

## Defence Committee

### Oral evidence: The Effects of BAE restructuring on UK Defence, HC 595

Tuesday 28 November 2017

Ordered by the House of Commons to be published on 28 November 2017.

[Watch the meeting](#)

Members present: Rt Hon Dr Julian Lewis (Chair); Leo Docherty; Rt Hon Mr Mark Francois; Graham P. Jones; Mrs Madeleine Moon; Gavin Robinson; Ruth Smeeth; Rt Hon. John Spellar; Phil Wilson.

Questions 1-81

#### Witnesses

I: Chris Boardman, Managing Director of UK Military Air and Information, BAE Systems, and Bob Keen, Head of Government Relations, BAE Systems.

II: Garry Graham, Deputy Secretary General, Prospect; Steve Turner, Assistant General Secretary, Unite the Union; Jarrod Rex, BAE Brough, Unite the Union; and Roland Entwistle, BAE Warton and Samlesbury, Unite the Union.

Written evidence from witnesses:

[Prospect](#)

[Unite the Union](#)

[BAE Systems](#)

## Examination of witnesses

Witnesses: Chris Boardman and Bob Keen gave evidence.

Q1 **Chair:** Welcome to this session on the effects of BAE restructuring on UK Defence. We have two panels today—one from the management side of BAE Systems and one from the trade union side. Chris and Bob, would you say a few words to introduce yourselves please, before Phil Wilson starts the questioning.

**Bob Keen:** I am Bob Keen. I am the Head of Government Relations for BAE Systems.

**Chris Boardman:** I am Chris Boardman. I am currently the Managing Director for the UK military air business, but from 1 January I will be in charge of the international air sector that has been established as part of the announcement.

**Chair:** Thank you for coming along this afternoon.

Q2 **Phil Wilson:** Why is now the right time for a reorganisation and what are you actually trying to achieve by it?

**Bob Keen:** The announcement that we made on 10 October had two essential elements. The first is that we are simplifying our management structure to create strengthened air, maritime and land sectors. The aim of that is essentially to reflect the relationships we have with our customers and to make us more responsive and quicker in making our decisions. We have also, as part of that restructuring, established a chief technology officer organisation, which brings a new focus to our technology strategy right across the company, and means that we can prioritise our key technologies, our technology investments and the exploitation of technology across the company. That is the first element.

The second element is that we have had to ensure that our workforce is aligned to the work going through the business in a number of areas. That has meant that we have had to take some difficult decisions about jobs in our military air, maritime services and applied intelligence businesses. I will ask Chris to say a word about the changes we are making in the air sector business in a minute; but as far as maritime services and applied intelligence are concerned, we are essentially matching our workload to our workforce, as well as improving our competitiveness for the future. Coming back to your central question—"Why now?"—we have to ensure that we have a business that is competitive in an increasingly competitive environment, both internationally and domestically.

Just a couple of things before I move on to Chris. I would say that we are working hard to consult our trade unions and our employees, as we always would in these circumstances. We have a best practice guide within the company that we have agreed with our TUs, to make sure that that works. In the end, all of the changes that we have made are aimed at bringing a

new focus on operational excellence, on making sure we are competitive and on driving technology innovation, and ensuring that we have a robust, sustainable business for the long term. Chris, do you want to say a word about the air sector?

**Chris Boardman:** I won't repeat some of the key points that Bob has raised. I would characterise the military air marketplace for the UK as very international by nature. It is fundamentally underpinned by either international programme collaboration or us operating within an international export context. So that is what we are. We can also conclude from that that it is highly competitive. Therefore, simply, we just needed to make the organisational move to get ourselves more focused, more streamlined and make sure that we do the best we can—so make sure that we are focused, competitive and we can position the best the UK can offer. I say that in the context not just of BAE Systems, but of the supply chain and partnerships that we have in the UK defence base. That is the key thing concerning the organisational change. When we come to workload in the air sector, we had to slow down the Typhoon and Hawk production lines to make them commensurate with what we believe to be an export market set of opportunities. Then we have the Tornado aircraft coming out of service with the Royal Air Force and therefore we have a workload impact from that perspective as well. That is what underpins our workload issue.

Q3 **Phil Wilson:** Why did you find the need to announce plans for 1,915 redundancies in the same year that you put forward reorganisation plans? And what is the link between new organisational structures and redundancies on the shop floor?

**Bob Keen:** To answer your second question first, as I said a little while ago, the essence of what we have been trying to do is ensure that all the building blocks are in place, to ensure that we have a sustainable and robust business for the long term. It is fair to say that we did debate whether the two elements of the announcement should be made together, but we decided that it would not be right to make two separate announcements in close succession. We had the need to make both of them and we thought it was right to bring the two together, so that our employees understood where the company was going and, more generally, our stakeholders understood the direction that the company was taking.

Q4 **Phil Wilson:** Chris, did you want to add anything?

**Chris Boardman:** I think it is very much as Bob has outlined. The key thing is that we had a workload issue. We are doing everything we can in the export market to deal with that and give ourselves a future, but we have to reflect on whether we were being as effective as we possibly could be in that international market. One did not cause the other in that sense. There is not a direct connection between those two things. If anything, it just reinforces our resolve to have a sustainable future, and therefore going through difficult decisions around work just gets your resolve even more focused about making sure that happens.



**Q5 Phil Wilson:** What discussions did you have with the Government, MOD and the allies about the new structures? What impacts do you think it will have on the three armed forces?

**Bob Keen:** As far as the relationship with the three armed forces is concerned, the organisational changes are intended to ensure that we have a better interaction with our customer in each of the three services, and that there is a focus at the CEO level, so we have taken out a layer of management, which means that each of the three domains report directly now into the chief executive. We are clear that that will deliver a better and closer relationship with our customers. In terms of what we discussed with the Government, we explained to the Government the rationale for what we are doing. As far as workload is concerned, we have regular discussions with the Government about what the future looks like. Certainly in the export context—I am sure we will talk a bit more about that in a minute—there is a very close relationship with them, discussing what we actually need, in terms of Government support, for the key export campaigns we are pursuing.

**Q6 Phil Wilson:** What new business do you think the reorganisation will bring?

**Bob Keen:** Perhaps I will ask Chris to say a word in a minute about the key export campaigns that we are pursuing. The essence, which we made clear at the time of the announcement, is that we have a statement of intent from the two Governments—Qatar and the UK. The Qatari Government will require 24 Typhoon and six Hawk. We are now working very hard to translate that statement of intent into a contract. Chris, do you want to elaborate a bit more on that?

**Chris Boardman:** As far as Qatar is concerned, we are doing everything we can to bring that commitment to a contract conclusion quickly. From our perspective, most of that is now done—it is in place, it is in agreement—so it therefore becomes a timing issue about when we move forward to that signature. That one is very much near term. It is needed, in terms of keeping a level of continuity.

Inevitably, there are other interests in the Gulf—Saudi Arabia is one of them. For those who are not aware, we had, through our Italian partners, a commitment from Kuwait some time ago for 28 Typhoons into Kuwait, which we are delivering over the next few years. There is a very strong interest there.

We are very much supporting the Government initiative in terms of offering Typhoon into Belgium. That campaign is ongoing now. Its timescales are to make a down-select sometime in the first half of next year. If we are down-selected in that competition, the target date for our contract commitment for Belgium would be in the first part of 2019. Those three alone give us continuity going out into the long term for Typhoon.

Hawk is a better one for making sure we get that short-term Qatar contract commitment. That puts surety in, and then we will focus very much on other export opportunities—again, very Gulf-related. Specifically,



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there is an opportunity there—again, through a Government relationship—to provide Hawk training aircraft into Kuwait to supplement the Typhoon commitment we made through the Italians two years ago, so some very clear actions there.

That is not the only thing we are doing. We are still sustaining our position in the F-35 programme, which is a US Government programme. The prime contractor for that is Lockheed Martin, and we are the principal sub-contractor. We treat it a bit like export, because that is the way we entered into the programme. We entered into the programme because we gave technology. That technology predominantly came from Harrier, and more predominantly from the Typhoon experience we had from Europe. We secured a position on best-athlete basis, and we performed. We are continuously driving cost down in the F-35 perspective so we retain our position on the programme. We have, in terms of the UK, 10% of the total production activity on that programme. We are committed to making good our commitments within that context. We are also offering the support capability we have developed with the Royal Air Force, which we think is best in class, to help deal with the operational cost of the F-35 going forward.

We are working across all those issues. With the organisational restructure, I think we will be more effective at making more timely decisions, which is key when you are in a highly competitive market.

**Q7 Phil Wilson:** Finally, I know that you have appointed Nigel Whitehead as your chief technology officer. What does that position bring to the company that you didn't previously have?

**Bob Keen:** I think the Committee knows Nigel. The organisation that we established under him will be the key driver for the future co-ordination of our technology effort right across the company—not just in the UK. That will help us to focus our investment and ensure that we have the right skills and people development for the future, as well as all the other resources we bring to bear on technologies that make a real difference to us in the marketplace. I should say that our chief executive, Charles Woodburn, has made it very clear that a company of our size and complexity, which depends essentially on the technology we are able to develop, requires that central focus.

It also brings together a number of other things: our strategy and planning organisation, our manufacturing and engineering functional capability and our digital capability. It brings all those capabilities together as well, but the essential reason is to give us that new focus on technology.

**Q8 Phil Wilson:** So all those elements were there in the business, and you have just brought them all together—



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**Bob Keen:** Certainly, the functional things that I have been talking about were, but having a central point in the company, responsible for technology across the group, is a new innovation.

Q9 **Ruth Smeeth:** Good afternoon, gents. What consultation have either you or ADS had on the National Capability Review? Have you been asked to consult or participate?

**Bob Keen:** We as a company, and ADS as a trade association, have been involved in several discussions about the process, led by the Cabinet Office and national security staffs. As far as I am aware, we have not as a sector been consulted on the options that are being considered. We are aware of the process, but we have not been consulted on the options that are being considered.

Q10 **Ruth Smeeth:** You will appreciate my concern at the timing of your restructure, given that we are about to have the results of the National Capability Review and that there might have to be an additional restructure. Obviously, you could not have taken that into account, because you did not know, but what contingency plans do you have in place? I am also assuming that the current proposals for the restructure take into account any post-Brexit environment. Do they? Or am I—

**Bob Keen:** Perhaps I will deal with the Brexit issue first. As a company, and more broadly as a sector, we will be affected by customs changes, tax changes, etc, but we are less affected than some of the companies operating in, say, automotive or commercial aerospace. Where we are keen to ensure that Brexit continues to deliver for the UK is in the area of collaboration. I suspect that will be a theme of the discussions we have this afternoon, making sure that the UK is able to collaborate in future, particularly with our European colleagues.

We have seen the Government's position paper on the future of defence in Europe. That gives us an assurance that going into Brexit, certainly as far as their objectives are concerned, they are clear that collaboration will continue to be important. The organisation we have in place is fit for purpose and should be fit for purpose, whatever the outcome of the Brexit negotiations.

As far as the capability review is concerned, I don't think we would envisage the outcome of the review having a profound effect, certainly on the things that we have been talking about in this consultation. Particularly, when we look at the air sector, which Chris has been talking about, we are very focused on international business. Unless there was some very significant impact of the capability review on the Government's support for that, which we are not expecting, I don't think that should affect the business that we are putting in place—its structure, anyway.

Q11 **Ruth Smeeth:** Even a reduction in the number of F-35s that we seek to buy, or a protracted contract?

**Bob Keen:** Chris, do you want to talk about where we are on F-35 and the work we are doing at the moment?





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**Chris Boardman:** Our position on the F-35 goes back to how we secured it in the first place. We secured a 10% portion of the programme, which, if you do the maths against whatever the programme of record in the United States is—I think they talk about \$1.3 trillion—is considerably more than the UK would be spending on procuring its F-35 commitment. Why is that the case? This goes all the way back to securing a position based on best athlete and technology transfer. At the beginning of the programme, we gave technology to the US. One of the key technologies we gave was the manufacturing capability we had developed on Typhoon. The reason that was important is it was high tolerance, it was state of the art and it allowed you to move on to manufacturing stealth features in a much better way than had previously been done.

We are holding that position. We are very conscious that we have to be the best partner and we have to perform, and that is what we have set out to do. I am sure there would be an issue if the UK pulled out of the F-35 programme, but in terms of the quantity of aircraft that the UK is actually acquiring, it is important but not absolutely critical.

**Q12 Ruth Smeeth:** May I ask about the contract with Lockheed? You are a tier 1 partner in terms of delivery of the programme. When is that guaranteed until? Is that up for review in 2019?

**Chris Boardman:** Within the industry side, we don't have that terminology. That is terminology that tends to be for the Government and the DE&S project teams. We have a teaming agreement with Lockheed Martin. We helped win the programme in the first place, we gave all that technology and capability and we perform, so the teaming agreement effectively says we should secure 10% of the programme if we remain best athlete and we perform. That is the thing that binds the industry team together, and that becomes our determinant. The tier 1 reference is probably associated with the position that the UK takes within the programme. I am not clear about what the arrangements are around that and whether that is time-bound or not. Our teaming agreement is for as long as the programme exists.

**Q13 Ruth Smeeth:** So we are still top in class and happy to be the best athlete delivering, in your terminology, in terms of the programme. You are not concerned—I am not, but I just want to make sure you are not—about any problems in F-35 production.

**Chris Boardman:** We want all team mates to perform to schedule and reduce the cost as much as possible. Then what we want to do is to minimise the operating cost—the cost per flying hour. We are very active within the industry team to promote that. We recently signed a memorandum of understanding between ourselves, Northrop and Lockheed that clearly looks to reduce the costs of support and offers that to the United States Government through the joint project office. That is a debate that we are yet to bring to a conclusion, but from an industry perspective we are bringing the best we can to that debate and we hope to take that forward, very much like we have already done in the UK. The UK has moved considerably forward in availability services, which we have



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fundamentally benefited from. We are grateful for that, and it has allowed us to be more competitive in the international export market. Now we want to bring that to bear on the F-35 programme.

- Q14 **Ruth Smeeth:** I am going to move us on to yesterday's lack of a defence industrial strategy in the White Paper on the industrial strategy that was published yesterday. What is BAE's corporate view?

**Bob Keen:** There are a couple of things to say. The first is that from our perspective there are some positive elements about it. The emphasis on infrastructure investment, the emphasis on technical education and the changes to the R and D tax credit are all important from our perspective. Beyond that, we have been having a discussion with the Government about whether there should be a defence sector deal, which I think was the point you were drawing out. We are still focused on that; it just isn't as mature as the discussions that have taken place in some of the other sectors that we have been talking about.

Separately—this is probably the nub of some of the stuff we are going to talk about as we go on—we have been having a discussion with the MoD about the future of the air sector. So we weren't that surprised that there wasn't a defence aerospace element to the industrial strategy yesterday, but that doesn't mean to say from our perspective that that remains the most important thing for our future in the UK in the aerospace sector. This was a step along the road that adds some important elements, but it doesn't resolve the core issues for us in aerospace and we are still talking to the Government about what that means for the future.

- Q15 **Ruth Smeeth:** Obviously, you know of my personal interest in a need for a defence aerospace industrial strategy. Can we step back? We still haven't got one. It is great that we are on a journey, but we don't have one. Fundamentally, the nub of this session is the fact that you are having to make redundancies because there isn't a steady drumbeat of orders from wherever, domestic or international. What tangible impact is the lack of a defence industrial aerospace strategy having on your business?

**Bob Keen:** If you look at where we are as a business—Chris runs the business, so I will ask him to say something about that in a moment—we are completely focused on delivering the capability that our RAF customers and our international customers need. Whether it is Tornado support; whether it is Typhoon, and Typhoon support; or whether it is Hawk—all of that F-35 stuff that Chris has spoken about—we are absolutely focused on that.

We are also involved in a number of areas of business that are developing capabilities for the future. If you look at the Anglo-French programme we are involved in—the unmanned combat system—or the domestic work that we are doing for our MoD customer to develop capability, or the work we are doing on the Turkish TFX programme, which is important from an engineering capability for the future perspective, we are doing the work on all of that, so that is sustaining and enhancing our capabilities. What we





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don't have is an understanding of what the long term looks like beyond Typhoon.

What we are saying to the Government and more widely is that we need a vision—it isn't just BAE Systems that I am talking about; it is the other major companies in the sector; it is the supply chain—around which we can all coalesce and around which we can invest and around which we can develop people for particular skills in the future. That is the key piece of the jigsaw that we don't have at the moment. Does that mean that we haven't got a business that is very capable and that is doing a lot of good work at the moment? Absolutely no, it doesn't. What it does mean is that when we are looking to the future, if you compare it with the maritime sector for example, there is much less certainty. We need to get some certainty to determine what it is going to look like in future.

**Chris Boardman:** Bob has hit the key words. It is what we do beyond the Typhoon-programme era. That is the key thing we need to determine, and not being complacent. You can look at our business, despite the workload difficulties we have had, as in a healthy position. We have export opportunity. We are positioned in the F-35 programme. We are doing everything we can to get the support costs of Typhoon down for the RAF so it can invest in capability, so it positions us in the international market. We have an Anglo-French initiative. We have opportunities in Turkey to help them to design their next generation aircraft. All these things are really positive, but what we need is something that gives us a long-term vision and to use our shareholder money wisely to help what the UK needs in the world—to position ourselves. That is the real key issue for me. How do we actually have that conversation and then how do we all target our available resources to get the best result?

- Q16 **Ruth Smeeth:** Just to confirm, what we are really talking about is the development of the sixth generation fighter jet and whether we are going to look to Europe or the US; a commitment that we are going to have a 30-year programme; and that we are not going to—I am totally politicising this—change our minds in two years' time because of the next capability review or in three years' time because of the SDSR, if we have one. The focus here is on an intergenerational commitment to where we want to go. That is what your business needs. That is what the sector needs.

**Bob Keen:** I think the way you've presented it is the nirvana, in a sense, from where we are sitting at the moment. But you have got all the key elements in there. While we wouldn't want to determine what the UK's requirement is—the UK has to decide what it wants for the future—a commitment for the UK to be a central part of the combat air vision of the future is exactly what we think we need in terms of certainty for the future.

- Q17 **John Spellar:** What was the basis for the breakdown of the workforce reductions in each of the affected sites?



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**Bob Keen:** I will ask Chris to say a word about the air sector business in a moment, but I will look at the other two areas of the business. Maritime services is our business that provides support to the Navy, manages the naval base at Portsmouth on behalf of the Navy, and produces torpedoes and radars. The make-up of that workload is largely in support of the Navy. It is in an environment where we are moving into a much more competitive space and where we are having to make improvements in our efficiency through business management services and through changes in the functions that support the business. So that is focused on Portsmouth and the Portsmouth area and is, as I say—

Q18 **John Spellar:** Is that because you were inefficient before or because your workload is going up?

**Bob Keen:** Chris manages a business on a day-to-day basis, so he will say something about this, but any business, particularly as competitors are snapping at the gates, has to make sure that it is as efficient as it possibly can be, taking in new technologies, taking in new ways of doing business, and making sure that others operating in that space are not going to do it better than you are. So you are always looking to do things better than you do at the moment.

Similarly, as far as our applied intelligence business is concerned, which is our cyber and security business, a number of locations are affected, in London, Guildford and Leeds. Basically, we have had to take a step back in that business, ask, "What are the things we are really good at? What differentiates that business? What markets do we operate best in?", and focus our efforts on all that. Again, that is all about making sure that we can win business both domestically and in the international market.

Q19 **John Spellar:** But with a lot of that work, would it not be best to do that incrementally, rather than by the big bang announcements?

**Bob Keen:** I think when we are introducing new systems, as in the maritime services business, we are not really going to do that incrementally. There is the introduction of new processes that have to give rise to changes in the way the business operates. That is reflected in the way we made our announcement. Perhaps I will ask Chris to say something, because the manufacturing elements of the military air business are slightly different.

**Chris Boardman:** In terms of the air sector, we are workload-related, so we work very closely with our workforce and trade unions to get as productive as we possibly can. It is something that we strive for because everyone knows that we are in this competitive marketplace. So we do that.

If you look at the constituent elements, we are workload-related in Tornado coming out of service—so it comes out of the service, it ends—but we are trying to make a bridge to F-35. We are part of the team that is building new facilities at RAF Marham and we will be doing the maintenance, but the problem there is that there is quite a big gap

between Tornado coming out of service at that base and the F-35 coming into operation. So that is very much workload-related.

As far as Typhoon is concerned, we sat down with the four founding nations—the UK, Italy, Germany and Spain—and we agreed that the best thing to do is reduce the build rate across Europe against the international market that we could see as the four-nation activity comes to an end. What we did within that was make sure in the export market, with the nations' acknowledgement, we went into a cost reduction to be as competitive as we can. Although we are producing at lower production volume—a quarter of the previous volume—we are significantly reducing the production cost at the same time. We have added productivity and we have dealt with a major workload issue, but that then has its implications back on the workforce.

On the Hawk side, we are just running out of work. We need to secure an order as soon as we can to get continuity. That again is workload-related. We will always look to do as much as we can to be as productive as we possibly can. We have the advantage of working where our partners are our competitors. We can make judgments about their performance levels, and when we go into competition, we know where we are. That is a very focused issue from an air sector perspective. That is something we talk about openly from workforce to senior management and chief executives.

**Q20 Mr Francois:** Just quickly: from scratch, how long does it take to build a Typhoon?

**Chris Boardman:** Four years. If you say, "What could you build it in?" you could build it in less time, but the lead time has been designed against the original programme with the four nations. It is a four-year timeline.

**Q21 Mr Francois:** But if you had to try to build one quickly, how quickly could you do it?

**Chris Boardman:** You could do it in three years.

**Mr Francois:** If you sped it up, it would take you three years.

**Chris Boardman:** You could do it in three years.

**Q22 John Spellar:** What possibility is there to move work or employees from around BAE, either in the UK or elsewhere? Indeed, what possibility is there to place employees within your supply chain? We have a shortage of skilled workforce. These people must surely be desirable. You may want to retain that link with your skilled workforce.

**Bob Keen:** I will ask Chris to say how this is working specifically in the air business, but we would seek to do all of the things that you have just outlined in the circumstances we find ourselves in at the moment. We use a company called Penna, which is the biggest outplacement and consultancy company in this space. It has established a redeployment tool so that people affected by these changes and others can identify other roles within the company for which they might be suited. They can help



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with the potential for retraining for people who have not got the capability but think that they could have the capability, if they received training.

There is a broader area of assistance that looks at other opportunities—particularly in the region, but not exclusively—that might be available. Within that, there is a bunch of help that we provide and that Penna helps with to provide individuals with the capability they need for that sort of stuff. It is about ensuring that they have a CV that is fit for purpose or the interview skills they need. All that is a service we provide to our employees who might be affected by this. By the way, that is not altruistic. It is because we do not want to lose people who have got real skills and who we have invested in over a long period of time. Chris, do you want to say how it works in the air sector?

**Chris Boardman:** The first thing I should say is that we have agreed with our union colleagues to hold a summit in January to look at how far we have got on mitigation and issues around this. There are a number of things we will look at there, but just to give you a flavour, for the Tornado workforce that has been supporting the Royal Air Force, we are trying to look for opportunities for those people if they wish to go over into our Saudi Arabian business, where the Tornado and its support and availability services that we provide will carry on for a time. We are doing that.

Wherever we can, we find opportunities in our F-35 commitment, but that is small at this moment in time, so that is limited. We are certainly looking and we are connected to all the other parts of BAE Systems that have workload growth or need. We have absorbed some people internally that have come from Typhoon, and we have transitioned those on to F-35. We are prepared to look at anything we have not done from an adjacent policy point of view. There are a number of things specifically that the Unite team has asked us to look at. Some of that is related to looking at commercial aerospace. We are trying to be open-minded about that. We have a history in commercial aerospace, and we decided to come out of our shareholding in Airbus, but we are open-minded. All those things are fundamentally being considered, and we will try to get the best balance that we possibly can.

Q23 **John Spellar:** All of those are extremely good for maintaining the long-term position of the company and very welcome. What pressures do you then come under from your shareholders, from the banks or indeed from your customers to make the short-term cuts, which would actually be detrimental to your long-term business?

**Chris Boardman:** In my sector, I have had nothing but support from shareholders in continuous investment in our products. We have been spending a lot of money—our own money—on all our products to try to get them positioned, and also in making sure that we pursue all the sales campaigns, not just those that are near-term, but position for the long-term. Effectively, I have had permission to hold profit back to pursue some of those issues. I have not felt restricted in that sense; I have felt empowered.

**Q24 John Spellar:** And the customer?

**Bob Keen:** I would make the general point that all the groups you are talking about would expect us to operate as a well-managed company, and all the things that we just ran through are indicators of what a well-managed company would do in the circumstances we face.

**Chair:** Phil, I know you want to come back quickly. Do that now, because I have got a few questions about the redundancies.

**Q25 Phil Wilson:** I have a quick question on Brexit. You employ 30,000 in this country, with 101,000 in the supply chain and billions of pounds to the Exchequer. Have you been asked to contribute to, or have you been consulted on, any of these Brexit impact assessments that the Government have—

**Bob Keen:** We have certainly been involved in discussions with the Departments concerned about the potential impact on the company. We have not submitted a specific Brexit impact assessment, although we have given the MoD some indication of the areas where we have particular concerns and they have been interested in what impact it might have on our employees, for example. We have been working with the MoD principally, but also with DExEU, on—

**Q26 Phil Wilson:** But you don't know whether what you contributed would be part of the impact assessments?

**Bob Keen:** I am not aware, and nobody has consulted us about the detail of that.

**Q27 Phil Wilson:** Were you asked for the information or did you just volunteer it?

**Bob Keen:** We were asked, but it was like lots of these things—we were in a consultation meeting and the MoD decided it would make sense to have some data on which to make judgments about the impact on the sector.

**Q28 Chair:** Is there any chance you can share your views on that with the Committee at all?

**Bob Keen:** I'm sure we can help in some way by giving you an indication of what we have said as part of that process.

**Q29 Chair:** Thanks; we would appreciate that. Getting back to the redundancies, Unite the Union, which we will be hearing from presently, described the redundancies as "devastatingly short sighted" when they were announced. How do you respond to a charge like that?

**Bob Keen:** Of course, I can understand the concerns that they have. We never take these decisions lightly, but we have explained—

**Q30 Chair:** You don't think you are taking a decision in the short to medium term that you will come to regret in the longer term?

**Bob Keen:** I don't think we are. I think we are making decisions against the background of the rationale I described earlier.

Q31 **Chair:** Okay. What would it have taken for you not to make these redundancies?

**Bob Keen:** In the case of the military air business, work going through the Typhoon and Hawk production lines at a different rate.

Q32 **Chair:** So are you saying that it is, exactly as Ruth described earlier, the lack of a drum beat of work and possibly the lack of a defence aerospace industrial strategy that has led you to this rather extreme and sad outcome?

**Bob Keen:** Again, I will ask Chris to say a word specifically about the air sector, but the reality of the business that we are in in the air sector is that we have a number of substantial pieces of business, which I described earlier: the work we are doing for the RAF and the work we are doing for our international customers. In relation to Typhoon and Hawk, we are dependent on export orders. We have responded to the reality of the international market in which we are operating.

**Chris Boardman:** Exactly that. We have had to bring the manufacturing capacity down in build volume. On Typhoon and Hawk we have just run out of orders, so we need to secure more of those orders. On Tornado, it is going out of service. We have planned and committed for that, and everybody has been aware of that for a period of time.

Will we regret it? Hopefully not. Hopefully we are doing the right thing to give the Typhoon line the longevity we would like to have to capture most opportunities. There are other, longer-term campaigns out there—in Finland and other places—which, if we burned the manufacturing up, we would not have any opportunity to actually access. We are trying to make a balanced decision.

Q33 **Chair:** You expect the Government, for example, to invest up front in the next generation of fighter aircraft; we have heard that this afternoon. Shouldn't the Government, and indeed the taxpayer, bearing in mind the near-monopoly situation that you have in our defence industry, expect you to be prepared to invest in the future of the workforce?

**Bob Keen:** I think, in so far as future, long-term commitment is concerned, the company would be very clear that we would look to invest company funds in infrastructure, in people and in technology that was commensurate with the long-term commitment that the Government were making. We are not looking for a handout, we are looking for a clear view for military aerospace beyond Typhoon.

That is not just good—I would say this, wouldn't I?—for BAE Systems; I would argue it is good for the country. It is certainly good for the defence industry more generally and the 130,000 people who depend on the work that the company does.

Q34 **Chair:** So if there is an uplift in the work, will we find you, in a relatively short time, going around and trying to recruit people to replace the skilled people that you have let go?



**Bob Keen:** Chris, talk about what would happen if we were to see some kind of commitment for the long term—the sort of skills that we would be talking about.

**Chris Boardman:** If you take the three key operational constituencies—the majority of our employees are in engineering and designing things, building things or maintaining things. The workload has had no impact on our engineering community. My point about not being complacent is that it gets you back to a view beyond the Typhoon programme. How are we going to keep that engineering community going? It is very busy and productive at the moment. What will we do with it?

On manufacturing, we have F-35, which keeps a two-decade potential in base. We want to do more of that. We have established a commitment to build 14 Typhoons a year, and we need to get the export orders that fill that. We are targeting more export orders than that 14. It would be improper and non-professional for me to just assume we will get everything we possibly can and then plan a workforce around that. That would not be the right thing.

However, we can get capacity. It may be, if we got a Finland order on top of the Belgium order, that we may need to build more than 14 aircraft a year. We have left the capacity in place and the tools to make the aircraft. What we will then need to do is look to actually bring the resources back. If you're looking at the timeline around that—

Q35 **Chair:** You mean employing more people under those circumstances?

**Chris Boardman:** We would employ more people, but if you look at the timeline around that, it could be three-plus years away.

Q36 **Chair:** Can you just give us an overall figure for the company's profit from its defence manufacturing activities as a whole—the annual profit that BAE Systems makes?

**Bob Keen:** I can provide the—

**Chair:** You must have a general idea.

**Bob Keen:** In broad terms, £2 billion over the company as a whole.

Q37 **Chair:** And you don't feel that, with that sort of profit margin, you could do more to try and keep more of the workforce in employment?

**Bob Keen:** The reality is that we are in a competitive market. We have to win business in an international market, and we have to be as efficient as we possibly can be. The reality is that our workforce has to match the workload that we have. I don't think it would do any of our programmes a service to have people not being fully employed and not being as efficient as the company requires them to be.

Q38 **John Spellar:** Do you have any idea roughly how many apprentices you employ at the moment—a ballpark figure?



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**Bob Keen:** Across the UK, we have around 1,600 apprentices and about 500 graduate trainees—so just over 2,000 in both those categories.

**John Spellar:** They are your skill base of the future.

**Bob Keen:** Absolutely.

Q39 **John Spellar:** With all these changes, will you have to move them from site to site, which might disrupt their training?

**Bob Keen:** In general terms, we have said that we will commit to ensure that any apprentice or graduate will complete their training. There are, in small pockets, some who may have to move from one programme to another or may be offered a different location, but our commitment is there that we want to keep these young people in training so that they can complete the training that they are undertaking at the moment.

Q40 **John Spellar:** Are there any particular differences between your sectors of maritime, naval, land and aerospace?

**Bob Keen:** I think the area in which there may be some movement is in military air. Is that right?

**Chris Boardman:** Yes. We have set out to make sure that we have apprentices and train them. We are doing that on the basis of having looked at the demographics of the organisation, and we want to have more apprentices in our system. You could ask how we are putting them at risk. We are trying to make sure that we have a vibrant business and that we do better.

There are some issues. There is a specific issue in our Brough facility, where we have question marks around some of our apprentices and what they will do. Will they stay in that facility, or will we find them opportunities elsewhere? We have had a number of discussions around that over a number of years. My view was that we want to show people that we are invested in the place that they are employed, and we want to invest in their capability, and there is no better way than to invest in the people. We have purposely done that to try and drive success. If we are unable to provide them with work in those facilities, we will do everything we can to find alternatives elsewhere.

**Bob Keen:** I have one final point. Chris has been running the business for a while and has been committed to training people. That includes the £15 million investment that we have made in the Academy for Skills and Knowledge at Samlesbury. If the Committee gets a chance, we would love to show you that. It is absolutely world class, and it is a fantastic environment for young people to train in.

Q41 **Ruth Smeeth:** Where are we with the contract with Qatar for Typhoon and Hawk?

**Chris Boardman:** We would not like to speculate on the exact date when it will be signed; that is crystal ball territory. We have concluded all our discussions, so we have no more negotiation to do with the Qataris. The



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contract is done. It is sealed. We understand what that is going to be. They think it is a good deal, and we think it is a good deal, so it is good to move on from that point. It is purely down now to when there is the right window to have that signed. That is something that the Government team are now pressing for, and we are waiting for that to come to a conclusion.

On Typhoon, we are still delivering our Kuwait contract commitments, but in the Hawk world, we have actually gone at risk, and we are starting manufacture of those activities at a low level. The difficulty will be if we don't get signature and it stretches out over time. The commitment levels then obviously go up, so we want to secure that contract as quickly as we can.

- Q42 **Ruth Smeeth:** The restructure was dependent on the contract being signed before Christmas, so have you decided to move forward with the risk assessment and to take on your own risk to keep the manufacture process viable?

**Chris Boardman:** I drew the line of that position. I then decided that I had drawn it in sand and I brushed it away because I thought that was too hard a position to take, which is why I sanctioned the investment at the start. There is only so much you can do there and there is only so much time that you can protect. We've tried to not make that as hard a point as we originally discussed.

- Q43 **Ruth Smeeth:** Christmas is no longer an immediate impact, so we will not be looking at more redundancies if it is not signed by Christmas.

**Chris Boardman:** We will inevitably have to look at the certainty of when the contract will be signed, at that point. If it is January or February, we will not take the wrong action at that point.

- Q44 **Ruth Smeeth:** But if, because of the relationship between Saudi and Qatar, that becomes August, you might have to review where you currently are.

**Chris Boardman:** If there was that kind of timeline break then we would have to look again. That is not our intention; our intention is to carry on manufacturing Hawks and to secure more customers. That is our fundamental drive.

- Q45 **Ruth Smeeth:** Have you invested more in your sales force in order to deliver that?

**Chris Boardman:** Yes; we have significantly stepped up. When I was asked the question whether I am being constrained or empowered, and I said that empowered was my word—it is part of that. It falls into two things: one is product investment—making the product better and demonstrating that, in service with the Royal Air Force. The other side is reinforcing our sales and marketing team. We have made some quite specific changes in that community, and we are beginning to see the benefits of that. I hope that the organisational announcement that we made recently will put an even greater drive into that issue.



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**Q46 Ruth Smeeth:** Where are we with the potential batch 2 Typhoons for Saudi?

**Bob Keen:** We are still talking to our Saudi customer about the next set of requirements and there are a raft of issues that surround that, including our continuing commitment to the Vision 2030 agenda, so investing in Saudi Arabia where, as you know, we already employ 6,000 people and have a lot of capability. I would not want to put a date on when we would secure more business, but we are working absolutely flat out to make sure that that is as soon as possible.

**Q47 Ruth Smeeth:** What contingencies are you exploring if neither of those come off?

**Bob Keen:** As far as Hawk is concerned, we are pursuing a number of Hawk opportunities, and Chris has spoken from a Typhoon perspective about some of the other campaigns. The list that he has provided is not exhaustive because, for example, it would include Malaysia, too. But we have to keep on trying to win export orders. That is the essential contingency for getting more work into the business.

**Q48 Ruth Smeeth:** You have talked a great deal about the help that you receive from working in conjunction with the RAF, which almost is your sales force by default. If I gave you a magic wand, what one thing could the Government do to help the business right now? I would say bring forward the Hawk order for the Red Arrows, so that you had continuity of manufacturing while hopefully you are getting your drumbeat, but what would you want?

**Bob Keen:** May I wave my wand first and then Chris can wave his? There are two things from my perspective. In the short term, helping us to win that export business. It is easy when you say it quickly, but it is really difficult to get these things over the line and it requires really committed Government support.

**Q49 Ruth Smeeth:** Are you getting that?

**Bob Keen:** Yes, we are. There is absolutely no question about that. That is the short-term issue. The long-term issue is that vision that we spoke about earlier. We are very clear on the capability of the business and on the performance that we need to deliver, but we do need that vision for the long term.

**Chris Boardman:** I will put the Hawk thing in context and then perhaps come back to the Typhoon issues. We have actually sold over 1,000 Hawk aircraft.

**Ruth Smeeth:** I saw 1,001, I think.

**Chris Boardman:** Yes—1,020. With 18 countries, tens of thousands of flying hours and lots of chiefs of air staff around the world who have trained on Hawk, we have reinvested in it to bring it into a standard that supports the combat aircraft that are coming online—Typhoon and F-35. That is the prime thing that we are trying to sell into the export market. It



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has been acquired. It is in operation with the Royal Air Force, but not with the Red Arrows. It is in operation at Bali, giving great training output. It is in operation with the Royal Saudi Air Force. It is just being delivered into Oman, and the Australian Air Force have upgraded to an equivalent standard. So we are very much focused on that as an issue, and that is why we are trying to make sure that we get continuity on the production line.

If we come back to the Red Arrows, the first thing is that I can, and I would, because I am in that business, say that I love the Red Arrows and I am extremely grateful for everything that they have done. They are a great ambassador and we should all be very proud of what they have done. They have significantly helped us in the export world. The best thing I can do running my business is to leave the opportunity that, in the fullness of time, whenever the decision is taken that it needs to happen, there is a Hawk line there to produce the aircraft. That is why I redouble my efforts into the export side. That is what we are trying to do. We have invested heavily into Hawk and are continuing to do so.

The other key thing with the magic wand is to come to a very specific decision on that post-Typhoon era. That is a big issue and I worry that we apply our investment in a speculative way rather than in a specific way for a specific effect. That is the thing that I would like a magic wand to control.

**Chair:** I am going to cut into the time for the second panel. I have Graham, Mark and one brief point from myself.

- Q50 **Graham P. Jones:** Just on the batch 2 contract with the Saudis for 48 Typhoons, what would be the consequences if that contract did not materialise? In terms of the workforce, BAE Systems and Typhoon production, what would the consequences be?

**Chris Boardman:** It is fundamentally part of our baseline planning assumption. We would have Qatar Typhoons, so we have got continuity of those 14 aircraft being built per year. From the production line point of view, what we would need to do is then find another customer. When you ask Bob about what our contingency plan is, it is very simple. It is a contingency plan and a potential upside. We should secure a commitment from Belgium for 34 aircraft. The UK Government's offer is in place; we are fully behind that. There is a decision to be made next year in downselect, with the contract to be placed the following year. That is one of our key campaigns.

- Q51 **Graham P. Jones:** How far into the future would that put Typhoon production if you were to lose the Saudi one but win the Belgian contract?

**Chris Boardman:** If you had that it would actually fill a similar timescale, so you would be into the mid-2020s before Typhoon comes to the end of its life. Then if we can find Finland—to go to the magic wand position again—you could see Typhoon going into production until 2030.

- Q52 **Graham P. Jones:** If none of them came, by 2020 would it—



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**Chris Boardman:** If it was the current order book, it would actually be 2022 when the last aircraft is delivered. With Qatar it would add at least another two years. Then building at 14 a year, every volume or numbers of aircraft and customers you get stretches it out by that number.

Q53 **Mr Francois:** Quickly, you say you are still going to be employing some people supporting Tornado in Saudi Arabia. That is for quite a few years to come, isn't it? How many people have you got who will be working on the Tornado programme and will you do any of the deep maintenance for those Saudi Tornados back in the UK or is everything done in Saudi?

**Chris Boardman:** We will have people in the UK and people in Saudi Arabia. We have 6,000 people in Saudi Arabia maintaining the aircraft. What we have back in the UK is the engineering knowledge and the management of the offshore supply chain. Across everybody—the whole defence base that supports Tornado—you are talking about many thousands of people who will be there repairing components, providing engineering advice and modifying the aircraft. Obviously, we have also got two other nations that we support and that will still be operating the aircraft—Italy and Germany—and their stated out-of-service dates, which may change, are currently out into the 2030s. We are trying to keep that Tornado community. What we won't have is maintenance work to be done in the UK, so the best thing we can do is Saudiise, to show commitment to the Saudi 2030 vision, which is about their need for industrialisation, and then encourage people from the UK to go to Saudi Arabia and supplement the workforce who are doing that—

Q54 **Mr Francois:** You are still going to have quite a few BAE Systems employees working on Tornados, for probably about a decade or so to come.

**Chris Boardman:** Yes. The 6,000 workforce is a BAE Systems workforce. It is a mixture of Saudi nationals and UK people.

**Bob Keen:** And that is not just for the Tornado.

**Chris Boardman:** It is also for the Typhoon.

**Bob Keen:** It's the entire workforce in Saudi Arabia, yes.

Q55 **Chair:** Finally, may I ask you about the mechanised infantry vehicle order? I presume that BAE Systems has an interest in what happens about this project. General Dynamics, in particular, has made representations to the Committee about a suggestion that the vehicles may be bought off the shelf from another foreign supplier and that UK industry may not have a chance to bid for the contract. Does BAE Systems have an interest in this and a view about the process that ought to apply?

**Bob Keen:** I think we have a potential interest. We are competing for armoured vehicle programmes elsewhere in the world. For example, we have an offering into the LAND 400 programme in Australia, in a



partnership with Patria. So we would have an interest, but we are not in discussion with the Government specifically about that offering and that competition at the moment.

Q56 **Chair:** But do you have a view about whether British companies should be, as it were, locked out of being able to bid for a project of this magnitude?

**Bob Keen:** I would certainly hope that British companies would not be locked out. I would particularly hope that any outcome that the Government comes to involves British industry in that programme.

**Chair:** I thank both of you. By all means stay for the remainder of the session if you would like.

### Examination of witnesses

Witnesses: Garry Graham, Steve Turner, Jarrod Rex and Roland Entwistle gave evidence.

**Chair:** Thank you for your patience. We are a little bit up against it for time, but I do not want to go on much later than 4.45 or 4.50, so could we all bear that in mind? Not every member of the panel has to answer every question, but obviously I leave it to your judgment. You may feel that the person who has answered before you has left something out and you would like to supplement the answer.

Q57 **Gavin Robinson:** Perhaps you heard the Chair refer earlier to a quote from Unite saying that the decision on redundancies was “devastatingly short sighted”. Who do you blame for the planned job losses? Is it BAE or the Government?

**Chair:** Would you introduce yourself the first time you answer?

**Steve Turner:** I am Steve Turner. I am the assistant general secretary at Unite the Union and I have responsibility for aerospace and shipbuilding. Thank you for the invitation and the opportunity. We have submitted written evidence, so we will try to bypass some of the content of that and be conscious of the time restraints this afternoon, and of course we are happy to submit any further evidence that may come from this session.

First, we would say that this is not a restructuring exercise for us. We welcome certain changes that are being made at the top level of the business. That creates a greater focus in the business for the future, moving forward. That is all very welcome. For us, this is about redundancies. It is about the potential 2,000 job losses—or thereabouts—that have been announced. We regard this as devastatingly short-sighted in respect of the impact, not just on the jobs themselves, but on the skill content of those jobs, the communities that have supported these sites for generations and, indeed, our sovereign defence capability moving forward. We believe there is an absolute threat to the UK’s ability to design, engineer and manufacture—manufacturing is key to this—a future defence fighter.



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The company have argued a downturn, and we cannot disagree with the argument that is put forward that future sales are indeed vital. The reality is we have come to pretty much the conclusion of our UK internal sales on both Typhoon and Hawk. There is a whole programme of support and maintenance that follows that, of course, but we are reliant now on export markets. We do have the Qatar order. We are very familiar with that, and that has been spoken about in a previous evidence session so we won't concentrate on it, but that is 24 Typhoons and six Hawks—although Harriett Baldwin in last week's session mentioned 12 Hawks, so we're not quite sure exactly where we stand.

**Q58 Ruth Smeeth:** She had to clarify yesterday. She made a point of order to say it was six.

**Steve Turner:** Okay. That does clarify it. We were very welcoming of an additional six Hawks, of course, but if six it is, six it is.

With Saudi Arabia, we have the 48 Typhoons, but that will not assist in our campaign to save manufacturing in the UK, because what you heard just now was a very concise history of a plan by BAE to defend their own interests. BAE have an operation in Saudi Arabia and will make money from manufacturing Typhoon and any other aircraft that they choose to manufacture in Saudi Arabia, just as they do in India and just as they may do in a joint venture in Turkey. We are interested in maintaining our sovereign capability to defend our interests, our realm and our jobs here in the UK. There is Kuwait as well; we have 24 Typhoons on a potential order that is going through. That is in build right now, but that is being assembled in Italy as part of the Eurofighter project, so again, that doesn't defend manufacturing here in the UK.

Really, this is all about work content and where it is placed. BAE seem to be happy to allow, in joint ventures around the world, the transfer of technology and the development of assembly operations, but don't seem to be willing to invest in people, jobs and skills—at least in the manufacturing arena—here in the UK. That did lead us at the time and still leads us to question seriously the commitment that BAE Systems have to the future of aircraft manufacturing here in the UK. They are very happy to take the taxpayer's pound, but when times get tough they seem to be very eager to move away from areas that they regard as being not cost-effective. I think you heard that—a £2 billion profit. That is taxpayers' money, and we are looking for an investment back into UK plc from BAE Systems at this time. It is a difficult time. There is a requirement for investment by BAE, and that investment should be forthcoming alongside actions by the Government.

In terms of who is to blame, there are certain things that BAE Systems must do, should do and could do immediately to mitigate these job losses and retain these skills—and indeed our flight line coming out of Warton, because if we lose that, we lose our capacity moving forward. Indeed, there are things, which I am sure we will come to, that the Government could and should do, pretty much with immediate effect, to assist us in safeguarding our defence capability.



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- Q59 **Gavin Robinson:** Would you add to that things the Government could encourage BAE to do, rather than seeing things in isolation as actions in themselves? Should the Government be asking BAE to show a commitment to reinvestment, for example, as a consequence of the investment from the Government?

**Steve Turner:** Absolutely. BAE make huge profits on the back of British taxpayers, effectively. There should be an investment back into the UK workforce. There are mitigation measures that need to be taken to alleviate—

- Q60 **Chair:** Can you be specific as to one or two that you strongly recommend they take?

**Steve Turner:** Well, there are discussions taking place on site right now about mitigation, so it may be helpful if I defer to colleagues who are involved in the Brough and the Warton/Samlesbury discussions.

**Roland Entwistle:** We have seen the submission that the company has put in. It does talk a lot about voluntary redundancies, which we welcome, of course, because when you are in a redundancy situation, if everything else fails, you want volunteers to be able to go. We welcome that, but what we are saying to the company is, "Hold on a minute. You've got a best practice guide that talks about all the different things you should do when you get in this situation." I am not saying the company is to blame here. We are relying on exports and, when we make exports, obviously nowadays people want to workshare, but we do believe it should be planned better. We do believe that you shouldn't be losing capability if you're doing that. You should plan it so if that work is going elsewhere you ensure that you keep, for instance, the flight line—planning out so you don't lose it—and if that is all you can do to get the orders, you should look at bringing other work back in. What we are saying to the company locally is that we have to make redundancies now, but let's not just rely on voluntary redundancies, because if we do, that's another number of people who have gone and the jobs have gone, and it's very unlikely that they'll be coming back, so let's look at other mitigation opportunities.

- Q61 **Chair:** And what are they?

**Roland Entwistle:** You could bring maintenance work in. You could look at areas in the company where there is growth. They are doing that so far, to be fair, but we haven't had any jobs coming back into the factories yet. If we do, I will be able to say, actually, yes, they are doing what they should be doing, which is trying to minimise the number of people we lose and to keep capability in the factories.

- Q62 **Chair:** Jarrod, do you also feel that specific measures could be brought forward that, coupled with the voluntary redundancies, could keep more people in employment until the situation improves?

**Jarrod Rex:** Yes, I certainly do. Roland has picked up on a lot of the points. We welcome the voluntary redundancies, obviously. There are work packages available. We have a very adaptable and flexible workforce, which has worked across a number of platforms and aircraft, and on a



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multitude of sites. They can basically work on any aircraft that you can throw at them, and I am sure that they can open themselves up to moving into any adjacent markets to keep their skills there.

As Roland picked up on, we are not really seeing anything come back. We have heard about repairs and spares, and there are bags of civil work out there. It is really important that we maintain the capabilities that we have, because to lose them would be disastrous.

**Q63 Chair:** So when you have this summit meeting, which I think the company said is in the new year, will you have a concrete set of mitigating proposals that you will put to the company to see if they will co-operate with you on those suggestions?

**Jarrod Rex:** I am sorry, would you repeat that?

**Chair:** Will you have a series of proposals to mitigate these losses, such as you have been describing, to put to the company when it has its summit meeting with you about the future?

**Jarrod Rex:** Absolutely, yes. We have put a lot of ideas in and we're waiting for the outcome of those as we speak. We fed them in through the consultation meetings to ask the company to look into various things that they can do.

**Steve Turner:** I know Garry wants to come in on maritime in particular, because there is more than just the aviation group at BAE. I was astounded that we just had an hour-long session with BAE and there was not a single mention of the advanced Hawk programme. The advanced Hawk programme is a next generation Hawk fighter. I have a brochure with me that showcases that to the world. It is on test right now at Warton. In fact, it has completed and exceeded all expectations.

One of the problems we have here is that we have to get a new product to market. We have 1,000 Hawks already in circulation across 18 countries, doing what they do. That is fantastic, but we need upgrades and retrofit opportunities. There are both retrofit and upgrade opportunities with the technology that has been developed for advanced Hawk. I would welcome the opportunity to invite you to see that advanced Hawk aircraft in the Brough facility just outside Hull. The company would wish to facilitate that visit.

The company sees that facility closing to manufacturing as a consequence of the actions being taken right now. It is a plant with a very proud history of more than 100 years. One of the first aviation plants to produce aviation aircraft in this country and, indeed, globally, will lose its manufacturing capability if we don't find products to go back into Brough. We have a product, but there seems to be a distinct reluctance to market the product. It needs an investment—about £120 million on hydraulics and things—but they are looking to Turkey and India to find a partner.

Why are we not looking to the UK Government—BEIS, if not the MoD, of course—to invest in research and technological advance and innovation

that puts us 10 or 15 years ahead of anything that will come out of the United States and their T-X programme or any future trainer programme? If we are going to have a future fighter, we need a future trainer. We have a future trainer right now that could go to market within three years.

**Q64 Gavin Robinson:** Excuse me for asking the question, but why do you think the company were here for an hour and didn't want to make a pitch?

**Steve Turner:** I don't know; you would have to ask the company why they didn't mention advanced Hawk. We put it into our submission. I talk about advanced Hawk everywhere. I have sat in the advanced Hawk. It is a fantastic aircraft. It is a fantastic feat of manufacturing which we ought to be proud of. It was developed in less than a year—in nine months—by a dedicated workforce that would normally take two, three or four years to design and engineer the sorts of changes that we are seeing in the advanced Hawk. But they are not pushing the advanced Hawk. Some of that may be that they do not want the potential orders to switch from current Hawk T2 orders to advanced Hawk orders, but on that basis an automotive company would never install a new model in the market.

We have a new model, and we need to get it into an export market. We need Government support for it. I would say the UK Government should partner. We should keep the technology here. We are too good at outsourcing our responsibilities and trading our intellectual property with third-party countries. We are happy to do that. We are happy to export the technology and set up facilities abroad while our manufacturing capability is demised.

**Q65 Chair:** We have to move on a bit. Garry, do you want to come in?

**Garry Graham:** If I can pick up on some of those points, the answer you received when you asked the question about whether BAE was interested in the mechanised armoured vehicle belied either a lack of ambition or a lack of confidence. For me, it goes back to the announcement yesterday of the industrial strategy for the UK. I searched through it, frantically seeking a reference to defence, and there was no reference to the defence industry there. I find that deeply disappointing. I would like to say I find it astounding, but I do not; it is not a particular surprise. It is not good for the UK, it is not good for the defence sector and, frankly, it is not good for the defence of the UK.

When you go out and speak to our members in BAE, whether in aerospace, land or maritime, people are tremendously proud of what they do. They are tremendously proud of the contribution they make not only to the UK economy but to the defence of the UK. If you ask them about some of the challenges we have in relation to defence manufacturing and build across the piece, including maritime, and what people need, they say they need confidence and support from Government.

Certainly it is Prospect's view—I understand the new Secretary of State said some words about this earlier in the week—that in the world we live in, spending 2% of your GDP on defence is not sufficient in an increasingly



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uncertain world. If you look back over the past four decades, the average level of GDP spend on defence has been around 3%. Certainly, as I look around the world, it feels increasingly uncertain to me. Across maritime and aviation, I think we have a real opportunity to be a world leader, but there is a lack of confidence out there, so we need the drumbeat of orders. We need Government not only to be advocates for what we do in the defence industry, but to put their money where their mouth is. For example, why has the fleet solid support gone out to international tender when it could be produced by the UK? BAE is not working in isolation. At Rosyth today, Babcock announced 250 redundancies. There is a real challenge for the defence sector in the UK. What we need is an industrial defence strategy, and there is not one at the moment, leading to a lack of confidence.

- Q66 **Chair:** Do you think that these big defence companies are trying to move to a model where they develop advanced systems but they do not manufacture them in this country? Is that your message to us?

**Steve Turner:** Yes.

**Garry Graham:** I think there are two messages. One message for Government is, "If you want to export your equipment then you've got to show confidence in it, and as part of that you've got to purchase it." It is not just buying things off the shelf; you have to show confidence in it as well. The sovereign capacity and capability is fundamental to the UK economy and to our defence posture across the world, as many people are looking on. Of course, BAE and other companies are commercial entities and they will respond to markets as they present themselves.

The Government have an opportunity to send some very strong signals about their support for the defence sector in the UK and how important manufacturing is to our industrial base. I do not believe those signals are strong enough at the moment.

**Roland Entwistle:** On the manufacturing side, if we saw some type of growth again, maybe we would have a bit more faith in the system. I wrote this down before: Hamble, Stevenage, Hatfield, Woodford, Cheriton, Prestwick, Weybridge, Dunsfold, Kingston. They were all British Aerospace manufacturing sites that are now closed. We are now down to the final three, and in the manufacturing sector we are seeing cuts again in that area. So at the time when we start seeing some growth in that, we will start having some faith in the system, that manufacturing is being looked after in this country.

- Q67 **Gavin Robinson:** I apologise, gentlemen, because I will have to withdraw before you finish. You will have heard the question asked by Ruth Smeeth earlier about the appropriateness of timing in the restructuring, given that we are undergoing a national security capability review and of course working through the implications of leaving the European Union, with whether there will be customs differentials and so on. Can I ask for your reflections as a union on the appropriateness of the timing associated with the restructuring?





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**Steve Turner:** From our point of view, I have said that it is devastatingly short-sighted. The company should be investing in its people. It makes a lot of money from the British taxpayer. We are in discussions with them at the moment about a short working week and not laying anybody off. We do not want to see any jobs leaving the sector. If we have got a problem with timelines for future product, perhaps we should produce slowly in order to maintain our manufacturing capacity. That is not about halving the workforce; perhaps it is about halving the working week and banking hours and doing different things.

- Q68 **Gavin Robinson:** For you, I guess that is a generic engagement in the years to come, rather than saying, "Let's have the discussion once the national security capability review has been concluded, or once we know what the trading arrangements for Brexit will be." You are not attaching importance to either of those two things; you just think generally—

**Steve Turner:** I do, but we do not know what the defence requirements are going to be. So how can we develop a staffing requirement—

- Q69 **Gavin Robinson:** That was the point of the question. Do you attach importance to those individual issues: the review and the decision to leave the European Union? On that basis, do you think it is short-sighted, or are you saying that you would rather talk about a different way in which we could cut back or scale back on workforce load until we see a clearer picture?

**Steve Turner:** Well, I think both of those factors impact on the decision that they have taken, so I do not see them in isolation. You can't have a staffing quota or talk about staffing levels without knowing what your defence requirement is, so it is short-sighted to take those measures early, before the review has taken place. We do not know what the outcome of Brexit is going to be. If it sits where it is right now, outside the customs union, it could be quite devastating, just in terms of the transfer of goods between European nations on the Eurofighter project, just as one example.

**Garry Graham:** If I could pick up the question in a slightly different way, in terms of the company's restructuring in advance of the national security capability review, I think it belies the fact that we are not expecting a huge amount of the capability review. If that it is the case, it would be deeply disappointing, but I think that is the feeling around the industry at the moment. Again, it takes you back to the issue about a defence industrial strategy for the UK and a look at how other Governments around the world support their defence industries. Eyes are looking on us at the moment, and in the UK we seem to take the kind of laissez-faire, short-termist view that ultimately the market will provide and there is no need for intervention.

I think some of the political rhetoric around Brexit is deeply unhelpful. When we are looking at areas such as aviation where there are transnational partnerships and you want to have partnerships with your French and German colleagues, doing that in a context where some of the



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political rhetoric is toxic is unhelpful. I would like to see more work on that in terms of actual collaboration and Ministers supporting that international collaboration.

**Leo Docherty:** The view from BAE would be that the reorganisation would allow them to bring together their international capabilities and put them in a stronger position to win export orders, particularly with regard to military air. What would your view be of that?

**Steve Turner:** I don't see it like that. Any reorganisation that creates a clearer focus at the top of the business is going to be welcome. Whether or not that leads to greater European or UK-US collaboration is a different question. If we were to collaborate with anybody, we would want to collaborate with European partners. I do not think there would be a disagreement between us, or with BAE Systems, on that—so long as we would be a true partner. But those alliances, such as the alliance that we already have for the Eurofighter project, need to be developed now. That is why we need a commitment from the UK Government for the future fighter project—call it the sixth-generation fighter, call it what you will. It is the future fighter project for us and at the moment there is no commitment, and therefore no confidence, in the defence sector that there is an ability to develop a new product to go to market in the future, other than saying, "We will simply buy off the shelf," as we did with the P-8s, the Apache and the Chinook. One issue is that the MoD procurement plan allows for no economic or social impact assessment. That is devastating to the procurement process, because for every £1 you spend on defence in the UK you get at least 36 pence back directly to the Treasury through taxation, without the multiplier effect, as people actually spend their wages in communities—in newsagents, bars and cafés, and whatever else it may be, employing people and paying taxes back to the UK Treasury. We really need to get away from this, "I understand the cost of everything and the value of nothing" approach, which comes from the MoD, and this ideological position that everything must be out for competitive tender here in the UK, if not internationally, such as the fleet support ships that were already mentioned by Garry.

Q70 **Ruth Smeeth:** I should declare that I am a member of Unite and GMB. I sat in the new Hawk when I visited Samlesbury this year, and I am going as a guest of Unite to visit Brough in January, so the Committee is looking at this very seriously. My concern is not even in the immediate future, but it comes back to your issue of sovereign capability, what I have been calling the "defence family." The people who design and manufacture are as valuable to us as the people that are on the platforms. I wonder what you expect to see in this defence industrial strategy—as and when we ever get it—that we have been promised, and how similar are the challenges across maritime, land and aerospace?

**Garry Graham:** I can start on that. A steady drumbeat of orders is always helpful, as is closer collaborative working. We need to recognise that—particularly if you are supporting your indigenous defence community and you are seeking to export—there will be peaks and troughs in terms of workload. The Government can take a positive role in addressing that and



smoothing some of that out. As I have made clear already, in the current world, 2% of GDP does not cut it. Looking at contracts, as Steve has alluded to, in terms of socioeconomic benefits to communities would be helpful as well. We see that in some of the nuclear sector; why don't we see it in defence? That has always been a question in my mind, as has whether we can be more collaborative around the issue of skills among the defence community. When you talk about science, technology, engineering and maths skills and you talk to employers, who will talk about the battle for talent, how do we encourage the brightest and the best to come in and work in the civilian defence sector in the UK? And how—particularly if organisations have gone through organisational change—do you ensure that you keep those skills within the defence sector itself? Those are some of the key strands for me.

**Roland Entwistle:** In aerospace I think it is slightly different, for the simple reason that it feels like we are the last man standing, because—unless somebody can tell the difference—Warton unit along with Brough are the only areas left in the country that can actually design, manufacture and fly out a fighter plane. If we lose—which is why we are so anxious about this redundancy, because it feels like this one is directly interfering with that capability to go forward. Time will tell whether there is a long-term future, but if this country decides it does need a future manned fighter, you have to have the facilities to actually produce that. If you haven't got some type of planning on how we are going to get there and if we are always relying on sales abroad to try to keep this going until a time that we may need it, that seems a bit haphazard to me. Would another country do that? Would they risk their aerospace sector and their ability to build a fighter plane if it is needed in future? I am not sure they would. I am not saying anything against the company. They are trying to sell planes abroad because that is the market at the minute. I think some type of air defence policy is needed—an agreement that answers the question, "How on earth are we going to keep this if we need it?" That is the main thing. If there is no need for the industry, I am quite sure that people will say, "There is no need for it. Shut it down," but that is not what we are hearing. We are being told that there will be a need; and if we are not careful, what we have left will mean that we go abroad to buy because we cannot produce our own stuff. That is what it feels like.

Q71 **Ruth Smeeth:** How serious is the fact that we do not have a defence aerospace industrial strategy?

**Steve Turner:** It is incredibly serious that we haven't got a defence strategy at all, it would appear. There is certainly no cohesive strategy that brings together the various governmental functions that could support our defence industries, and indeed, the cross-departmental support and the use of the Department for Business, Energy and Industrial Strategy, particularly in the areas of research and development and innovation. The MoD seems to work in isolation from any other Department across Government.

Q72 **Chair:** When do you think was the last time that we had a genuine defence industrial strategy?



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**Steve Turner:** I am not sure that we have ever had a genuine defence industrial strategy. You cannot have a wider industrial strategy to support manufacturing across the UK economy without a defence manufacturing strategy. That needs to be a strategy that defends jobs, skills and communities here in the UK. I find it quite astounding that by 2020, 25p in every £1 that we spend on defence will be spent in the United States, propping up jobs, skills and communities on the other side of the pond, 4,000 miles away, rather than committing to long-term investment here in the UK that puts us at the forefront of cutting-edge, leading technologies. We are fantastic at design and engineering. What we are losing is our manufacturing capacity. We will still engineer. BAE will still engineer—they do not want to get rid of any engineers in this process of redundancy. They want to keep their engineering base and their design base, but what they don't necessarily want to do is manufacture, yet manufacturing is core. It evolves down into the supply chain and supports the overall wider industrial strategy for the UK economy. It is a bit like automotive. If you lose the two key primers—automotive and defence—from a wider industrial strategy, you face real difficulties in putting that strategy into effect.

Q73 **John Spellar:** On a point of information, back on 27 June when I was pressing the Secretary of State for Business, Energy and Industrial Strategy about backing British industry, he replied that “we have already changed the procurement guidance so that local value can be taken into account.” That is an important principle, which we may need to press further with the Ministry of Defence, but I suggest that the union may wish to press that in the political sphere as well. We have been talking a lot about the existing skills, and you will have heard me raise the issue with the company about apprentices and their development, and how the question whether they have to move sites will impact on their planned skills development, as well as skills refreshing and greater mentoring among the existing workforce. Does the union have any comments on that?

**Roland Entwistle:** Certainly. Some people on the Committee have been up to Samlesbury to the new Academy for Skills and Knowledge. If you haven't been up there, it is well worth visiting. At present, about 450 apprentices, graduates and engineers—the full spectrum of people—are going through the academy, and about 1,000 schoolchildren have been taken through it. It has only been open a year and it is a great facility.

The problem we have is that, certainly from our side—this is one of the things we are asking the company to look at now—we have about 60-something apprentices coming out on the manufacturing side and the company wants to red-ring them. I don't blame them, because you don't want to get rid of your apprentices. However, we are saying to hold on a minute, because we take apprentices on for attrition; there are so many people who go into office jobs or disappear. We take a certain number on every year, so they shouldn't be involved in any way in this redundancy. They certainly shouldn't be added to the numbers, which they are being. They need taking out.



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We need to start looking properly at what we are doing with apprentices. They should not be involved at all. They are there for attrition. That attrition isn't overtaken by redundancy; it should be dealt with as it always is. There is a staff redundancy that needs shutting down so that we can allow people to go into staff jobs, because there are jobs there in the staff areas. The actual attrition rate is probably greater over two years than the redundancy they have announced. We need to be able to free that up so our apprentices can start going back into the offices, so that we can say that these apprentices are not involved in the redundancy. We should not be in a situation where we are contemplating training kids and then letting them go—or, even worse, training them and keeping them at someone else's expense.

**Steve Turner:** Without a future model going to market—the new future fighter, effectively—there will be a devastating impact, and not only on apprenticeships inside BAE Systems itself. It has a fantastic, world-class apprenticeship training facility up there in Salmesbury, but it also trains for the supply chain and the local economy and the wider manufacturing industries as well. This will be devastating for that.

You can't think that your engineering apprenticeship scheme is safe if you don't have a future product, because clearly it is not. You won't be training engineers if you've got no future market or work for engineers. All of this is linked up into one package that the Government and BAE need to work very closely together on, as well as the industry overall, because the advances that have been made at the Salmesbury apprenticeship school and the development going on there and the support for the wider supply chain is incredibly important, not just to aerospace and defence but to the wider manufacturing industries in our economy.

Q74 **John Spellar:** What about the skills upgrade of the existing workforce?

**Roland Entwistle:** That academy still also deals with that as well. I asked for the figures yesterday, as I was coming down here, and they said that the footfall through that academy in a year has been 48,000 people. That might be one person 48,000 times, but the footfall through there is 48,000, which is a lot.

Q75 **Mr Francois:** Has the focus on aerospace led to the neglect of other domains, such as space and cyber, in your view?

**Steve Turner:** Personally, I am not familiar with too much of the space side of it. I think there is a bigger issue in defence with the focus on nuclear, and particularly where nuclear sits. We have made submissions in our paper that we think it is detrimental to the wider defence financing package for nuclear to find itself in the MoD budget. It should actually come out and go into the Treasury budget, which of course is where it was placed prior to being moved into the MoD budget.

It is a political decision to support our nuclear deterrent. That is a governmental decision, so it should sit with the Treasury and not impact on the wider defence sector, but it does have an absolute impact on that



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right now. It is a hole that drains money away from other areas of civil defence.

- Q76 **Chair:** So effectively, what you are saying is that moving the cost of the nuclear deterrent into the core Defence budget, rather than special payments from the Treasury reserves, is effectively wiping out a portion of that core Defence budget?

**Steve Turner:** If you take the US spend and the nuclear spend, that is about half of the 2% spend that we currently see.

- Q77 **Leo Docherty:** Just with regard to the uncertainty of the contract with Qatar for Typhoon, what could be done about the slowdown in the rate of production of Typhoon?

**Steve Turner:** At the moment, BAE's proposal is to halve the workforce and produce twice as quickly. The customer will have something to say about that because of course lead times on the delivery of aircraft will be impacted, but if that deal can be cut—we are talking to the company about halving working time and maintaining the skilled workforce they have right now, for when you get an upsurge in the market. We believe that future sales opportunities will come to fruition at some point, whether that be in Belgium, Finland or further afield, and we can develop the advanced Hawk with some investment from BEIS or MoD. Wherever that comes from, it should be a UK investment with BAE to keep that technology here and export it as a world-class new model, entering a new market. All that should be taken into account to make sure that we are defending our interests and our industries moving into the future.

- Q78 **Leo Docherty:** If the Qatar contract is not signed by Christmas, what will be the consequence?

**Steve Turner:** On this particular round of redundancies, Qatar is already factored in, so all the Qatar contract being signed—even by the end of the first quarter next year—does is not bring forward the redundancy programme. If it is not signed, the redundancy programme gets brought forward, and we need to find an alternative product.

**Jarrod Rex:** We were told at the CEO forum that they would stretch into quarter 1 for the Qatar order to be signed, and failure to do that would mean they would have to make a serious decision, which could be disastrous. Without taking a leap of faith, that is a real problem for the Brough site and could see its closure. Without a BAE investment or a Government investment—Ruth mentioned bringing forward the Red Arrows contract, which would absolutely alleviate a lot of pressure. It would not even have to be built immediately, if Qatar comes off. It is always something that can be relied upon and used as a rolling stock sanction as required, which keeps the line running, to be able to bridge to something like advanced Hawk.

- Q79 **Leo Docherty:** Okay. So what is your response to the MoD assertion that the Red Arrows would not need to be upgraded until 2030?





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**Steve Turner:** They are taking parts from other aircraft that are lying around at the moment—that is my understanding. The 2030 date is picked out of the air. It is all about the fatigue index. That is the reality of it. When it hits 100 on the frame, it's gone. Whether or not they will be able to maintain aircraft by robbing Peter to pay Paul over the duration of that project is difficult to say, but certainly 2030 needs to be reviewed. There is no evidence to suggest that it will run to 2030. No testing has been done on that aircraft to take it to 2030, so I'm not quite sure where the date came from. There are other factors at play there.

We shouldn't wait until we need to replace the Red Arrow fleet—and we will at some point—with a product like the advanced Hawk. We should be showcasing the best of British manufacturing around the world. This is a showcase of the Red Arrow fleet, wherever it goes, with Government and corporation support, to make sure we sell in a broader sense than just our defence industries around the world. They are a showcase of what is best, and they should be flying what is best. If we lose the Hawk, we lose our capacity to build a future fighter and, with it, a future trainer.

What is the Red Arrow going to be flying around in—an F-16 or a Rafale from France? This is the reality of where we are right now. We should be showcasing the very best of British manufacturing, and I find it quite extraordinary that we have not even pitched in from BAE with a fight for the advanced Hawk right now, when it is sitting there and pretty much ready to go with a relatively small investment in hydraulics, cockpit design and finalisation to get it to market of £120 million.

Q80 **Chair:** What do companies say to you when you make that suggestion?

**Steve Turner:** Two things. First, that there is a defined budget and therefore their fear is that any money to support the replacement of Red Arrows right now or develop the advanced Hawk will be taken from other programmes. Other programmes do not support our manufacturing capacity for defence aviation right now, so we are interested in this. We are not interested in some pie-in-the-sky programme running somewhere else.

The other one is that even though it has been to the Bangalore air show and was very well received and has exceeded all expectations in terms of its testing, they believe that if we market right now, it could impact on orders that are in the process of being placed or future orders. Our answer to that is that you would never bring a new model to market in the automotive industry if you worked on that basis. You have to work on the basis that there is a new model and a new market opening up for fantastic products. We should be at the forefront of that, and it should be a UK plc project.

**Chair:** Ruth, you just wanted to sneak in before we finish.

Q81 **Ruth Smeeth:** Do you have any evidence of the 2030 date for the Red Arrows requiring new Hawks being published anywhere before the BAE restructuring announcement?



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**Steve Turner:** No.

**Ruth Smeeth:** Diana Johnson has made a freedom of information request, and no one in the MoD ever cited the 2030 date before the BAE restructuring announcement.

**Jarrold Rex:** We have had a look through our records, and we have never heard any mention of 2030 either. I am aware of the request that Diana Johnson made. The date seems to have been pulled out of thin air.

**Garry Graham:** I don't know where the 2030 date comes from, but this seems to me a prime example of where, for a relatively modest amount of money, the Government could take a proactive step in supporting our defence industry, the Red Arrows and the aerospace sector to showcase some of the best technology in the world.

**Chair:** May I thank you all very much indeed? That was very good teamwork. Sometimes we find it difficult with four on a panel, but it was a very good combined effort. We are very grateful for you giving up the time and sharing your expertise.