

## Defence Sub-Committee

### Oral evidence: Foreign involvement in the defence supply chain, HC 699

Monday 9 November 2020

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Members present: Richard Drax (Chair); Stuart Anderson; Sarah Atherton; Tobias Ellwood; John Spellar; Derek Twigg.

Questions 1 - 43

#### Witnesses

**I:** Paul Everitt, Chief Executive, ADS Group Ltd; Andrew Kinniburgh, Director General, NDI.

**II:** William Hynett, Chief Executive, Britten-Norman; Jayne Moorby, Marketing Manager, Oxley; Mandy Ridyard, Finance Director, Produmax.

Written evidence from witnesses:

[- ADS Group \(FSC0002\)](#)



## Examination of witnesses

Witnesses: Paul Everitt and Andrew Kinniburgh.

**Chair:** This is the first session of the Defence Sub-Committee chaired by me, Richard Drax, and we are looking into the extent of foreign involvement in the defence supply chain and its risks and benefits to the UK's national security and economy, and other linked matters. We have two panels this afternoon. The first witnesses I would like to welcome are Paul Everitt, who is the chief executive of ADS Group Ltd, and Andrew Kinniburgh, who is director general of NDI. They are two distinguished guests whom we have met before. It is very nice to have you here, and thank you very much for coming again. Without further ado, we are going to start. As I said, we are looking into foreign involvement in our supply chain.

Q1 **John Spellar:** Successive Governments have encouraged inward investment from foreign companies. What, in your view, have been the implications of this open approach for the UK defence industry?

**Paul Everitt:** First, I would say it is important not to see this as a black-and-white issue. We have seen some significant investments by international businesses into the UK and, where those companies have sought to create capability and capacity primarily to serve the UK customer and to look for international export opportunities, there has been a successful track record. It serves the UK customer in adding capability and investment clout to what is available in the UK market, and it also provides a more diverse set of companies for smaller businesses to do business with. Where things have not gone so well is where the UK has sought to purchase capability, as we would say, off the shelf from international businesses, without any significant obligation for those businesses to add value here in the UK. Recent examples include cases where companies are buying, or the UK Government buy, major international platforms, and whilst there is certainly UK activity around the support and sustainment of those activities, the creation and development of the higher-value enterprise clearly does not rest in the UK.

Q2 **John Spellar:** Is there not a danger, Paul, that if those companies invest at the expense of domestic capability, which we have seen in some areas, that can then lead to the loss of their supply chain and also them becoming very dependent on the company rather than the company being dependent on the client?

**Paul Everitt:** Certainly from an industrial point of view—and this is reflected within Government—it is about where value is being created. Where value is being created in the UK, investment is being made in the UK in terms of skills and research and development, that is generally speaking a positive development for the UK, for our economy, and for the diversity of supply for the customer. Where that value is not being



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created in the UK, that is where the supply chain is impacted and there are fewer, if any, benefits for the UK.

**Q3 John Spellar:** I presume that these companies are members of ADS, are they?

**Paul Everitt:** We cannot require everyone to be a member of ADS. There are competition rules that prevent that, but, by and large, companies that are creating significant value in the UK are our members. Our rules of operation mean that only those businesses that have a significant manufacturing footprint in the UK would be allowed to be one of our members.

**Q4 John Spellar:** In that context, what you are really saying is that ownership should be less relevant to the MoD than the creation or continuation of domestic capability.

**Paul Everitt:** Yes, that is correct.

**Andrew Kinniburgh:** I would largely agree with Paul. He is absolutely spot on in that analysis, as are your comments about overseas ownership. We have done a bit of research across the sector for this evidence session. Of the 4,000 defence companies that we looked at, 81% are UK-owned and 19%, or about 772 of the 4,000, are foreign-owned. If you break that down a bit further, 22%, or 350 companies, are European-owned; 18%, or 293 companies, are US-owned; and interestingly 2.3%, or 38 companies, are owned by Asian companies. If you had asked me before we did the research whether those would be the right proportions, I would probably have guessed something around that, perhaps a little lower, but it is interesting to see the split of ownership. From NDI's perspective, we have a slightly different constituency than ADS. We do not have many of the large companies as members; we tend to focus on the SME community. We have many smaller businesses.

In terms of foreign investment into the UK, we would largely agree with Paul that it has been a positive thing. The angle that we would certainly focus on is that it is fine if companies come in and buy IP and buy businesses within the UK, but the UK MoD must then continue to spend with them, or the risk is that that IP and intellectual horsepower will return to the mother country. That is something that we feel is a risk and something that we need to be very cognisant of. We would certainly call on the MoD to perhaps increase its R&D funding, broaden its engagement across the whole of the UK defence supply chain, and make sure that those foreign-owned companies are getting enough R&D spend, presuming that they are fit for purpose, to make sure they remain engaged in the UK supply chain.

**Q5 John Spellar:** Do you think the MoD is really sensitised enough or concerned enough about intellectual property? For example, when we had the case of General Electric at Rugby, it was immensely cavalier about it.



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It was, frankly, only because of pressure from this Committee that GE kept that capability there, although it is actually fairly unique and they even had a memorandum of agreement with the MoD when they took the company over.

**Andrew Kinniburgh:** It is a risk, and perhaps the MoD could be more alive to the risks and the issues of losing IP. The other area that we need to be very careful of in the UK is that we have great engineering capability and great ingenuity. We are very good at developing the intellectual property. What we are not so good at is scaling it up on either a European or a global basis. We need to be careful that companies, perhaps from the US, Israel or indeed the EU, do not swoop in at a very early stage and snap the IP up and then scale the business up. We need to be careful, but I am not advocating a very restrictive overseas investment policy.

Q6 **John Spellar:** I just have a final question. From your point of view, how does having significant foreign primes or indeed major sub-contractors favourably or unfavourably impact on your smaller SMEs in terms of supplying to them? Do they tend to go back to the suppliers that they are used to working with in their countries of origin?

**Andrew Kinniburgh:** That is a very interesting question. It goes back to a point that Paul made. When the MoD is accepting proposals from overseas companies with a UK content that is stated, it needs to hold them to it. In our view, there is perhaps a lack of scrutiny from the MoD over those kinds of commitments. That is a concern, but in general terms overseas primes as well as UK-owned primes are fairly even from an SME perspective. Of course there are areas that could be improved, but certainly companies such as Leonardo, Thales and others are very engaged with the SME community and would sit favourably alongside British companies such as BAE Systems or perhaps QinetiQ.

Q7 **Stuart Anderson:** Hello, Andrew. This question is a follow-on from what you said earlier. You did some research prior to this on about 4,000 companies, asking what per cent were UK owned. We are trying to define whether the MoD fully understands who is in the supply chain and every organisation that is feeding into that?

**Andrew Kinniburgh:** That is a good question. It is probably one that I do not know the answer to. I suspect it has an inkling but perhaps not the real detail that we have managed to get hold of for this meeting. I am not entirely sure, and I do not want to do MoD a disservice, but I suspect it does not have as detailed a picture as perhaps it might like, or as we perhaps as a community would like it to.

Q8 **Stuart Anderson:** Paul, would you like to expand on this?

**Paul Everitt:** First, in terms of understanding your supply chain, there is a slightly holy grail nature to it. Supply chains are complex. Our experience suggests that the MoD has a good understanding at the higher end of that and understands some of the crucial businesses that



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are supplying to it, even if they are supplying via one of their larger or higher-end contractors.

Supply chains are nested. By that very nature, once you start to get down below tier 3 or 4, you are quite a long way from the ultimate customer and visibility for the ultimate customer is going to be, at best, opaque. The MoD is quite consistent in its demand from the prime contractors to ensure that there is a flow of information about potential issues in the supply chain and tests that on a regular basis.

Visibility is more difficult. One of the things that the MoD does involves something called JOSCAR, the Joint Supply Chain Accreditation Register. This is effectively a database on which there are well over 6,000 defence businesses that contract regularly with the prime contractors you would all be familiar with. The MoD is part of that regime, so it has the ability to query or test the database if it wishes to understand about a particular company, because the information on the database is assured, and also to interrogate the database to find particular businesses of interest.

**Q9 Stuart Anderson:** Is JOSCAR a compulsory or voluntary register?

**Paul Everitt:** It is voluntary. It is an industry-created regime, predominantly for smaller businesses, so that they do not have to continually complete requests for information from many of the main contractors. It was a way in which all of the main contractors could buy into a single source of information and therefore reduce the administrative burden on smaller businesses.

**Q10 Stuart Anderson:** Paul, to follow on, you spoke about the primes and how the MoD has a good understanding of those but said that as we go down the supply chain it gets more opaque. How can the MoD then comprehend any of the vulnerabilities that it might have within that supply chain?

**Paul Everitt:** This is a very live question at this particular point in time, because obviously events of recent months have put a big stress on that. I know that the MoD is itself looking at what mechanisms it might create. The challenge is that any kind of database you create is only as good as the information that is put into it. To a certain extent, the MoD has to be reliant on its prime contractors for assuring that their supply chain is able to deliver the final product that they are contracted to provide. Clearly, it is important for the MoD itself to be able to test that on a regular basis and to look for information to provide assurance around the resilience of the supply chain. I have certainly had a number of experiences in this sector and other sectors where we have decided we need to understand the supply chain, and you can spend a huge amount of money and a huge amount of time trying to fully understand every single aspect of a supply chain.

There are certainly instances where vulnerabilities have only been identified seven, eight or perhaps even 10 levels removed from the final



customer. You can never be wholly accurate or assured, but my sense at the moment is that there is a lot of work being done by the larger businesses, and they certainly have better understandings of the depth of their own supply chains.

**Andrew Kinniburgh:** We are also big fans of JOSCAR and work very closely with it in terms of encouraging more and more companies to engage with it, particularly the prime contractors. As Paul said, if they are all using the same process, then that one-to-many prequalification is a huge advantage for the small businesses, where the cost of actually prequalifying can be very high.

I was going to add something about SME engagement and this ability to drill down into the supply chain. We have some serious questions for the MoD about its engagement with SMEs. The SME forum that the Minister for Defence Procurement chairs is a useful meeting, although it is very much a set-piece engagement. The concern that we have within NDI, as self-proclaimed SME champions in the UK defence supply chain, is that there are now 19 SME champions within the 19 prime contractors across the UK defence supply chain, and we do not know who any of them are. They are anonymous. The MoD is happy to say, "Yes, we have 19 SME champions", but then, for myself, leading an SME supply chain organisation, we do not know who any of them are. We know a couple, but we have stumbled across them. There are some efforts to engage with SMEs, but it is not good enough, I would have to say. We are pushing hard to try to improve that. There are some actions in place from the MoD, so we are not completely blocked off, but we need better engagement.

Q11 **Sarah Atherton:** Good afternoon, Paul and Andrew. It is said that the Government policy opens the way for adversarial states to buy up or take controlling stakes in domestic defence companies. Others would say that risk is overblown. What is your risk analysis of the situation?

**Paul Everitt:** Certainly, we have been monitoring the situation quite closely. We have not seen any evidence of that. The primary concerns that we see, both from within Government and our colleagues up and down the supply chain, are more about people trying to penetrate the systems and the networks that those companies hold, rather than trying to take controlling interests. It is more about what we would see as industrial espionage, rather than financial takeovers.

**Andrew Kinniburgh:** Yes, we would share that view. I do not think there is a smoking gun per se. There is perhaps a perceived risk, but we are not seeing it on the ground. The risk perhaps lies in companies that are very exposed to industries that have seen a big downturn since Covid-19, particularly in civil aerospace and automotive. They become more vulnerable because their value reduces, and therefore there may be some risk in there. In terms of hostile actors trying to grab companies, we are not seeing it.



**Q12 Sarah Atherton:** Can I just follow on from that? When takeovers of defence companies are planned, there is scope at the moment for the UK Government to secure some commitment to retaining, for example, an R&D presence, but there are some concerns that these commitments further down the line are reneged upon. Do you have any opinion about the control that the UK Government have at the moment, given the current legislation?

**Andrew Kinniburgh:** It is probably quite weak at the moment. There are lots of aspirations set and perhaps soft targets, but the ability of the UK Government to impose those upon a privately funded company is quite limited. It is a weak area. I would have to say, going back to a previous point, that the Government can insist as much as they like that R&D remains in the UK, but if they are not helping to fund that R&D themselves, and perhaps providing some of that seed funding to help private venture funding to come through, it is a tricky one. If you are running a commercial enterprise and there is no R&D from the Government, perhaps in a defence area, you are unlikely to throw loads of money at a business, even if you are loosely committed to that by the Government.

**Paul Everitt:** Could I just make a couple of points? The first is that the UK regime is significantly different from those in other countries, in that, in places like France, Germany and the US, there is a specific system to deal with defence or security businesses. The UK system is part of the Enterprise Act and our general approach to companies being purchased or shares being acquired in companies, which does create a slightly different dynamic. Over a long period of time, certainly the last 30 to 40 years, a series of Governments have taken a very non-interventionist approach in general to foreign takeovers of UK businesses. That has set a set of expectations around what is and is not possible.

The UK Government do have, even within the legislation that we currently have, the ability to ask for legally binding undertakings from businesses. The truth is that that is very lightly used. The number of times Government have actually sought to use that power is relatively few, and, as Andrew has said, even when they have, it is something that is relevant in the near term but, as that existing situation rolls out, it is more difficult to ensure that the compliance is both to the letter of the law but also to the spirit of it.

**Q13 Sarah Atherton:** Paul, do you think this is an evolving role for the Government? Do you think they should or will get more involved?

**Paul Everitt:** Back in 2018, they did publish a White Paper looking at increasing some powers and looking to create a regime that gave them more opportunity to investigate, particularly based on a security basis. That is a good thing. Again, the test is really about what the appetite is within Government at any particular time to fully utilise the powers that they actually have. From an industry point of view, as we mentioned earlier, we would always want to see a balanced approach. We do not



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want to deter foreign direct investment into the UK. What we are keen to try to avoid are circumstances where vulnerable businesses, which may be vulnerable for a whole variety of reasons, are aggressively purchased by those who are perhaps looking to secure relatively short-term returns and then exit from that business. Where people are taking a long-term view and purchasing or acquiring stakes that are part of a long-term strategy, that is something that the UK industry, as well as Government, would be keen to encourage.

**Q14 Chair:** On the next question, can I urge you not to go off down the regulatory route, because that is coming next? With that in mind, we have heard that SMEs often receive enquiries from “unknown agents” regarding takeovers, with no method available to check their origin. How widespread is this practice?

**Paul Everitt:** We are not aware of any significant activity in that way. Businesses that are part of a defence supply chain are used to sometimes strange contacts and are normally quite well versed in how to deal with them.

**Andrew Kinniburgh:** We would share that view. We did a little bit of research before this session with our members, and really there is nothing that we have seen of this kind of approach. There is the usual cyber-phishing, but no fishing.

**Q15 Sarah Atherton:** There is a concern that smaller start-ups and, for example, university spin-offs are excluded from the Enterprise Act 2002. The Government have lowered their threshold for intervention for transactions involving military and dual-use technology. Do you think the whole concept of the Enterprise Act is fit for purpose?

**Paul Everitt:** When proposals were made, we were supportive of the proposals. It is not a system that is broken. As I said earlier, it is more about whether we can give Government slightly more powers, and certainly the lowering of the threshold and more clearly identifying some technology areas that are of particularly interest improve and make the system more robust.

**Andrew Kinniburgh:** I would agree with Paul on that. The other area that we have been critical of, without being too nasty about it, is the lack of subject matter experts within the MoD. This is something that we have spoken about before to this Committee with regard to SME—as in small and medium-sized enterprises—engagement. This lack of subject matter experts perhaps weakens the Government’s position, because they are unable to technically assess whether businesses and their IP are actually key to future technologies or applications of that technology in future MoD programmes. I would suggest perhaps that there is a need to strengthen that subject matter expertise within the Department, within the MoD.

**Q16 Sarah Atherton:** You might not be surprised to know that the



Government have acknowledged that the Enterprise Act needs upgrading to incorporate evolving threats. With that in mind, I am going to focus on the National Security and Investment Bill. What would you like to see in this Bill? Some of the things I was thinking about were addressing hostile takeovers, upgrading and fostering sovereign capacity, and protecting critical technologies. They are some of the areas that the Bill should perhaps expand on. What are your thoughts?

**Paul Everitt:** We are broadly supportive of what Government are doing. The area, certainly for me, that would make a difference is greater clarity on the areas that the Government would regard as being sensitive, so that, before a company begins a process, it knows and understands that there might be some challenges along the way if it is buying a company that has very clear links in the defence supply chain or particular technology that would be of interest. The US is a good example. That knowledge and understanding of the bits of business that are sensitive for national security reasons is very clear, understood, and upfront, and anybody who begins to be engaged with buying companies, or shares in companies, in the US knows and understands that they are going to be faced with that regime.

Having that clear from the beginning would ensure that there would be a filter or a hurdle that would mean that only those businesses with a serious intent in taking a long-term interest would then progress. Under our current regime, it is something that comes at the end of the process. You have gone through all of the due diligence that you might do on a business, you have lined up your finance, and then the Government can call in a transaction. It would be far better to have more of that scrutiny at least available to businesses ahead of making decisions about what they buy.

**Andrew Kinniburgh:** I would largely agree with Paul there. One of the issues that we would like to see, as the Government emerge with their integrated review and link together all of those elements of the integrated review, is a much clearer link to the sovereign capability that the UK wants to retain. If we take a couple of examples, submarine-building or warship-building, successive Governments have made commitments to those particular sectors, and the upshot is that we are internationally competitive, in costs, quality and indeed in innovation. Where it is not clear, it gets a bit wishy-washy and a bit woolly. We would like to see a clear integrated review, a clear requirement for sovereign capability and what that is, and then really a defence industrial strategy that underpins that sovereign capability. I am not quite sure how that would play out in the investment Bill, but that is what we would like to see.

Q17 **Sarah Atherton:** You have pre-empted my next question, which was about that tricky balance to strike between maintain sovereign capacity, protecting critical technologies and the UK being open for business. You have probably summed that up, unless you want to say anything else.

**Andrew Kinniburgh:** No, thank you.



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Q18 **Stuart Anderson:** Paul, Covid-19 will have impacted every industry across the UK, but I would be keen to know if you think that there have been any greater financial challenges for the defence industry than for the rest of the economy from Covid-19.

**Paul Everitt:** No, not specifically. There was prompt action right at the beginning of the pandemic, with industry and the MoD working very closely together. First, with some prompt action around what a Covid-secure workplace is, we were able to continue work supporting national security. Indeed, the MoD itself took steps to ensure that finance, paying its bills promptly and also taking a more relaxed approach in some cases. Where previously it may have sought that some very harsh and demanding milestones were met, there was a recognition that, under the circumstances, it needed to be a little bit more flexible. What we have seen is that defence businesses at the top and down through the supply chain have been being paid consistently through this. The issues are not around the defence sides of people's businesses, but, as Andrew mentioned earlier, where a defence business also has a significant business in, let us say, civil aerospace, then clearly there have been and are more demanding pressures.

In terms of how industry is dealing with that, on the civil side ADS has established a supply chain taskforce where we have seven or eight of the major businesses working together to ensure they have a good understanding of how well or badly their supply chains are functioning. On the defence side, the MoD is working closely with a group of its prime contractors, which are monitoring quite closely the financial health of their supply chain. We do not feel complacent here, but we are reasonably comfortable at the moment that we are not missing something.

Q19 **Stuart Anderson:** Andrew, Paul has covered the points very well there. I would be keen to know about SMEs further down that supply chain. Do you think there has been a disproportionate impact particularly on SMEs during Covid?

**Andrew Kinniburgh:** To be honest, we do not see a great deal of that. I would agree very much with what Paul has said. The MoD and the defence industry per se reacted very quickly and very well, and they moved very closely in harness forward through the crisis, and to some extent are continuing to do that, but with a question mark over SME engagement. The evidence that we have seen is of quite a big increase in membership of NDI. As I mentioned before, we particularly focus on the SME area. We are seeing quite a number of sub-contract manufacturers that have traditionally been very strong in civil aerospace now thinking, "Perhaps defence is a good place for us to be". We are seeing a big uptake in membership in NDI. In fact, we have had a record month in October. They are mainly civil aerospace sub-contractors that are looking either to move into defence or to increase the proportion of their business from defence.



Q20 **Stuart Anderson:** It sounds like you are both unified on what you are saying there: Covid-19 has not adversely impacted massively the economic opportunities for defence. With that happening, would it make the appeal of the defence sector more interesting to foreign investors? Do you think Covid-19 could have increased the chance of foreign investment into the defence industry?

**Paul Everitt:** Yes. I cannot give you evidence of actual M&A activity happening, but I can definitely say that those people who are part of the process of identifying opportunities are very much out and about looking for those opportunities: first, as Andrew mentioned, because it is solid, reliable business, because it is defence business, but also because they know, for a variety of reasons—exchange rates might be one—that there are bargains to be had in the UK marketplace.

One rider in terms of the future outlook is that there is an outstanding reconciliation that needs to happen, or will happen. During this period, the MoD has been very positive about making sure that people are being paid. Clearly it will be looking to make sure that that is all appropriate, and that might not necessarily be the most easy or straightforward process. Alongside that, because we are now seeing only a one-year spending review, we are also detecting a slowdown in the pipeline of activity for those defence businesses. Again, that raises some concerns, perhaps not for today, but as we look forward, that, over the course of the next 18 months to two years, that may weaken some of the momentum.

**Andrew Kinniburgh:** I would agree again with Paul. We are doing a lot of agreeing, are we not? We should be arguing hotly about these debating points, but I would agree with Paul on that. I totally agree on the one-year settlement versus the three-year settlement.

Going back to the previous point about the integrated review and how that links into the defence and security industrial strategy, the sovereign capability and all of those things that we have talked about already, there probably are vulnerabilities where there is a lack of a research and development. One of the MoD's weaknesses at the moment—it is partly down to the one-year settlement, but it is also partly down to a very a prime-focused view of the world—is that the big projects like Tempest, the future combat air system, Hoover up all of the research and development money in the air sector. This starves any SME businesses of much oxygen in terms of that R&D spend.

We have a member called Aeralis, which is a small business but a very ambitious one, and in fact they are coming to meet the Committee, I think, in December. They are really struggling to find any R&D money to help them release private venture funding. That is simply because it is hoovered up by the big Tempest programme. It takes all of the oxygen out of the R&D. That is my worry: that that makes the SME sector vulnerable to overseas takeover or, indeed, further consolidation,



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because there simply is not that R&D oxygen to drive the innovation as it goes through.

**Q21 Sarah Atherton:** Paul, you spoke about the challenges faced by the aerospace industry, in particular the supply chain. Airbus, in Broughton, has had some negative impacts over the last few months. I know we have spoken about this before. I am particularly thinking about the supply chain, and I am thinking very much about a company in my constituency, Magellan, in Wrexham. Could the Government have done more to support these companies?

**Paul Everitt:** We recognise that the Government have provided a wide range of support to businesses, but generally on a pan-sector basis: the various loan schemes and indeed furlough, which has been much appreciated. We have argued consistently for a more sector-specific approach, particularly for companies in the supply chain. The things that we have identified are, first, the need to provide them with longer-term financial support. Many businesses, as we ran into this crisis, were borrowing in order to ramp up the production rates that their customers were demanding. Subsequently, they face a situation where they already have significant levels of debt in their business, so therefore it has been more difficult for them to access more finance through some of the loan schemes. Also, I would say that a number of our businesses—just under half—are generally speaking not keen to take on what we see as loan-finance debt.

They are interested in more capital investment: longer-term capital investment that will allow them both to ride out the current downturn but also to invest in new technology, both to keep themselves productive and competitive and to invest in the big transition in technology associated with our move to a net-zero aviation industry. Finding that finance is important.

The other factor is, bluntly, demand. The other step that we would have liked to have seen is actually some clear commitment, or early commitment, to some of the defence programmes that would have created additional business for those companies. In that case, you are buying stuff you were going to buy anyway; you are just buying it sooner. In doing that, you help bridge the gap for those companies between this difficult period and when that civil aerospace business will begin to pick up.

**Q22 Chair:** Can I just raise a point with you both? I am just reading the very excellent brief that we have been given. The point it makes is that the “majority of top suppliers to the MoD, by spend, are public limited companies, with a diverse international shareholder base, and shares being freely traded on the stock exchange”. It goes on to say, “Many defence or defence-related companies therefore have a greater level of private ownership than ownership by any Government...Airbus is 74% privately owned”. Is that an issue, as to who owns the shares and who can be identified as the owner?



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**Paul Everitt:** It is not a cause for concern for us or our companies. Again, the challenge for those businesses is making sure that the UK business environment is an attractive one to invest in, and really that comes back to some of the points that Andrew made earlier about how attractive the UK market is and how important the UK customer rates a business's activity and value creation being in the UK. In those circumstances, investment flows to the UK and that is a positive experience for all.

**Andrew Kinniburgh:** I would largely agree. Perhaps the only question mark might be over some of the sovereign investment funds that are placing money in different defence companies. That perhaps throws up some moral or ethical dilemmas, but that is probably not a discussion for an open forum.

Q23 **John Spellar:** Could I just follow on from Paul's last remarks regarding the frontloading of existing orders? We have been pressing, for example, on the fleet solid support ships to see what they can do to bring that forward, to get orders going through to the whole supply chain. Are you finding Government very receptive to this? It is obviously a much better way of spending money than spending it on keeping people furloughed at home.

**Paul Everitt:** How best to describe the response to our proposition that that is a good idea, John? Informally, most Departments, particularly in defence and those who have an interest in businesses doing well, see that as being a sensible suggestion. They are all somewhat troubled by how the Treasury will respond to that particular proposition. Particularly in the environment that we now find ourselves in, with an integrated review that has yet to report and a spending review that we know is only going to be one year long, they are concerned that, practically, they will not have the resources to be able to afford to bring projects forward. Again, as you know, the way in which defence works means that a very significant proportion of next year's budget is already assigned; unless there is some uplift in that budget the ability to do new things is extremely limited.

Q24 **John Spellar:** I feared that would be answer. Clearly, as in the 1930s, with the spirit of Montagu Norman and the "dead hand of the Treasury", they end up spending more money keeping people at home rather than getting the wheels of industry turning. Anyway, let us move on to the supply chain. In a whole number of industries, Covid-19 has revealed considerable problems, exposing those global supply chains and causing interruptions. Has it done the same in defence, as far as you are aware?

**Paul Everitt:** I would say not too much. We have seen some examples where, particularly early in the crisis, and particularly for some businesses that, say, may have had operations in parts of Italy or parts of France where they were taken unawares by the extent and rapidity of the onset of the pandemic, there were some delays. But by and large, our supply chains have been resilient to the situation. Again, in most



countries, defence and defence supply chains were given exemptions so that they could continue to work. Obviously for other reasons, a number of companies had put in place additional stocks in anticipation of earlier Brexit problems. The combination of those two has meant that, by and large, things have run pretty smoothly.

**Q25 John Spellar:** There is not much evidence, then, of companies looking at shortening their supply chains following this?

**Paul Everitt:** The questions of resilience and where one prioritises industrial activity are very live debates, but that is something that everyone is anticipating will shape future demand as opposed to the current levels of demand.

**Andrew Kinniburgh:** I would broadly agree with that. Obviously, the issues of things like PPE during the crisis have, as Paul said quite rightly, thrown up the debate about whether we buy from the UK or not. Obviously, we are very keen to encourage that as much as we can. Broadly speaking, I agree with Paul.

If I may go back to your previous point about accelerating programmes and how feasible that is, resource-wise, the MoD, as well as the primes and the SMEs, would struggle to do that. What I would suggest as a short-term gain—I know I sound like a broken record—is research and development spend, broadening that spend out, and perhaps looking at a number of different technologies with different applications. We can move technology-readiness levels up so that they are more ready and able to be included in future programmes. That would be something that could be done very quickly, without a huge impact on resources.

**Q26 John Spellar:** Finally, would it be desirable to have a substantially, overwhelmingly or completely UK-based defence supply chain? Would it even be feasible?

**Paul Everitt:** You would struggle, to be honest. If you look from raw material to final product, that would be quite difficult to achieve, and you must argue about what the potential benefits of it are. Our view would be very much what we wish to have in the UK is the higher-value activity: the design, the development, the manufacture of key systems and sub-systems that are the intellectual capability and underpinning of key products. That seems to me to be the right place to focus our efforts and resources, rather than being in the situation of trying to produce things that are commoditised items that will always be potentially more cheaply produced elsewhere. This is not a universal view, but you have to select where you wish to compete, and compete vigorously on those terms.

**Q27 John Spellar:** Is there not a slight problem there? The so-called commodity products provide a lot of work for engineering, and they create a pool of engineering labour and capacity. As we have seen, capacity can be moved around with the ingenuity there. Of course, the country that is supplying the commodity product is probably not going to



be content, in the medium-term future, to just be having that role that we have assigned to it. It will start to want to move up the value chain, but by then we will be dependent on them for the sub-systems, and gradually they will move up and overtake us in the higher-value systems. Is there not a danger of that?

**Paul Everitt:** It depends on what the procurement regime is. You have to accept that people will specialise. We need to think carefully about where we want to compete. There is a dynamic in the market that is changing. If we went back 10 or 15 years, you would argue that labour costs were a key factor and that is why we saw people outsourced to different parts of the world. Now, labour is not such a key factor in high-end manufacturing. It is much more about the investment in capital equipment and our ability to utilise that equipment. It is not a situation that is not changing, but we would be foolhardy if we did not focus on those areas that are about higher-value activity, where we are best placed, utilising the underpinning research that we do in the UK, utilising the specialisation in manufacturing that we do here in the UK, and utilising, we hope, a strong customer who is going to ensure that that higher-end work is always going to be more favourably distributed to the UK.

**Andrew Kinniburgh:** From my perspective, we would significantly weaken our defence industry by being too myopic and too inward-looking in terms of UK ownership. The UK has been hugely successful in terms of exporting globally, as the Committee knows probably much better than I do. We have always been a net exporter of our defence equipment in terms of value; we export more than we make for the domestic market. By narrowing our ownership, we would significantly damage the ability of the UK to compete internationally. It is the very fact that we have very active international investors, including Lockheed Martin, Boeing, Leonardo, Thales and other companies like that, whose parents are ultimately abroad, that means that we are able to involve UK engineers and manufacturing capability in these big international programmes into NATO and the EU. Hopefully, we can continue that in spite, perhaps, of things like the exit from the EU, which would, on the face of it, weaken our position with the EU. Because large swathes of the UK defence industry are owned overseas, we hopefully can continue to play a really big part in defence exports.

Q28 **John Spellar:** Just as an aside before I finish, regrettably, I would argue, up until the recent orders for ships, our exports have become overwhelmingly dependent on aerospace, particularly on fast jets and particularly on one geographical market. We have been largely pushed out of land systems, and we have been looking at that. We have also, as I said, until very recently been very unsuccessful on naval systems. It does not seem to me that that is a particularly broad base on which we have been successful. Other countries have been catching up on us.

**Andrew Kinniburgh:** On the overall system, you are absolutely correct. Where the UK has remained very strong is perhaps in the system and the



sub-system areas: things like radar, sonar and sensors. In terms of that technology, we have very much kept pace with the rest of the world. Perhaps you are right; it has been quite narrowly focused in terms of fast jets, and particularly combat fast jets, rather than training aircraft. I would agree with you in some cases, but do not underestimate the tier 2, tier 3, mid-tier level of UK success in export markets.

**Q29 Sarah Atherton:** I have a quick last question. Given the extent of foreign involvement in the defence supply chain, who should be, in your opinion, responsible for the primary due diligence role—the screening regime—in defence contracts? Do you think it should be tier 1 suppliers, the MoD or sub-suppliers down the chain?

**Paul Everitt:** Ultimately, it is the customer's responsibility to make sure that they are comfortable with the products that they are buying and the businesses that they are doing business with. However, inevitably, the responsibility to demonstrate both the resilience and the veracity of the supply chain will fall on the primary contractor.

**Andrew Kinniburgh:** It is an interesting one. The MoD would probably struggle, partly down to capacity and partly down to the sophistication of the commercial arm within MoD, to do that on its own. It does need to be devolved down to some of the prime contractors. I do wonder also whether there is a requirement perhaps, or a demand, for a standard, almost like a kitemark, for UK MoD suppliers as well. That may remove some of the regulatory burden from the MoD and possibly from the prime contractors as well. That kitemark might be something that we could move towards as an industry. We would certainly support that view. We could bring an organisation like JOSCAR together with, for instance, something like Fit For Nuclear, which is a programme that sets the bar for nuclear suppliers in the UK. There may be demand for something along those lines in the defence industry. We need to be careful not to overburden the MoD or the prime contractors and possibly look at something like that.

**Q30 Chair:** Bearing in mind that this Sub-Committee was established after we had been given evidence that France was ordering a root-and-branch review of their defence supply chain for fears of the Chinese moving in, using Covid and companies facing financial difficulties as a cover to buy up every company that they could, have either of you got wind that this is going on in the United Kingdom? We have not mentioned China by name so far. Is there any evidence that that is happening here?

**Paul Everitt:** I am not aware of any instances that fit that bill. As I said earlier in my evidence, there is a legitimate concern about industrial espionage, but not a financial activity.

**Andrew Kinniburgh:** No, we have not seen that activity either in NDI membership.

**Chair:** Can I thank Paul Everitt, chief executive of ADS Group Ltd, and



Andrew Kinniburgh, director general of NDI? Thank you very much for your attendance. We are most grateful.

## Examination of witnesses

Witnesses: William Hynett, Jayne Moorby and Mandy Ridyard.

**Q31 Chair:** Welcome to the second panel at this open session of the Defence Select Sub-Committee looking into the extent of foreign involvement in the defence supply chain, and its risks and benefits to the UK's national security and economy and other factors. Welcome to our second panel. We have William Hynett, who is the chief executive of Britten-Norman, Jayne Moorby, the marketing manager of Oxley, and Mandy Ridyard, the finance director of Produmax. Welcome to all three of you and thank you very much for attending our evidence session this afternoon. Unusually, as the Chairman, I am going to kick off with the first question. What was the immediate impact of Covid-19 on your businesses?

**William Hynett:** Our Covid-19 issues were fairly easy for us to deal with because we are a defence contractor. A lot of our turnover was really secured through our relationship with the MoD. On top of that, when you look at the sort of business that we are, being an aerospace sector business with a very low-density footprint, bringing in Covid-19-secure measures was quite easy for us.

**Jayne Moorby:** At Oxley, we do a combination of defence work and aerospace work. As we have heard today, the defence industry has not been so heavily impacted. We have seen more of an impact in the civil aerospace side of the business. We have seen the cancellation of orders, a delay of orders and more price pressure where customers are looking to save margin. As a result of that, we have had to do some restructuring to protect us in the short term, so that we can retain a long-term future.

There has also been a big pressure on cash. As a business, we have focused a lot on cash, which has meant that we have not been investing in things such as equipment, training and research and development, which are the sorts of things that we would normally be investing in.

This has also taken up a humongous amount of bandwidth. Everybody in the business has spent six months focusing on Covid, and that really has meant that we have not focused as much as we would have liked to on some of the long-term improvements that we would have otherwise been working on in the business.

**Mandy Ridyard:** Similarly to Jayne, we work in both aerospace and defence. In terms of Covid, after the initial shock, we put quite a lot of stringent procedures around that to keep our team safe. In terms of the impact to business, though, we are 30% down against what we planned to do. We are 25% down year on year. Like Jayne, we have restructured, so we have a 15% reduction in our headcount and there are 20% fewer



hours for those left in the business. We have cancelled our apprenticeship programme. The uncertainty and the constant focus on Covid and, as Jayne said, the lack of bandwidth has meant that our investment has been reduced. There is also the obvious lack of cash that has come with the cancelled orders from our civil side, not from our defence side.

On the plus side, we pivoted quickly into the ventilator work that the Government put in place and helped deliver 20 years' worth of work in 12 weeks and we onboarded three new significant corporate customers, one of which was a big defence company. We have been able to make use of Government support to help us with a lot of the issues that we have.

Q32 **Chair:** Interestingly, the second panellist said you have not really been affected by Covid. Why is that? Why has Covid not devastated you like other businesses, out of interest, William?

**William Hynett:** When I answered before, I was really talking about the current situation, as in what has happened between March and October this year. In fairness, on the civil side, we have seen a reduction in our order book, but it has been a fairly limited reduction so far. A lot of that, for us, is to do with the fact that our customers tend to have pivoted quite quickly into lifeline-type services, so they have kept operating throughout the period.

What is more interesting is the period ahead. This second lockdown and what comes in the months ahead is probably going to be more challenging for us. The long-term impacts for some of those operators and their depressed turnover are going to trickle through eventually to where we are and will impact our business too.

Q33 **Chair:** The second lockdown is going to affect you badly, so a third lockdown, in your view, would do what?

**William Hynett:** From a direct operations point of view, keeping people at work is relatively simple for us, but it is really the level of business we are able to engage in internationally. For us, some of the effects are that we do a lot of deploying overseas to support our customers. Clearly that is impossible to do in a regime where you cannot predict whether anyone can return to the country, or have to quarantine or anything else. Looking to the next six to nine months, there will be a fairly significant impact for us.

**Jayne Moorby:** We found that, although some industries can recover quite quickly following the relaxation of rules, the aerospace industry is going to be a much longer-term recovery. We are conscious that we have not seen the impact yet because we operate as a sub-contractor or a tier 2 or tier 3. We know how many aircraft have been cancelled right now, so we are concerned that we are going to feel this aftershock maybe next year or the year after. The industry is going to take a long time to recover. We do not feel that we have felt the full impact yet on the civil aerospace side. We have not felt much impact at all on the defence side.



**Mandy Ridyard:** For us, the lack of demand for civil aerospace is a concern and we are talking about a four-to-five-year period for wide bodies to recover. A lot of companies within the defence supply chain also work in civil aerospace. All three of us do here. The knock-on effect of that on our profitability and what we can invest into our businesses therefore impinges what we can supply in terms of defence. It does put that defence supply chain at risk, because we do not have the drumbeat production that we get from civil aerospace that underpins all the project work that we do within the defence industry.

Q34 **Tobias Ellwood:** It is good to see you all this afternoon. Thank you very much indeed. Can I just echo the Chair's comments on how invaluable this is for us to understand how Covid-19 has impacted you? Can we look at what Government support you may have received, including the warnings and the build-up? Perhaps you can take yourselves back to February and March, when we saw this cloud approaching, which we knew would impact the country as a whole. Do you recall any warnings or preparations that you were encouraged to consider? What support did you gain directly from Government to support you through this difficult time?

**Jayne Moorby:** We saw what was coming and we put a plan in place internally. We did that with the support of our trade associations and not really, as I remember, with much Government advice. Since then, we have accessed the furlough scheme and we have deferred our tax. They have been the two measures that we have used as support, but, as I said earlier, we are concerned that this issue, for aerospace, will be a long-term issue and we may need more support from a scheme like furlough in the longer term, rather than in the here and now.

**William Hynett:** Going back to February and March, Italy was the key trigger for us. When we saw what was going on in Italy, we could see that there was a probability of a big wave coming our way. Coupled with that, I was visiting the States around March time, and I could see what was going on there. That caused us to start our own action plan within the business, which pre-dated the Government's advice by probably two to three weeks. That steered the initial actions.

Since then, we have been quite fortunate that we have not had to engage in the furlough scheme at all. We have taken some benefit from the taxation delays that have been allowed by HMRC, which have been very useful. Really, the amount of support that we have had from Government to date has been pretty limited. What is going to be more interesting is what happens, again, in the period ahead because, for us, the combination of the uncertainty in the civil market and the effects of the integrated review mean that we could probably be in a more difficult space in the period ahead.

For us, loans are not really where we want to be because they do not help the underlying level of business that we are going to be able to commit to. We are looking for more support and direct support. In



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particular, anything that can be brought in around R&D would be pretty helpful to us.

**Mandy Ridyard:** We export globally and so we keep ourselves abreast of what is going on globally usually and do not wait for the Government to decide what to do next. We were well ahead of the Government in our decision making when we saw what was happening to aerospace in China as a result of the outbreak there. We launched our business continuity plan at the beginning of March. In terms of turnover, we had our best ever month of sales in April, and that is because of the lag within supply chains. I suspect it would probably be the same for most of us here.

After that, it then started to be affected by the pushouts from civil aerospace, not from defence. Those pushouts have meant that we accessed the furlough for some of the time, but because of the lag in supply chain, we could not access that at the beginning. It was a date-based rather than time-based scheme, which did not help manufacturers necessarily as we have long pipelines. We were also lucky enough to access the CBIL scheme, which was fantastic; we had support from our bank. We were delighted when the Treasury announced the extension to that scheme. Unfortunately, no banks in the UK can currently offer that extension. I may be wrong here, but I think it currently breaches state aid rules. We wanted to extend the term of our CBILS loan but have not been able to.

However, the communication that the Government have put out has been good. In terms of all the stuff on risk reviews and what to do in factory settings, we had already done that ahead of that communication, but it has given us some way to check what we are doing. Our stance within our company and our team that works here has always been about following Government guidelines, and that is indeed what we do.

In terms of other things that the Government could do, we do need more vocal and financial support specifically for the aerospace sector, and that does support the defence sector in aerospace terms because of the way we are interlinked. The Government also regularly talk about innovation in the sector—we have Tempest and Jet Zero—but the Government are not finding any innovative solutions themselves about how to look at testing within the aerospace sector to allow us to recover more quickly.

Q35 **Tobias Ellwood:** Thank you. That is really helpful. Apprenticeship schemes were touched on. Can I go back and check with all of you: have they folded now? Are you not able to continue those?

**Mandy Ridyard:** We are 20% apprentices. The average age in UK engineering is 52. Ours is less than 35 because of our apprenticeship programme, which is fairly aggressive. We have kept all of our apprentices on. We confirmed to them all that they would not lose their jobs and that they could finish their apprenticeships with us. We intend to take them on if we still have Government support and can do. We did not recruit this year. However, we do intend to recruit in 2021 if we can.



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**William Hynett:** We have a more modest apprenticeship programme at Britten-Norman, but it has been running very effectively for 15 years until this year. This is the first year we have not had an intake, although we have continued to support the existing apprentices in our business. Similar to the general picture, 2021 is where we are looking to recruit again. For us, it is school leaver-age people predominantly, so it is quite a serious impact for the local area and for us if we do not recruit, but we are hopeful that, by late 2021, we will be able to do that.

**Jayne Moorby:** We have retained our apprentices and we have recruited as well. We are fully committed to supporting young people and we will continue to do that as long as we are able to. One issue that is potentially going to be created is a skills gap in the future. We need to ensure that we fill that skills gap by recruiting and training apprentices.

Q36 **Tobias Ellwood:** Looking ahead, you have six more months of this. Are you now in a position to tolerate it and to be able to weather the storm? You have all mentioned about the impact on the furlough scheme itself. There is more and more talk about vaccines. That is good news. Things will probably not change until the spring, so are you able to keep your head above water until March?

**Mandy Ridyard:** With the nature of our business, we are talking about a four-to-five-year recovery. Even if things improve, it will still take four to five years, if you listen to the aerospace experts, for wide bodies to come back into play. Narrow bodies in civil aerospace will come back into play in two to three years. That is if there are no further waves after this and the vaccine is successful. Defence is not affected in the same way. However, that issue will affect the defence sector in terms of its pipeline and its supply chain in the long term.

**Jayne Moorby:** We will be okay. We are a large exporter. We export 80% of our product to 34 countries and we are finding a lot more stability from some of our overseas markets. We have an issue now where we have some short-term spare capacity because of, as Mandy was saying, the nature of the lag in the industry. Where, potentially, a long-term problem is going to exist is in this relationship that Mandy talked about between commercial aerospace and defence, in that the commercial business is regular routine business that underpins the organisation. That regular business then enables us to bid for defence contracts.

The nature of the defence work is always more spiky than the commercial work and often has this requirement for SMEs to invest up front in development projects. There simply will not be the cash or the appetite to be able to take on those development contracts at risk when the bread-and-butter business is not there to provide the cash to enable that to happen.

**William Hynett:** The next couple of years are where we are looking to get to the full recovery, rather than three to four years. That is because we are more aligned to the general aviation sector rather than the



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wide-body market. Having said that, a lot of our customers are affected by the accessibility that comes from wide-body aircraft and I can therefore see that, for a lot of those customers, it will be a challenging time. For us, therefore, the next six months is probably quite critical.

The biggest impact is going to be in terms of whether we can get people out of the door and around the world visiting customers. That could be achieved through some sort of effective testing regime through the airports. If we could do those instant tests at the airports and get people out and back safely, we will be fairly unaffected. If we do not get that sorted, that could really impact us.

**Tobias Ellwood:** We are now seeing some movement on that front with the pilot scheme in Liverpool; it is great to see our Armed Forces involved with that. I absolutely agree with you. I do not understand why we did not have more testing done at the airports at the start. It would have been very helpful indeed. Can I apologise? I need to slide away to the Joint Committee on the National Security Strategy, that, as Chair of the Defence Committee, I sit on. Thank you very much indeed for your time.

Q37 **Stuart Anderson:** Have any of you received, or do you know of any, takeover attempts from anonymous buyers or companies that have been linked to hostile foreign states?

**Mandy Ridyrd:** We have lots of offers about buying the company. I would guess that, as companies are currently in distress, there will be more offers to companies down the supply chain. None of those has been from hostile countries or places that we did not know. Obviously, we have rejected all of them. We are not interested at the moment. I have neither evidence of that nor evidence from my network of companies that I work with through the supply chain or am in friendly competition with.

**William Hynett:** Like Mandy, we get a lot of interest in the business, but it is more anonymous interest. It is the usual round-robin letters and those sorts of approaches from people looking to invest in the aerospace industry. Our last hostile effort was in 2008 or 2009, around the time of the global financial crisis, which seriously impacted our business and put us into a position where divestment was perhaps one of the solutions for the shareholders. During that time, we had two hostile bids that came in. Definitely, it was a consideration at the time in order to let the business survive. It is not a current risk for us, but we are aware that, in the period ahead, if we continue to see a downturn in the market, it could become a more critical factor for us.

Q38 **Stuart Anderson:** Do you know of any other companies that have recently, in this pandemic, had approaches by hostile foreign states?

**William Hynett:** Not currently, no.

**Jayne Moorby:** We have no evidence from our organisation or from any others in our network.



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Q39 **Stuart Anderson:** Jayne, it would be good to come back to you on this one. How could the MoD support SMEs if these approaches were made?

**Jayne Moorby:** It is around the issues that we have talked about. It is around that interdependency between defence and aerospace and putting measures in place to give some long-term support to the aerospace industry to prevent organisations being put in that position.

**Mandy Ridyard:** It is about clarity of knowing what is allowed and what is not allowed. We do not supply the MoD directly, but we supply down the supply chain. Clarity of knowing where you are going to cross a bridge that is going to lead you into trouble is something worth knowing about. I do not know that that is shared fully. If that is the case and there is clarity, we need to know what to do when we have queries, where to go and who to ask.

Q40 **Stuart Anderson:** Would you see that clarity coming down through the primes or direct from the MoD, even though you sell through the primes rather than directly to the MoD?

**Mandy Ridyard:** It could be either. From our experience of dealing with primes—we do deal directly with primes—to give you an example around inward processing relief, which is a relief for tariffs, we get different messages from different primes. When you allow a message to be retold by different people, the spin on it is not always the same. It is one of those things that needs a paper on it that can then be distributed by the primes, but I do not think they should necessarily be the people beholden to explain it to you. It needs to be in a Government document but without necessarily loads of regulation around it.

**William Hynett:** Britten-Norman is in a slightly unusual position with the MoD in that we are both an SME and a prime, which has certain challenges attached to it. The most significant one is that the MoD is not particularly well geared up to dealing with SMEs directly, as was established in your previous session. The philosophy within the MoD is very much around dealing with larger primes and letting them handle, with a trickle-down approach, how the SMEs integrate into the supply chain. For me, what I would be looking for is greater direct involvement. The message that Andrew Kinniburgh sent before about having proper specialists within the MoD who understand the SME sector better and how to engage with us directly would be a real benefit.

Q41 **Sarah Atherton:** Good afternoon, everyone. The MoD has undertaken targeted Covid finance relief measures in the form of pre-payment plans, forward ordering, interim payments and payments on order. I suspect that is mainly to tier 1 companies. Have you, further down the supply chain, benefited from any of these MoD schemes? The whole idea was that they provide it to tier 1 and the benefits are filtered down.

**William Hynett:** We are a tier 1 supplier, but I have to say I am not aware of any of those initiatives being in place. They have not been communicated to me at all and we have benefited from none.



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**Jayne Moorby:** We understood that the measures were in place and we wanted to take advantage in terms of things like improved payment terms, but we have found that they have not really flowed down to us.

**Mandy Ridyard:** We have not had any advantage from those at all. We are aware of them, as we are about some of the other payment terms and things that Government have put in place. Most of the primes do not seem to adhere to them.

Q42 **Sarah Atherton:** That is interesting. There has been a call for a Government-backed equity fund to help the recapitalisation of supply chains. Do you think this would help you at this moment in time either to maintain or progress, particularly with what you are saying about the near future and how difficult that may be? Do you have any other business-specific ideas that could help you?

**William Hynett:** For us, the main focus would be around the research and development fund. We are, like many companies in the country, trying to advance the net-zero agenda and we certainly have a programme in the electrification of our aircraft, which would benefit greatly from an equity injection of that sort. At the moment, there are some great offerings around in terms of ATI funding and R&D tax credits, etc. What you need is that seed money to get these things started, and techUK has commented that one in two SMEs is not in a position to make cash available for these sorts of programmes and, of the remaining 50%, probably only 50% will invest within this sector at this time because of the uncertainties. That sort of funding would be very helpful right now.

**Mandy Ridyard:** A lot of the work we are taking on now is brand new, because we are trying to win more defence work. That helps us, but it comes at considerable cost. Increases to the R&D tax credits will certainly help us to be able to do that because it would help provide cash to allow us to invest further. In terms of aerospace, some sort of patient capital equity-type system would really help a lot of companies, especially where civil aerospace is a large part of their work.

We have made it halfway across the river with CBILS and furlough, but there is a risk that all of that will be lost if we cannot make it to the other side. The extension to the CBILS that the Treasury announced would have been useful, but, as of yet, it is unavailable. I know other companies—not my own—in the supply chain that are in real need of that. One of the primes said that 25% of suppliers in its supply chain were at risk.

**Jayne Moorby:** Yes, we support the idea of the supply chain investment fund. We operate globally and we need to remain competitive on an international level in order to be able to win new business and continue exporting. I would echo Mandy's comments about R&D tax credits. That is a really practical support for SMEs.



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Just going back to my earlier point about upfront development costs, we had a huge opportunity to create a new product for an aircraft platform in the States, but we could not fund the development work ourselves. A flexible loan scheme to support us in accessing money to do the development work would have been really useful to us. It is really difficult for SMEs to create the new technology if they do not have the cash available to invest.

**Q43 Chair:** Finally, before we let you go, one question on Covid-19 slipped through the net. Does this virus make defence companies more financially vulnerable and therefore more at risk of a foreign buyout?

**Mandy Ridyard:** There is a reason why a number of trade bodies have “aerospace and defence” within their title, and it is because aerospace and defence are intrinsically linked. Because companies are finding civil aerospace difficult, those companies that work in both, which is most of them, will be finding it tough to get through things; therefore, they are bound to be at risk from either disappearing or being taken over, not necessarily by China, but possibly.

**Jayne Moorby:** I would just echo what Mandy has said there. They are more vulnerable because of the cash position and also because of the sector outlook and the lack of confidence.

**William Hynett:** The risk factor must go up in this period ahead, but, having said that, we are a business that has been foreign-owned by one entity or another since 1974. Nevertheless, we are entirely a British company and that is achieved through demonstrating effective control from here in the UK. That is the key to this. It is not whether there is further foreign investment in the sector, but where the control lies within the businesses themselves.

**Chair:** That ends the session. Can I thank all three of you: William Hynett, the chief executive of Britten-Norman; Jayne Moorby, the marketing manager of Oxley; and Mandy Ridyard, the finance director of Produmax? Thank you to my colleagues and the support staff.