Scotland is in good shape and makes a contribution of over £2 billion to the economy. It employs 13,000 people with average salaries of around £37,000 a year. It is in a good place at the moment. Shipbuilding particularly has a very strong underpinning of policy support that is enormously helpful. The first national shipbuilding strategy, the revision of that, DSIS, the Defence Command White Paper—all these underpinnings provide a degree of certainty and understanding about the future that is very helpful.

Then you get to the pipeline. I echo Ian Waddell's words: it is enormously helpful. However, the funding underpinning that pipeline is £4 billion for the first three years, and the pipeline extends out for 30 years, so there are some challenges around the certainty and predictability of that pipeline going forward. Of course, all Governments have huge challenges with current priorities versus long-term strategic priorities, so it is a challenge, but there are things that can be done about further indications of solidity and certainty with that pipeline. For example, indicating the method of procurement in the pipeline for each of the classes of vessels that you referred to would help. An indicative budget for what might be intended would be helpful. That is not necessarily a funding commitment, but these are things that are not without examples in other parts of the world and other sectors in the UK.

Q5 **Chair:** On the future orders, do you think it would have been more helpful had the Government given BAE the order for eight Type 26s up front, rather than splitting it? Is that the type of thing we should be looking at, in what we suggest to the Government in order to keep that drumbeat going?

Kevin Craven: The larger an order, the more able industrial players are to plan for the future and to think about the investments necessary to underpin the cost-effectiveness and pricing of those assets, particularly when you are talking about very large-scale assets. It is not like a small component; it is a very large thing that will tie up large acres of ground for many, many years. Having certainty over the numbers and timing is very useful for all industrial players.

Q6 **Chair:** The same question to you, Mr Powell. What are your views about what you observe in Scotland now, and what do we do to ensure that we continue to have that constant drumbeat of orders?

Richard Powell: I will say some of the same things as my two colleagues. It is a very positive order book, and it is remarkable to see the Royal Navy growing at such a pace, but there is still some untapped potential there. When I worked abroad, one of the things that surprised me was the high regard in which the Royal Navy was held around the world. It is the benchmark for most navies, yet we were selling ships.



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This was 10 years ago, and we have addressed that issue now, but there is still potential there.

The key to the problem is probably in three areas. The first is providing surety to industry. The national shipbuilding strategy talks about investment from industry, but the strategy does not give all that much certainty. It talks about potential and directions of travel.

The second theme is collaboration. This comes back to DSIS, which talks about a new relationship with industry. The National Shipbuilding Office is a tremendous organisation and has made great strides in the way it is approaching strategy, but there is more work to be done. Once you have that surety and collaborative behaviour, you can make sure that you bring the skills into play and have the right people in the right place to produce the capability. Those three key areas are interlinked, because if any one is missing it will not work.

Q7 **Chair:** Should the UK Government outline publicly if they intend to provide enough orders to sustain one, two or more UK-based companies capable of delivering these advanced warships? Would that be helpful?

Richard Powell: It is all about drumbeats—how often will you build these ships. You need to understand what sort of cadence you will have and how many ships will be ordered. That will dictate how many companies you have and can afford in the UK. You will always have a competition for everything. The cost of bidding into a shipbuilding contract is enormous and those costs do not just disappear. We have unnecessary competition, which I think we have had in the past, and it just increases the cost, puts more jobs at risk and moves away from the spirit of collaboration. The Aircraft Carrier Alliance is a good example of where collaboration works very effectively. The price of those ships is 50% of the worldwide standard. We are good at doing this stuff in the UK.

Q8 **Chair:** Can you expand on what you meant by this collaboration? Can you explain to the Committee what it would involve and what types of partners would be involved?

Richard Powell: It is a narrative between Government and industry and among industry. This is where the trade associations have been very effective in the last couple of years in bringing the industry together, helping to orientate the collective voices in the response of these industries.

We should use the good auspices of the National Shipbuilding Office to facilitate, almost as a neutral broker, because there is a degree of tension among the acquisition organisations and we need to improve on that. That is exactly what DSIS says. We cannot maintain the status quo so what new forums do we need to improve collaboration? If we want to create a national capability, which the national shipbuilding strategy aspires to, we should be talking more effectively.



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I can give you one example where it does not help. The early use of non-disclosure agreements, which happened in some of the projects, stifles discussion in the industry. We cannot even talk to each other. That is unhelpful. There are times when that needs to be brought in. I think we should be encouraging the discussion and trying to understand how each project can be addressed in the acquisition process and capably delivered, but also how that fits into the larger picture of the national shipbuilding strategy and its delivery.

Q9 Wendy Chamberlain: I am a Greenockian by birth and I did work at Babcock for a short time when I was supporting the local college in Rosyth, so this is an area of interest for me.

Can I come first to you, Mr Waddell? You were talking about the feast-famine cliché. One of my concerns is that although the situation has improved in Scotland, it is obviously built around military shipbuilding and I suppose it is fair to say that other shipbuilding in Scotland does not have the best of reputations at the moment with what is going on at Ferguson Marine. Is there a risk that we are putting all our eggs into the military basket if we do not see in the longer term that future Governments stick to what has been laid out in the strategy refresh?

Ian Waddell: I will just pick up on the previous point and segue into your question. Most comparable economies of shipbuilding nations have one national shipbuilder. We are continuing with two. We have members in both companies and we support both companies. They have great jobs and I do not want to see either of them disappear but there is a price to pay for having two national champions. If you keep putting them in competition with each other, as Richard Powell said, a lot of cost, time and energy is dissipated in a situation where we could be collaborating.

My view of military shipbuilding is that the ideal scenario is if you have the certainty of a pipeline of work stretching out for the next decade or so and you invest in skills, facilities, technology and techniques, it puts you in a brilliant position to compete in the commercial shipbuilding sector, in infrastructure projects and other things that need advanced engineering techniques and large-scale installations, cranes and all the other things that come with a shipyard. My view has always been that if we get this right, if the military—and by that I mean the Royal Navy and the Royal Fleet Auxiliary, which is a very important distinction for me—pipeline of work is guaranteed for UK yards, there is no reason why that spine of work could not be used to expand into commercial shipbuilding, start to spread the risk and build world-class capability.

We are never going to build cruise liners or tankers but there is no reason why we could not be building specialist vessels, ocean exploration vessels like the Sir David Attenborough. If we win the fleet solid support ships, there are potentially contracts for that sort of ship all over the world, commercial and military, and we have a huge opportunity in offshore wind. Every other country that is spending the sorts of sums of money that we are spending has specified that the offshore wind farms have to



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be installed by ships built in their country. We need something like 220 specialist vessels apparently to install our offshore wind farms. To me, it is a no-brainer. Why would we not, right from the start, say those vessels have to be built in the UK?

There is a massive opportunity for UK yards there, outside of military shipbuilding, for a national infrastructure project. For me, that is a virtuous circle. The money is ploughed back into local communities and supports other businesses and supply chains. Why would you hand 220 vessels to a competitor nation when you could build them here? If the Government are serious about levelling up, by definition coastal communities are on the fringes of this country, often left behind. It is an amazing opportunity to spend UK taxpayers' money for something that we will have to do anyway and create an incredible opportunity.

For me, military shipbuilding is the underlying drumbeat and you can build on top of it. If you take that drumbeat away, you are back to feast and famine and everything I have just spoken about falls away as well.

Wendy Chamberlain: We need that stability and continuity.

Ian Waddell: Absolutely; the underpinning guarantee of work that you can build on.

Q10 **Wendy Chamberlain:** On that, Mr Craven, if there is anything else you want to add, please do, but one of the things that we have heard in previous evidence sessions is about SMEs and the fact that although SMEs in Scotland, from a percentage perspective, are better than in other parts of the UK, it is below the percentage population in Scotland. How can the strategy refresh help with building that SME pipeline, which I think is also important?

Kevin Craven: Yes, it is very important. Let me comment momentarily on the previous point. Having certainty of the pipeline and the detail around that, as we have discussed, is very important; whether it needs to be for 30 years or for a shorter period can be debated.

The importance of being competitive in world markets means that the elements of competition and innovation in these competitions domestically in the UK should not be underestimated. What is clear from the Aircraft Carriers Alliance is that collaboration as a procurement methodology has worked exceptionally well but there probably needs to be a degree of balance, making sure that the designs that we have, the vessels that we produce are exportable to the world stage. We will never be able to build enough naval vessels here in the UK to absolutely support the types of growth that industry needs so we need to export and to do so we need to remain competitive. There is a degree of balance around the guaranteeing of the work and the requirement to still allow inward investment, competition and innovation into the discussion.



By its nature, shipbuilding is not something for the smaller players. It requires enormous capital investment and resourcing and strategic horizons that are beyond most SMEs. Having said that, in Scotland there are over 1,000 SMEs involved already and there are strong relationships with the prime suppliers. The engagement between them is growing. We have seen some recent moves in the MoD's action plan and also from an industry point of view. ADS has recently set up an SME prime engagement group to talk about some of the frustrations that both sides have in working with it. There is an opportunity for colleagues in SMEs to move forward. From an ADS perspective, I have over 900 of them and it is absolutely in my interest to see them thrive and grow and I would like to see them do so.

- Q11 **Wendy Chamberlain:** Mr Powell, the strategy refresh outlines funding for a "comprehensive cross-sectoral analysis of the maritime enterprise in Scotland" and that will bring in a number of the factors that have been discussed. What do you expect such an analysis will ultimately find and recommend?

Richard Powell: There is not much detail, other than that statement.

Wendy Chamberlain: I did write down "information" when you were speaking earlier and it would be good to have it.

Richard Powell: Yes. With a lot of that analysis, a lot of the comments that have come up already apply. I would like to come back to that point but go on a little bit of a journey to pick up on some of the earlier questions.

Building on the risk to the military basket question to start off with: 70% of the value of any ship is in the supply chain. People are seduced by the attractiveness of seeing a ship being built but what goes inside it? Ultimately that is what delivers the capability and a lot of that comes from the supply chain, so it is a very important point.

We talked a bit about surety. At the moment, we have some degree of commitment from the Government but I think industry needs to see a little bit more surety. We are not there yet so it comes back to how to bring all these factors together. SMEs will be right at the heart of providing value and it is working out how we can bring the SMEs together and how they work with the primes, encouraging the primes to have an SME action plan but also self-co-ordinating. It is very difficult for a small company to find the bandwidth to engage in the broader discussions, which is why I go back to the trade organisations having a role to play in this.

I think that investigation needs to look quite broadly to understand what factors are relevant, that have come up at committee hearings like this one because it is the industry view. The national shipbuilding strategy captures a lot of good stuff but there are other factors too.



Wendy Chamberlain: Yes, and there are, I dare to say, other pipelines from a capability perspective and you want to have those right conversations, for example, too.

Richard Powell: Yes, and it is not a conversation with just the primes; it is a conversation with lots of stakeholders.

Wendy Chamberlain: Absolutely, but it does sound as if clarity on Government investment is what you are all looking for.

Richard Powell: Yes.

Q12 **Andrew Bowie:** I was listening with interest to all three of you speak about the essential nature of the UK Government submitting bids to UK yards. I think we all agree that we want to see more ships and more jobs created in the UK. Mr Powell spoke about the great success of the carrier group and the collaboration and how that demonstrated our ability to compete.

Defence procurement commentator Jag Patel said that BAE and Babcock “are hopelessly uncompetitive if they cannot pit themselves against all-comers in an international contest on an individual basis”. Given our great recent track record, why are UK companies seemingly afraid of going up against international players to secure contracts? I say this as somebody who thinks we should be awarding contracts to UK yards. I am just asking the question.

Richard Powell: I think that there is a mismatch between what is being discussed in the public domain, with academia and indeed within Government and what the shipyards think. Also, I think the evidence shows that UK shipbuilding is competitive. We would not have won the competition in Australia or Canada if we were not delivering a world-class product and also being competitive, so I think the evidence would suggest otherwise.

Achieving true efficiency is not about competition in the procurement process. It is about having the long-term surety that the industry can make the investments necessary to drive down the costs of production. If you are only getting short-term orders and you do not know where the next order will come from, it is very hard to make the business case to get the productivity increase. I think it is better than it is portrayed and that there are some myths in all of this.

Q13 **Andrew Bowie:** You talk about long-term orders, larger orders being a better business case and making better sense for companies and you have already referenced the two batches of the Type 26s, Glasgow, Cardiff and Belfast due first, then Birmingham, Sheffield, Newcastle and Edinburgh and then London after that. Is it not the case that from an awardee’s perspective, looking back at the past failed history of procurements, looking specifically at the Type 25 contract—the initial order was for 12, reduced to eight, then it was six—does it not make better sense to order smaller batches with certainty that they can then



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expand on than order larger batches, which then have to be reduced? Is that not a better business model?

Richard Powell: There is probably a middle ground. You can say we will make a long-term commitment to buy a number of ships and the final detail will be in batches. Look at what is going on at the moment with the price of raw materials. You could not commit to a 15-year programme with a fixed price right now. It would not work. But you can make that commitment, tell a company that it will get the order and then they can build a truly world-class frigate production facility because they know they will get the return on their investment. There is a middle ground.

Q14 **Andrew Bowie:** Mr Craven, do you have anything to add?

Kevin Craven: I agree with Richard Powell. I think our British companies are competitive on a world stage and demonstrably so. Particularly in large assets like shipbuilding, countries want ships to be built on their own soil and therefore it is the designs that are being exported but even with those jobs are created here in the UK, I think some 400 in the case of the Type 26. It is great for the shipyards to be able to maintain those skills.

I think that we can demonstrate that from the competitive point of view. Appetite and affordability are issues for British companies in the domestic market supporting the resources necessary to go for as many competitions abroad as we would like to. One of these competitions might cost as much as 1% or 2% of the total order value. A company has to make a significant commitment to enter into a foreign competition and particularly where they might be facing some of the same forces that we see here where domestic utilisation of our own industries is a very strongly preferred option.

Q15 **Andrew Bowie:** Given the incredible order book in front of us—potential order book, anyway; some are still to be confirmed—why is it so important from your perspective that the fleet support ships are built in Scotland?

Ian Waddell: First I want to pick up on your previous question because this drives me mad. It is not a level playing field; this is the problem. The CSEU produced a report a few years ago for the Shipbuilding and Ship Repair APPG. GMB produced a report on FSS. Among potential competitors in that competition, there is a number of state-owned entities that are directly or indirectly subsidised and the reason they are interested in FSS, and the reason that it is so important, is that it is not just three ships. It is three fleet solid support ships but then potentially six multi-role support ships, a multi-role ocean surveillance ship and a landing pad conversion. It is potentially eight or nine large vessels. From a Scottish point of view, obviously they would be integrated at Rosyth. That is the plan of Team UK so it is important from that point of view.

I cover the whole of the UK and I will be blunt with you. It is much more important for my members in other parts of the UK, who would be



engaged in building blocks for those vessels. I have workers at Cammell Laird who are struggling for work at the moment. Appledore closed and reopened. Harland & Wolff closed, was occupied and reopened. A&P Tyne and A&P Falmouth are struggling for work and there are the issues at Ferguson that we talked about, which are no fault of the workers at Ferguson, by the way. It is a world-class yard with world-class workers but they have ended up in a difficult scenario.

These vessels could absolutely throw a permanent lifeline to those yards, allowing them to invest in facilities and skills and be a part of a UK enterprise. It is an amazing opportunity for collaboration across the yards, their supply chains and their communities. For me, it is the bridge between where we are now and where we want to get to with the 30-year pipeline of work. If that work goes abroad, I predict that the other ships will go abroad.

Q16 Andrew Bowie: Is that possible given that the fleet solid support ships have now been classified as warships by the British Government?

Ian Waddell: In the way that the contract has been set up, they will supposedly be integrated in the UK. The question that I keep asking is: if it is not won by Team UK, who will do that work and whose facilities will they use? Where is the workforce? Some of the companies that are bidding have a track record of where they have made commitments to build in-country and all of a sudden there are problems with supply or quality and the ships end up being built in the home nation of that company.

I am very worried, to be honest. This is not a level playing field. It is an example of where there are actors who would dearly love to buy the contract and my prediction is that we will end up in a scenario where this will be a political decision. I hope that Ben Wallace and Jeremy Quin have the courage of their convictions and make the right decision from a political point of view. It is not just about three FSS ships; it is about a much bigger class of vessel. There could be economies of scale. It is the bridge to a much brighter future for UK shipbuilding. The converse of that is should we take the bridge away, we are trapped on the wrong side of the Rubicon and we do not get all the things that I have outlined.

Q17 Andrew Bowie: I think Mr Powell wants to come in, but how many jobs would the three, and potentially the work that comes from them, support in Scotland should Team UK win the bid?

Ian Waddell: We estimate around 6,000 people in the industry at the moment in Scotland. If you look at the multiplier the number is probably greater but 6,000 is the number directly employed either in the shipyard or the tier 1 supply chain. Then it is about sustaining those jobs and growing them. From a Babcock/Rosyth point of view, they have Type 31 and I hope, I really do hope, they get Type 32 and there is a continuity of contract. That is not guaranteed in any way at the moment but that would make absolute sense, keep those economies of scale going. They



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have the capacity and the ability to build on that, invest, take more people on and integrate the FSS, MROSS, LSDA—they love acronyms, don't they, the MoD—all those other ships and support the supply chain, support a network right across the UK, so you are talking about tens of thousands of jobs.

If you look at the peak of where the carriers were, we could be at a similar drumbeat of work and if you were to get commercial work on top, you start to expand the basic network across the UK enterprise. It could be a very bright future and there is absolutely no reason not to do it.

Andrew Bowie: Mr Powell, you wanted to come in.

Richard Powell: Yes. FSS is the foundation stone for the delivery of the national shipbuilding strategy. Industry is looking at it to see exactly how much work will be done in the UK because if a lot of it goes abroad, what is the point of the national shipbuilding strategy? I accept that FSS were started before the national shipbuilding strategy was published but there has been plenty of time since publication to address these issues. It is a very important test for the Government from industry because then you will start to see that surety we were talking about, which is so important. It is the bedrock.

Secondly, there has been some discussion around the capacity of the British yards. Again, that is a bit of a red herring. If the concerns about capacity were real, Team UK would not have bid in. Again, getting to the hard facts is an issue here.

Q18 Chair: To what extent will the reclassification of the FSS as warships protect them from international competition? Is it assured now that this has been given? Does it have any impact upon how they are assessed and perceived internationally when a Government can just decide that a particular ship is a warship?

Ian Waddell: I don't think it has made any difference in this case. Speaking as someone who heads an organisation that campaigned for them to be classified as warships, I can only express complete disappointment that it did not achieve what we thought it would achieve because the Government had said that all warships would be built in the UK. They have now specified that they should be substantially integrated in the UK but it is not entirely clear and, as Richard Powell said, everything is covered by an NDA so I cannot penetrate the percentage of the work, how it would be measured and how it would be policed.

There have been other notable multi-billion pound contracts awarded in the last few years that have gone disastrously wrong. I can think of one armoured vehicle, without naming it, where 10,000 UK jobs were promised by the American company that won that contract and I am telling you now that there are not 10,000 jobs supporting that vehicle. Nobody has policed it, nobody has chased it up, nobody has been taken to court for breach of contract. This seems to me to be another one of



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those examples where grand statements are made but when it boils down to it, if a foreign company wins this contract nobody will be holding them to the contract and I fear the worst. We thought it would guarantee that the work went into the UK but it has not.

Q19 Chair: I am thinking that the UK Government, if they wanted to, could classify anything as a warship. That is perfectly feasible, isn't it? What, in effect, does that do if you are saying that it doesn't protect it from international competition?

Ian Waddell: It is almost irrelevant because that was pre-Brexit. The reason the Government did it under the European procurement regulations—and my good friend Mark Francois reminds me of this every time I see him—was about warlike stores. You could have an exception from the EU competition regulations for warlike stores. Classifying a vessel as a warship meant that we did not have to compete it and you could build it in your own country without competition, which is what every other nation that builds ships in Europe does as a matter of course. We are the only one globally, to be frank, that puts it out for international competition.

Q20 Andrew Bowie: We are rather unique in that we still have a domestic shipbuilding industry.

Ian Waddell: Yes, we do.

Andrew Bowie: Lots of countries have navies that put to sea but they do not build their ships domestically.

Ian Waddell: Absolutely, but if you wind back 150 years, we built 75% of the world's ships. Compared with where we were, it is a shadow of what we had.

Andrew Bowie: Well, maybe 75% of—

Ian Waddell: Absolutely, but all I am saying is that there was a logic behind classifying them as warships. I don't know, I am not an expert on WTO rules, but I guess there is a similar exemption under WTO rules for military equipment so there may be a competition advantage for doing it. However, we seem to be facing both ways at once. It is a warship but it is subject to international competition so I honestly do not know what we have gained.

Chair: I find it hard to get my head round some of these issues. Mr Powell?

Richard Powell: Can I come in on that point? I agree with Ian Waddell. It highlights the difference between cost and value. We go for international competition because we are worried about the cost without understanding the value. We will come on, I am sure, to social value and other aspects, tax benefits and so on. We need to make sure that in making decisions we properly understand the benefit to the UK and the



true value in these decisions rather than just getting the cheapest thing possible, because that does not add much value. That is the issue there.

Chair: Thank you for that.

- Q21 **Sally-Ann Hart:** Can I come in briefly on that point? Just chatting with Andrew Bowie here, I understand where you are coming from on competition between bids but if there is no competition, and you are talking about value and cost, how do you guarantee that the costs will not escalate? We have seen that happen when it has taken a long time for something—let's say ferries—to be built and the costs have escalated. How do you guarantee that the costs will not escalate at a cost to the British taxpayer if there is no competition?

Richard Powell: This is part of the relationship between the supplier and the customer. Getting into that realistic dialogue, and going back to the carriers as an example, it was a very effective dialogue and costs were kept under control once the project started so there are some good examples of how you do this. Competition is a pretty crude way of running these complex programmes. It suits the customer but it does not necessarily suit industry. It is about a balance and it is back to DSIS. How do you change the relationship if you are not going to change the way you behave in government?

- Q22 **Douglas Ross:** Mr Waddell, I think you were 10 words into your introduction when you said the issues at Ferguson Marine may come up today. Explain in your own words, to someone who is unaware of what is happening, the situation with this. Despite being two totally different sectors, is there any crossover where people just see ferries that cannot be built in Scotland and label Scottish shipbuilding generally as being unable to build ships, despite the fact that your organisations are extremely successful in doing that? Is there any reputational damage to the Scotland brand of shipbuilding?

Ian Waddell: Cards on the table, I have not been to Ferguson for quite a while. The last time I went there I had a tour of the yard, saw one of the ferries that were being constructed at the time, had a good look round, and said, "This is absolutely incredible" and they said, "Yes, but they have changed the specification again and see this bulkhead here? We have to take that out. It all has to be cut out and we have to put the bulkhead somewhere else. Then we have to cut a hole in the side of the ship because they have changed the idea that they want for the power plant", and we have the well-documented issues with the cable and everything else.

I don't know, to be honest, what is at the heart of the problems but there are some common themes of designs changing, specifications changing partway through a process, a partly-built ship being cut apart and rewelded and all these sorts of issues. There are examples from our history of where similar things have happened and part of the answer to



the question about escalating costs is that we need to fix on a design at an early stage, fix on a specification of capability and then stick with it.

There is the classic example of the carriers. If you remember, at one point we were going to fit catapults to the carriers and we were abandoning buying the vertical take-off and landing F35s. It was a debacle. Millions were spent looking at alternative designs and then abandoning them. This is the sort of thing that happens.

To be frank with you, I don't know where the root of the problem is with the issues with those ferries at Ferguson Marine. I do know—and I know the guys who work there—that there is an absolutely brilliant and committed workforce with world-class skills and it is a tragedy that they have ended up in the situation they are in through somebody's mismanagement somewhere in the system. I would love to be able to get to the bottom of it.

Douglas Ross: This Committee can look at that at some point to see if we can get to the bottom of it.

Ian Waddell: We would welcome that. It seems to me that there is an ideal opportunity in Scotland. Think about all the islands in Scotland, the amount of water that surrounds the country, the number of ferries and vessels that are needed. There is a homegrown, home-owned shipyard there, which could be playing a central part. We found the recent award of the ferries to Turkey extremely disappointing and something that I hope will not be a pattern of behaviour.

Without being able to answer the specifics—I suspect that there will be a lot of complicated and technical arguments about who was at fault, which part of the contract changed and when the specification was altered—all I can tell you is that from the point of view of building a ship, Ferguson was telling me, "We built this and now we have to change it". That is why there are cost and delay problems and all the other problems and that is something that is mirrored more broadly.

Q23 Douglas Ross: Is there any crossover, that people just see the headlines about problems with these ferries and think it is shipbuilding in Scotland, or is there enough distinction so that people can see that very professional work is done at the yards, building for the MoD? That is not to say that there is not professional work being done at Ferguson Marine but they are very individual problems. Do you think there is just a broad-brush approach and people are now worried about shipbuilding of any kind in Scotland?

Ian Waddell: I cannot comment about what is in other people's minds. I guess anybody could make a propaganda point using that, but you can look at the work that is going on on the Clyde on Type 26 and at Rosyth on Type 31. They are world-class shipyards. Investment is going into the Clyde now and to answer an earlier point, if eight ships had been specified at the start of the contract, the investment would have



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happened five years ago. Now that they have the second part of the contract, the next five ships, that has unlocked investment on the Clyde, notwithstanding the planning issues and the protected building and everything else, which I am sure you are aware of.

Similarly, there has been investment at Rosyth. New buildings are going up there. An apprenticeship/training school is being built, as there is on the Clyde. This has all been unlocked by a contract of work that takes the yards out for a period of years and that certainty underpins it.

Notwithstanding what is happening at Ferguson, when I think of the Scottish shipbuilding enterprise I think of the Clyde, of Babcock at Rosyth, the carriers, world-beating success and world-class tradespeople, designers, office workers and engineers. The capability of those yards is superb and all they want is a fair crack of the whip and a level playing field.

Q24 Douglas Ross: You have very effectively put that on the record now. I appreciate that.

Mr Craven, you spoke about over 1,000 SMEs involved in defence in Scotland. How has that increased? What have we gone from in the last five years, 10 years, and what is the capacity for that to go further? Obviously the Government are doing more work with their strategy to encourage more SMEs to get involved. Where can we look to in the future? What kind of numbers could we be looking at in five or 10 years?

Kevin Craven: I don't know what the increase has been but I am happy to come back to you on that point.

The future is looking reasonably positive for this particular subject, shipbuilding, but space and aerospace are also areas where we are seeing growth in revenues, employment and apprentices, for example. They are not huge levels of growth and aerospace in particular is recovering from the damage that Covid has caused, but there is a degree of positivity.

One thing to note is that we have seen a number of SMEs that were involved in the aerospace world switch their attention and their product lines during Covid to look at defence. That has been a positive development. The desire and the recognition of the MoD to get SMEs involved through the regional cluster programme, for example, and the SME action plan is most welcome.

Q25 Douglas Ross: However, we have heard evidence in a wider defence inquiry that there are still difficulties, particularly for smaller, very skilled companies, sometimes just one or two people, to break down the barriers. Do you think that more has been done to make MoD contracts more accessible to smaller companies that could provide some excellent work?



Kevin Craven: The short answer is no. It is very difficult for the MoD to cope with very small individual companies where normally the principal is the engineer, the inventor, the admin person and also the salesperson. Their capacity to engage with the commercial entity that is the MoD is limited. That is challenging.

I don't like the word "prime" in many ways. I prefer the term "integrator". That is why getting those relationships with larger organisations right as a route to market is probably easier for the SMEs to deal with. That is not to say that they shouldn't be and one of the encouraging trends we have seen from the MoD is the breakdown of some of the packages of work around these bigger assets into subcomponents and systems that smaller companies can get involved in. I think that should continue.

Q26 **Douglas Ross:** This is perhaps a question for everyone but I will start with Mr Powell. We are all, hopefully, optimistic about the future of shipbuilding in Scotland. This Committee looks at both devolved and reserved issues and a devolved area that has an impact on the reserved function of defence is our education system in Scotland.

Are we doing enough to promote shipbuilding as a career for people to get into? How are the training and education going? How are we developing the future workforce? There are so many opportunities here. Are we making sure that it is our Scottish young people—and particularly females, getting more females into the industry—who are benefitting from the education system in Scotland and highlighting it as a key area where they can learn skills, develop and have extremely positive and productive careers?

Richard Powell: Again, the short answer to that is no. We are not doing enough. When you look at the national shipbuilding strategy you tend to go straight to the shipbuilding aspects. In our minds, we can all see the steel plates coming together to build that ship but there is so much more to developing a ship. The national shipbuilding strategy is about the whole enterprise and I think that is a very important thing that in some ways is missing from the title. It is not just about warships; it is also about complex commercial vessels, leisure vessels and so on and also the process of delivering them. It is about the build, the integration, testing and evaluation—all these components. When you start to look at that spectrum, it becomes a much more interesting industry rather than the vision in our minds of welding and that is it. It is not just that. That is a very important part of the process but it is part of a broader spectrum and we have not brought that to life yet.

Coming back to a point about FSS, I think that there is an opportunity here to accelerate the process of developing the skills and getting young people interested in this sector because it is a fact that the maritime sector in the UK is larger than the car and aviation industries combined. It is an enormous sector, full of potential, with all sorts of different jobs, but you don't see any adverts or anything promoting that.



It is a long answer to your question but I think it is a very important point. We have to make it exciting and use the opportunities coming up in the near future to excite today's young people so that they can start their apprenticeships and careers in the maritime industry because it has a very bright future in this country, unlike some other sectors.

Kevin Craven: I have a couple of points. For the modern generation, there is a perception issue around the purposes of defence. It has been very interesting to see that Ukraine has provided some momentum with people realising that defence of the realm and your citizens is important. Getting that across, particularly to young people, is a place where our leaders and politicians can play a part. I think that is important.

Specifically in shipbuilding, we welcome the UK Shipbuilding Skills Taskforce, which is a joint DfE and National Shipbuilding Office initiative. It is a very positive development that needs to be pushed hard if it is to work because the challenge with some of the devolved nature of the work involved means that co-ordination and collaboration, working together on these things, is desperately important. I think it is a positive sign that Dr Paul Little, the principal of the City of Glasgow College, was appointed as the chair and that is a helpful start, which we should build on.

Ian Waddell: There is an issue because we have an ageing workforce in shipbuilding across the country and—a broken record warning; I will sound like a broken record—making the right procurement decisions and giving the right signals to industry will enable them to invest in apprentices and graduates. Recruiting apprentices is not a problem at the moment. I was talking to Babcock last week and they said that for every one apprentice place they offer around Rosyth, they probably get between five and 10 applicants. That is a measure of how well regarded those jobs are and of the desire that people have to get into the industry.

For every apprenticeship we are talking about four years of training—they are proper, certificated apprenticeships—and beyond that probably two to three years to be fully up to speed as a part of the workforce. There is a significant investment of time to take somebody from the entry point to being a fully-fledged member of the workforce. That requires advance planning and there is only so much capacity you can put through the training centres, even as they are being built. The key to it, and I keep coming back to this, is if you send the demand signals to industry that they have a guarantee that the work will be there, that work can go on seven years ahead of somebody retiring or leaving the workforce. It is all about certainty. That is the thing. That is the oil, the grease for the wheels of this industry.

- Q27 **John Lamont:** Good afternoon and apologies for being late to the session. I was asking a defence question in the House of Commons. I want to ask about the 20% social value weighting, which I think Mr Powell referenced earlier. How is that helping to maintain military shipbuilding in the UK and Scotland?



Richard Powell: It was a surprise to see the figure of 20%, because the Government's standard is 10%, and the five criteria that the Government have put down. We do not understand which of those five criteria will be assessed. That is an area of concern for the industry at the moment because if it is 20% of the marking, it will make the difference between winning and losing a contract. I also think that there is an iterative process here. If you take a step back from the five criteria for social value, there is also an issue around national resilience. That is a bigger picture but it should also be considered, particularly in the supply chain, because these are all important factors. A discussion needs to be had around what the 20% means, how we will apply it to deliver broader social value within the UK and its role in delivering the national shipbuilding strategy, and that debate has not been had yet.

Q28 **John Lamont:** Mr Craven, do you agree?

Kevin Craven: I do agree and I will reinforce the point about the 20%. In these competitions, typically the top three bidders will be split by a maximum of 5% to 10%, an absolute maximum but it is normally 1% or 2%. Therefore, there is an opportunity for these competitions to go astray if the evaluation of the social value elements is not consistent and equitable in how it is applied. It is very complex. The three areas that the MoD has indicated will be used in that evaluation are tackling economic inequality, fighting climate change and equal opportunity. How some middle-ranking commercial officer in the MoD makes that evaluation consistently on some very difficult and nuanced areas is a good question to be asking and it is important that we do that.

I will illustrate the nuance around it. For example, what is the difference between a bidder offering 200 new jobs for five years compared with someone who commits to maintaining 150 permanent jobs? That is a direct example from one of our members. We are already seeing in other elements of the military domain that the MoD is not limiting itself just to those three criteria. All five of the criteria are being used and being marked and it is quite hard, against that backdrop, to see how that will play out. That is an important question.

Ian Waddell: We are bemused, to be honest, by the social value guide and the factors that have been chosen, bemused because we gave evidence to Philip Dunne when he ran his inquiry into defence procurement. Philip Dunne produced what I thought was an excellent report. There are some obvious social values, such as how many UK jobs does a project support, how many UK supply-chain companies does it support, what level of tax and National Insurance would be returned to the Treasury, what level of corporation tax would be paid to the Treasury if the contract was awarded to company X or company Y.

Those seem to be fairly obvious measures of social value and they are completely absent. Instead, it is a charter for people to come up with all sorts of flowery statements, and I go back to my previous point. Will they be policed? The guide talks about how the criteria will be measured,



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enforced and reported upon but I am worried that without concrete things that add to or measure the fabric of work in this country, we will end up with a completely academic exercise that does not help us in any way.

Q29 John Lamont: How should the 20% weighting be assessed and what kind of criteria would you like to see used, Mr Waddell?

Ian Waddell: For instance, if it is about measurement and if we are talking about shipbuilding specifically and let's say we are talking about FSS, I would like to see: how many UK jobs a bid would support; where will they be; what will be the nature of jobs; how long will they be supported; how many supply chain companies will it support in the UK; what value will be put into UK supply chains; where will the raw materials be sourced from and what materials will they be and what percentage will be UK material; and what level of tax, National Insurance and corporation tax will be paid in the UK. To me, those are eminently sensible criteria and they are measurable. Clearly they give an advantage to a UK build but that is the point, that is what the Government say they want to achieve, so why would you not measure that?

Q30 John Lamont: Thank you. Mr Craven, do you agree with that? Do you have anything further to add?

Kevin Craven: Equality of the evaluation and a degree of transparency around what the criteria are would be enormously helpful.

Richard Powell: Could I add to that? I think skills need to be explicit as well, the development of skills. You could hide it under equal opportunities—not hide it but place it under them—but I think it needs to be right up front because it is such an important part and should be at the heart. How will you develop the skills and is that a short-term or a long-term perspective?

Q31 John Lamont: Mr Craven referred to the need for greater clarity about the weighting criteria. How quickly do you need to have that from the MoD? I am assuming it is as soon as possible.

Richard Powell: Yes, and again it is a dialogue. It is not something that should be imposed and there is a risk of that. It is a discussion: what do you in the industry think? In the early days of the implementation of social value, there was a lot of guessing going on. You had the criteria and they look great from the customer/Government perspective but trying to deliver against them is very difficult. If we want to do this properly and maximise the potential, we need a discussion around these criteria. They should not just be written down and delivered to us.

Q32 Deidre Brock: Thank you to our witnesses. It is a very interesting session. We had another very good session recently with some representatives from various SMEs. I don't think this has been mentioned so far, but only 2.5% of the MoD's spending with SMEs is with Scottish SMEs. Mr Craven, you mentioned your SME prime engagement group.



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Are Scottish SMEs aware of it? Are they knocking down the door to be part of it? What percentage of the group currently is based in Scotland?

Kevin Craven: I would have to come back to you on the specifics but we have a very vibrant regional ADS group that is probably one of our most passionate in the regional offices that have been maintained. Within that, we have a very large number of SMEs engaged and involved in all the discussions.

Q33 **Deidre Brock:** When you say regional, do you mean Scottish national?

Kevin Craven: Yes, an ADS Scottish office, staffed and manned by individuals living in Scotland and working specifically with headquartered companies. The vast majority of them, probably 95%, are SMEs by definition.

Q34 **Deidre Brock:** Why do you think that number is so low for Scottish SMEs, given that quite a lot of the shipbuilding in the UK actually happens in Scotland? As I understand it, the subsystems are increasingly going to be a larger part of construction going forward, so do you feel those opportunities are opening up for Scottish-based SMEs?

Kevin Craven: As I said earlier, shipbuilding in particular is probably one where SMEs are somewhat challenged in entering that marketplace. It is a very traditional industry and the positive conditions that we have talked about is a recent phenomenon in many ways, so I think that growing ecosystem has some way to go. In other parts of defence, aerospace, we see some of that growth happening and I am confident that if shipbuilding continues to be positive you will see that.

That number sounds low to me. Typically with MoD that number is generally about 20% by spend, albeit it is mostly through the prime channel. That might represent the direct spend with SMEs as opposed to the total spend through the prime or integrated companies and I would be interested in looking at that number.

Q35 **Deidre Brock:** I am sure we can provide that to you, not a problem. Mr Waddell or Mr Powell, is there anything you would like to say about that?

Richard Powell: I don't have anything to add on that subject, thank you.

Ian Waddell: That figure seems surprisingly low to me as well. It doesn't reflect what I have seen when I have been in the shipyards where subsystem parts come from. I don't know if someone has miscounted. There is always a tendency in this country to think of SMEs as being two or three people. If you thought about it from a German point of view, you would think about the Mittelstand and there are companies there of 2,000, 3,000, 4,000 people regarded as SMEs. I think that it is much more of those, so I guess it depends where you draw the boundary and what you class as an SME.

Q36 **Deidre Brock:** All right. We will certainly go away and look at that and



we will speak to our researchers.

Can I turn to warship exports now? I think it is very interesting that there are export designs being sold to Australia and Canada and there is a certain amount of cross-fertilisation, if I can say, with Australians coming over here to learn and so on. To what extent does Scottish industry benefit from those exports? I am keen to hear details of where you think the benefits flow from for Scottish industries in particular.

Ian Waddell: If I could pick that up to begin with. As it happens, I have been in touch with the Australian unions from a very early stage. In fact, even before the contract was awarded, we were lobbying our Australian counterparts to try to get the BAE bid, the one over the line, so it is the unions that won it. You can put that on record.

On the back of that, for instance, the relationship is now so close that they have created an Australian federation of shipbuilding unions to mirror what we do in the CSEU. We have built a global exchange. We are working with a company and we have Australian and Scottish union representative shipbuilders working side by side in working parties looking at skills, technology transfer and the techniques. They have built an alliance with Flinders University. We are looking at replicating that on the Clyde.

For me, it is a real example that with this kind of global collaborative approach, you can cherry pick best practice and learn from each other in a way that takes the whole enterprise forward. I cannot see a bad side to it. As you say, we have Australians coming here and we will have Glaswegians travelling to Australia. We had a hilarious question the other week in one of these trade union forums where an Aussie asked how the Glaswegians dealt with hot weather. "When it hits 45 degrees, how do you guys cope?" I said, "What, Fahrenheit?" Some things are not quite the same.

Seriously, they are building a world-class shipyard in Adelaide and that is giving us enormous leverage in arguing for a world-class shipyard to finally be built on the Clyde. How can you have ships being built in the open on the River Clyde and yet built under cover in Adelaide for the same class of ship?

I think for me it is a really exciting example of global collaboration. We hope that when the Canadians come on board that it accelerates it even further. I see the same potential for Type 31 and the export bids that Babcock is putting out. There has been one. It is in the market for others and I think this could be an exciting opportunity to build a global base out of the UK in Scotland.

Kevin Craven: We think both the export capability and the success in the markets is a tremendous thing. I should note that the current MoD ministerial team has been enormously supportive of the export market in a way that has not been visible for some time, so that is great to see. I



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think it is really helpful to have the endorsement of the UK Government and the UK MoD. The Royal Navy's stamp of approval for these products is desperately important in that export market.

On the specific question, there are the direct design assurance roles that still sit in the mother country. Therefore, while shipbuilding might happen in another country, the nine Type 26 ships that are going to Australia, and possibly up to 16 in Canada, generate jobs over here and there is an exchange of skilled engineers and apprentices in transferring that knowledge. While the dividend might not be the same as if we were building the ships, again having two or three of the world's navies using our designs and our ships might mean that there are other opportunities where that requirement for onshore building of those ships does not happen and we could actually physically export as well. Therefore, it is absolutely important that we have exportability built into the design of these vessels.

Q37 **Deidre Brock:** Also retain the IP, I presume?

Kevin Craven: Correct.

Q38 **Deidre Brock:** You mentioned that you do not make as much money and there is not as much benefit financially to Scotland or to the UK as with those ships being built here. Can you give us an estimate of how much less money? Say these are being built in—

Kevin Craven: Richard may be better placed to answer that one.

Deidre Brock: Mr Powell, thank you.

Richard Powell: BAE did a study on this very subject and it has all the detail. My understanding is that it was in the order of £6 billion for the Type 26 programme that was added to the UK. You will need to get the detail from BAE, but that is a significant sum. That is a class of 32 ships around the world, which is a very significant number but that shows the potential and benefit.

The points have been made here about this creating a new environment. We spoke about collaboration on a national scale earlier but when you start to then move into international collaboration—because there is a lot of components of the ships that are similar, there are elements to it—you then come on to what the First Sea Lord talks about, interchangeability and a greater operational output. It is not just about building the ships. It is about what capability do you deliver. Then you move into a whole new realm of operational capability, which is important. It is a broader consideration that gives you that fighting edge. That comes back to Ian's point about the first role of Government being security of the realm. It is all linked together, so it is much broader.

Q39 **Deidre Brock:** The ones that are being built in Australia are worth £6 billion currently.



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Richard Powell: It is the overall benefit to the UK from the entire programme of 32 ships. It is in that order, yes.

Deidre Brock: If they were built here what would it be?

Richard Powell: You would have to go to BAE for that. However, they were never going to be built in the UK. That is not the way it was designed.

Deidre Brock: Yes, I understand. All right.

Richard Powell: A lot of countries do not have the capability to build their own ships, sophisticated ships. These are very sophisticated warships. These are the high end for navies who are going to use them. That is why a country wants to have an indigenous capability and why it has to build them in their own countries. It is that balance of transferring all the technical capabilities and sharing the best practice. Again, only 30% of the value is in the shipbuilding itself. It is the other 70% that we are really interested in and lots of common systems put in the supply chain for these ships as well.

Q40 **Deidre Brock:** There is also a possibility for military shipbuilding exports to the US, I believe. Mr Waddell, you are pulling a face there. You do not think that is going to happen?

Ian Waddell: America is the land of the free, the heart of capitalism in the global market and one of the most protective defence markets in the world. I deal with BAE Systems pretty much weekly at the moment. It has created BAE Systems Incorporated, a US owned and operated business, to be able to compete and get a foothold in the US market.

It is part of the irony of all this. We buy billions and billions of pounds worth of American kit every year in the MoD. If you look at the UK equipment that is sold into the US it is an absolute fraction. Notwithstanding the geopolitics of all of this, I am sure the Biden Administration is extremely interested in what is going on with the Northern Ireland protocol at the moment, potential trade deals, all the rest of it, up in the air. You cannot divorce any of this geopolitics. For me, talk of selling substantial amounts of ships into the US is for the fairies. I think that there are other opportunities in the world. For me, the priority is: why don't we just get our own act sorted out?

Talking about Australia, the reason those ships are being built in Australia is because Australia has a defence industrial strategy. It has a shipbuilding pipeline of work and it has a very clear policy of building its own indigenous capability. Whoever won that contract is under strict enforceable contract conditions to build the ships and build up the workforce and the facilities in Australia. Why don't we do that? A simple question. Everybody else does it. We don't.

Richard Powell: I absolutely agree.



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Kevin Craven: Yes, I agree.

Richard Powell: We play fair too much and when it comes back to the strategy, the strategy has to be delivered. We should take all the measures necessary to deliver the strategy because it is really important for jobs, for skills, for prosperity and for social value. There is a danger that we will let it slip through our fingers. We have to be very focused on the delivery of the strategy as an enterprise approach.

Q41 **Deidre Brock:** Can I ask one last thing about Norway? The shipbuilding industry there seems to be very successful. It is a small country. I read a report recently that seemed to suggest that Norway had been particularly successful in growing its industry. What are the lessons that we could learn from countries like Norway? You mentioned that we are being too fair in some respects. I do not want to misquote you, Mr Powell.

Richard Powell: I can't comment specifically on Norway. I haven't looked at that particular issue but there is a broad principle here of looking around the world and seeing what best practice is as well. As Great Britain, we tend to be a little unintentionally arrogant and we think, "Well, we know best". Being a little bit more humble and saying, "Who is doing really well around the world?" and asking those questions is an important thing to do.

Kevin Craven: Likewise, I cannot comment particularly on Norway but the Type 31 was in conjunction with a Danish partner. Therefore, while absolutely the principle of UK roles for UK ships is an important one, the ability to have inward investment and IP, knowledge and innovation should not be lost either.

Ian Waddell: I suggest that you go there. I am not being facetious. I get the opportunity to travel all over the world with this job. It has been a bit stymied for the last couple of years for obvious reasons, but I haven't been to Norway. I have been to Finland and seen a similar yard in Finland and the way it operated, as well as going to South Korea, Japan, Australia and other places. Honestly, there is no substitute for going and seeing what happens on the ground, talking to people and asking the questions that you are asking us from the point of view of actually being in the yard.

I suspect, without knowing, that there will be strong state support. There will be a strategy. There will be integration with the local schools, universities, apprenticeship schemes. There will be all sorts of hidden levers and mechanisms being operated to keep Norway with that competitive position globally. I am sure that all the things that we have talked about will be being done there.

Chair: I am reliably told by the clerk that the majority of the work in Norway is commercial shipbuilding as opposed to military.

Deidre Brock: Yes, but some military.



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Chair: That is the big distinction in the subject at issue that we are giving attention to.

Andrew Bowie: It regularly buys its warships from foreign yards, Spanish yards in particular recently.

Q42 **Sally-Ann Hart:** I am going to talk about skills. I think this is an important aspect and I know that workforce recruitment, skills and retention—as you said, Mr Waddell—is a big challenge for the industry. If the Type 32 and Type 83 contracts go to Scottish shipyards as anticipated, will it be a challenge and, if so, how challenging will it be for Scottish shipbuilders to increase their recruitment levels? Do you want to take that first or does Mr Powell want to take it?

Ian Waddell: I am happy to go first but I will let Richard.

Richard Powell: Thank you, Ian. That is very kind of you. There is not going to be a spike in demand. This is about two streams of work in Scotland. You have the Type 26 and Type 31 at the moment. You can transition to the Type 32 and the Type 83. You have a reasonably steady flow and that is augmented by FSS and a third line potentially, so it should not change. What you want to do within that is make sure that you avoid the problem of the ageing workforce. Therefore, it is the workforce planning over that time that I think is the real issue here, making sure that you have the right people.

As time progresses, the skills required will change. Ships are now not a steel box. There are system systems, so integration of all the capabilities within that box is where the real value lies. It is making sure that your workforce is shaped and trained to deliver that high end capability because that is what the customer wants. He wants something at the cutting edge. He does not want the cheapest thing possible, the lowest quality. We go and fight wars and you need the best when you are fighting a war. To deliver that top end capability, like the Type 26 and the Type 45, you have to have carefully well-trained people to deliver that.

Sally-Ann Hart: Russia's capabilities in Ukraine are evidence of what happens when you don't have the best and you don't invest.

Ian Waddell: Exactly.

Q43 **Sally-Ann Hart:** I am going to go to you for the next bit, which is looking at the level of interest. Mr Powell mentioned the level of interest, and so did Douglas Ross. I think you said the level of interest is not enough to meet the sector's future needs, so how do we, or you, make the sector more interesting or attractive, and is there an issue with people going into the defence sector? Is this an issue for young people?

Ian Waddell: I don't see that. Picking up on your previous point, we have not talked about this because it is south of the border, but if you look at Barrow shipyard, which is building our nuclear submarines, I think there are 9,000 people—it is probably going to rise to 10,000 people—at



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that yard, of which 1,000 are apprentices, and BAE is going to double its apprenticeship intake from this year onwards. It has done that because it has a steady state of work stretching out for the next 30-odd years. There is work there until the 2050s. For me, that indicates what you can do when the pipeline is nailed down and you know you have the contracts in place and you have that certainty. That is the level of investment that can go in.

Will it be challenging? Yes, it is. We are talking about shipbuilding today but if you talk to any engineering, manufacturing kind of advanced sector, whether it is pharmaceuticals or nuclear energy or anything else, you will get the same story, which is, "We are desperately struggling to find people who have engineering skills, who have the energy, the aptitude to follow through with those skills". Everybody is fishing in the same pool and everyone is struggling in a tight market.

There are some structural issues right at the heart of this, and we could probably spend another hour and a half talking about vocational education, the importance of technical colleges and the status in our society of skilled people, compared to having a university degree and all the rest of it. There are much deeper issues around the way that our education system works and some lessons that we can learn elsewhere. I mentioned Germany. We have published four or five reports about the German education system and why it works for these sorts of jobs.

Of course, we have had the pandemic, and it has been impossible for people to get into schools for the last couple of years. We have missed a big window of opportunity. However, the good news is that applications for apprenticeship schemes far outstrip the number of places available. I have been talking for some time in the industry about a clearing house for apprentices. I have been pressing on this for at least a decade.

If you apply to university, you put in one application to one organisation and it gets sorted. You put your choices in order and you go through the system of clearing and hopefully you end up with the one that you want or the second on the list or whatever. With an apprenticeship scheme, you might apply to Rolls-Royce and be in the top 10% but just miss out. You might apply to BAE and just miss out. How many times are you going to keep applying and going through an assessment with different companies before you end up giving up and going somewhere else? Therefore, I think there are issues.

I mentioned Babcock. If you have 500 applications for 50 places, what happens to the other 450 people who might be brilliant but did not quite make the grade? If we could harness that, I think we could solve our problems, and that is without even talking about gender inequality and ethnic balance and all the other things that need to be part of that. It is a much bigger topic for me, but I think if you look at the population that we have, the school leavers, there is definitely potential to do it if we are able to address those much more fundamental structural issues.



Q44 **Sally-Ann Hart:** Thank you. Mr Powell?

Richard Powell: I want to add that it is not only a question of recruiting and training. It is retaining as well. If you have that uncertainty because you have been four years on a contract or six years on a Type 45 and so on, and there is no prospect of future work, they will go. Careers for life in one company is very different, as we all understand, so it is important to have a clear sightline of future work and also creative aggression within the companies as well.

Sally-Ann Hart: That would help with retention?

Richard Powell: Absolutely, yes.

Q45 **Sally-Ann Hart:** Mr Craven, is there anything you would like to add?

Kevin Craven: I broadly agree with everything that has been said. I just point gently to the apprenticeship levy; on how we help applicants into schemes like BAE's and Babcock's, being a bit more flexible about how you apply the apprenticeship levy to your supply chain and pass those benefits on, at least to your supply chain, would be enormously helpful. There is absolutely no question that there is a general crisis around engineering and technical skills, and a shortage in the capacity we need to meet demand.

Q46 **Sally-Ann Hart:** Yes. It might well be that pictures of women engineers all in overalls—well, actually, not all the jobs are to do with hard hats and overalls, are they, so it is a perception point of view.

I think you have touched on it but the skills in the industry obviously change and they adapt over time, so how effectively is the workforce adapting? Is it effectively adapting to reskilling up? I know you mentioned that, Mr Powell.

Richard Powell: Yes. I think that this is a key element of the work that the UK Shipbuilding Skills Taskforce needs to look at because I don't think we understand that as an industry. Individual companies might have a feel but not as a broader industry. If we come back to the enterprise approach, we need to understand that to make sure the academic institutions are producing the right courses, so that link with academia is important as well. I don't think we know but I think it is something we should understand a bit more.

Q47 **Sally-Ann Hart:** Does anybody else want to add to that?

Ian Waddell: You will have seen from the written submission that I am on the board of the Shipbuilding Enterprise for Growth as the workers' representative. I have been banging on since the first meeting—the board is going to be sick of me—about where is the Aerospace Technology Institute for maritime? Where is the maritime technology institute? If you look at the work that the ATI has done in aerospace, it is absolutely incredible in advancing the position this country has, working on technologies, techniques and then those being industrialised into the



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supply chains and the integrators. It is a huge success story. I think that is what we need for the maritime industry.

We are in the infancy of that. If we were able to corral Government investment and industry spending in the way that is done in aerospace and start to focus that with the academic edge, research and development, looking at best practice overseas, you absolutely can see a situation where we could be spinning out cutting edge technology and working practices in UK shipyards based on that drumbeat of work. It is all there. Like I said, the jigsaw is there, the pieces are there; we just need to assemble them.

Q48 Sally-Ann Hart: Collaboration, because skills is devolved and defence is retained, so it is important that the UK and Scottish Governments collaborate on shipbuilding skills. You have mentioned it so I will go to you first. I will obviously go to Mr Craven and Mr Powell too. What is your assessment of how the current levels of collaboration are working? I know that there is the UK Shipbuilding Skills Taskforce that Mr Powell mentioned. How is it going?

Ian Waddell: Well, it is early days. The Shipbuilding Enterprise for Growth has had two meetings. The taskforce hasn't met yet. It has only just announced the appointments. I think that would be a fair question in 12 months or 18 months' time probably. It would be useful for you to get witnesses from both of those bodies to see what their experience on the ground is. When I turn up at the SEG meeting I don't distinguish or differentiate who is from where. It is literally a group of equals sat around the table. We all have opinions and points of view on this, so I am probably not qualified to answer that.

All I will say is that I think it is too early at this stage to say how that relationship is working in these very new institutions that have been created as part of the shipbuilding strategy. I think it is absolutely legitimate for you to ask the questions and to look at that and to monitor it because, of course, it will be key and the skills, absolutely. How can you talk about the skills and the pipeline of people coming through without talking about the education system, the qualifications that people have, making sure that neither side of the border people are disadvantaged simply because of the systems that exist?

Kevin Craven: It also depends on where you are looking from. If you are a large company like BAE or Babcock you will have the training, apprentice and mid-life development programmes for your staff that you need. Your challenge is getting the right number of people from schools and colleges and so on. If you are on the SME side of life it is a slightly different kettle of fish where you need real help in developing the skills of your staff because you cannot do it yourself. You do not have that in-house expertise.

I will point to the technology exploitation programme that is transferring from the ATI programme. There is something called NATEP, which is the



aviation version and there is now the establishment of the DTEP, the defence technology exploitation programme, which is about helping suppliers to run programmes around R&D and how to make yourself more efficient in some of the other programmes that they run. Lessons can be learned from the ATI. I don't know whether or not the model itself transfers exactly, but those are very small amounts of money and I think that some further investment in those for the supply chain would be very welcome and have a positive effect on the sector.

Q49 Sally-Ann Hart: Thank you. Mr Powell, what do you think should be done to improve the UK and Scottish Governments' collaboration to ensure the future of the Scottish shipbuilding industry?

Richard Powell: The whole process of the national shipbuilding strategy got off to a great start in the rich picture work, which was a collaboration between the industry and Government. The foundations were laid to then create the National Shipbuilding Office, the SEG and all the other bodies that come with the strategy.

As we heard, those bodies need to work effectively, but it is not just up to those bodies to deliver the shipbuilding strategy and the risk is that people just look at the SEG and think it is all in hand. It is not. It is a much broader enterprise. It is a degree of ownership with all the interested departments having clear points of contact and clear responsibilities in that as well. It is such a big opportunity but with that go significant challenges around the skills and all the other bits and pieces. No one organisation will be able to solve it on its own. It is everybody having some skin in the game. Solid foundations—we just have to keep growing it.

Sally-Ann Hart: Thank you.

Q50 Chair: I remember growing up in West Fife and Dunfermline in the 1970s that every 16 year-old child sat the dockyard exam to find out exactly where they were going to be placed with Rosyth dockyard, such was the size and the influence of the Rosyth dockyard at that point. The bus service actually dedicated some routes outside—we will never go back to those days I would imagine, Mr Waddell. It is only a few decades ago.

Lastly, from me, do any of you have any statistics or research that you can share with the Committee about what proportion of military shipbuilding contracts are returned to the Government through taxation when it chooses UK-based bidders? Is there anything that demonstrates what we get back in return for this investment?

Richard Powell: Well, actually I can.

Chair: You have? This isn't set up, by the way, as a last question.

Richard Powell: No, because I think it is a really important point.

Chair: It is.



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Richard Powell: I can leave this with you. It is a Royal United Services Institute paper from January 2012 that talks about the very issue and it says it is a third, an exact third. The evidence is all in that paper. It is not an SMI paper. It is a RUSI paper. I think it is well worth having a look at that paper because the principles will remain

Chair: We will definitely have a look at it.

Ian Waddell: To add to that, I was going to talk about a RUSI paper as well. I don't know if that is the one that is called "The Destination of the Defence Pound".

Richard Powell: It is, yes.

Ian Waddell: That is well worth reading. The GMB published a report, which I can forward to you as well. It is well researched. The CSEU published a report, which I can now reveal in public for the first time. It was written by Francis Tusa, a well-known defence analyst—probably well known to some of the Committee members—and the estimates vary but I think the lowest was around 24% to 25%, which was in the CSEU report. I think the GMB estimated it at around 30% to 36% and RUSI, as Richard said, is around a third.

If you think about income tax, National Insurance and corporation tax, once you take out the thresholds it seems to me it is absolutely clearly evidentially supportable to argue it is at that level. I cannot remember offhand whether the Dunne review talked about statistics but Philip Dunne also accessed all of that evidence and information, so it would be worth a reread of the Dunne review if you haven't looked at that recently.

Q51 **Chair:** Thank you for that. It would be very interesting just to see what is returned and it is significant sums. I think we should take it very seriously.

Lastly, we are getting into a cost of living crisis where Governments are going to obviously reassess budgets. I know that there is a commitment to protect the 2% that has now been given on defence spending but do you remain hopeful that all the proposed initiatives will remain in place? I am thinking explicitly of the Type 32s and Type 83s and development of a frigate factory. Are you confident that we will get through this and some of the things that we are quite excited about for the future will actually happen in Scotland? Mr Waddell.

Ian Waddell: It is a very timely question, Chair. I am sitting down with BAE on Wednesday to start national pay negotiations for the first time in living history. There are 21 bargaining groups in BAE and for the first time ever we are sitting down jointly, because of the severity of the crisis, to try to find a way through. It is not just wage inflation or anything else. If you talk to anybody in the industry, the cost of raw materials is going through the roof at the moment and it will be extremely difficult. Of course, we don't have a nationalised shipbuilding industry. We have commercial companies that have to answer to



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shareholders, which makes the whole thing very difficult. I think it will be a very difficult and complex set of negotiations, so who knows?

From everyone's point of view in the industry, we are absolutely committed to the success of these contracts. Speaking as the lead negotiator, I am absolutely clear about our responsibility to not bankrupt the industry for short-term benefit but I represent tens of thousands of members who are crying out for their cost of living crisis to be met in some way. Therefore, this will be a really difficult period and there is no point pretending that it will be anything other than that.

Q52 **Chair:** Absolutely. Are you confident for the future, Mr Powell, Mr Craven?

Kevin Craven: I think, if you look around the world, it is definitely not a safe place to be. We are generally seeing defence budgets increasing and the most obvious example is that of Germany's recent statement, but that is happening much more widely than people realise. Even in the Middle East, for example, countries are increasing their defence spend because they perceive a vacuum created by Russia concentrating elsewhere. It creates instability.

Against that backdrop, the comprehensive spending review in 2024 is really important for all programmes, not only from a shipbuilding point of view but for the future combat air strategy. There is a number of large-scale capabilities and programmes that will need support and I strongly hope that the Government will continue to support those going forward.

Richard Powell: For this to succeed the Government's support must continue to be there. If there is any waver in that Government support I think it will fail. It is really important because of all the elements. The industry won't self-organise enough to deliver strategy on its own. It is a partnership between the Government and the industry, but a large element of this has to be Government-led as well. Industry has stepped up, but I think that is the key.

Chair: Thank you. It has been a fascinating session. Thank you all ever so much. It has been so helpful to this Committee. I think that you are going to provide us with a couple of pieces of further information. Anything that you can usefully add to our inquiry will be gratefully received but, for today, thank you ever so much for your attendance at the Scottish Affairs Committee.