



Scottish Affairs Committee

Oral evidence: [The Referendum on Separation for Scotland](#), HC 271–iii

Tuesday 8 July 2014

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Members present: Mr Ian Davidson (Chair); Mike Crockart; Pamela Nash; Mr Alan Reid; Lindsay Roy

Questions 5851 - 5934

Witnesses: **Kenny Jordan**, Unite District Secretary, **Eric McLeod**, GMB Convenor TU Secretary, Babcock International Group, **Raymond Duguid**, Unite Convenor TU Chairman, Babcock International Group, **Andy Johnston**, Trade Union Liaison and Site Convenor, Optronics Business Segment, Thales UK, **Ronnie Taylor**, Software Engineer and Unite Shop Steward, Thales UK, and **Henry Wilson**, Lead Detail Designer and Staff Convenor, BAE Systems, gave evidence.

Q5851 Chair: Welcome to this meeting of the Scottish Affairs Select Committee. As you will be aware, we have been having a number of hearings on various aspects of the separation referendum. We have been particularly interested in looking at how separation might affect employment in general and defence jobs in particular. That is what we want to focus on with you today. Kenny, could you introduce yourself, giving your name, rank and title, and then either introduce everybody else or allow them to introduce themselves, so that we know whom we have with us?

Kenny Jordan: I am Kenny Jordan. I am the regional secretary of the CSEU in Scotland. I make that distinction in clarification because the paperwork that was produced had me down as being from Babcock Marine. However, we do have Babcock Marine represented here today, with two of its leading stewards. Also represented here are Thales, with two of its leading stewards, and BAE Systems, with one of its leading stewards.

As the CSEU in Scotland, we hoped to continue our campaign to try to get answers to questions from our members in what we are now calling the five major defence-related manufacturing companies operating in Scotland—Selex, Thales, Rolls-Royce, Babcock Marine and BAE Systems—on their concerns with regard to jobs. Ever since it was confirmed that there would be a referendum—and even before it was determined how many questions would be asked in that referendum or when that referendum would be decided—our concern as the CSEU in Scotland was to get to the debate on whether or not there would be an effect on jobs, especially jobs related to MOD contracts and defence manufacture. In those early days, we wrote to the Scottish Government and the UK

Government asking for clarification of what kind of effect there might be. Recently, we have been questioning the CEOs of the individual companies, because we feel it is only right that they give a direction with regard to how their employees could be affected should there be a yes vote.

As part of that campaign and strategy, the CSEU in Scotland has also written to the Scottish Government. Unfortunately, the Scottish Government are unable to meet us until 13 August, when they can afford us three quarters of an hour to debate what we see as a very serious matter. Come 17 and 18 September, our members need to make a lifelong decision on whether or not there will be hope for their industry going forward in a possible independent Scotland. That is heightened by the fact that we now have CEOs making comment and starting to live up to the responsibility to give that direction. Only last night, BAE Systems mentioned quite clearly that the investment that is required to keep the building of complex warships on the Clyde is something like £270 million. At the moment, the Scotstoun site is merely a demolition site. It will not become a build site until after 18 September and until there is confirmation that Scotland will remain within the UK.

Those are our concerns. We welcome the opportunity to express to this Committee our frustrations in trying to get answers from different sections of the sector. Shipbuilding is one area of the sector, but we still have serious concerns about the defence-related manufacturing sector in total, which takes in aerospace as well. I realise that I have gone on a bit and know that you will want to ask questions of our leading stewards, who are here representing those companies.

Q5852 Chair: Thank you for that introductory statement. If, at the end of our discussions, there are points that anybody feels we have not touched on, there will be an opportunity for you to raise them, just to make sure that we have caught everything. Could I ask everybody to get their name and details on the record?

Ronnie Taylor: I am Ronnie Taylor. I am the shop steward for Thales.

Andy Johnston: I am Andy Johnston. I am the trade union convenor for Thales.

Raymond Duguid: I am Raymond Duguid. I am the trade union chairman for industrials at Rosyth dockyard and the Unite convenor.

Eric McLeod: I am Eric McLeod. I am the GMB convenor at Babcock Rosyth.

Henry Wilson: I am Henry Wilson. I am the senior Unite staff convenor for BAE Systems on the Clyde.

Q5853 Chair: I apologise if we got any of the titles wrong—you just cannot get the staff these days. I blame the Government, either here or in Edinburgh, for that. Can I clarify what efforts you have made to have meetings with the Governments in both London and Edinburgh? I was at the launch on Friday and had the opportunity to introduce Philip Hammond, the Defence Secretary, to a number of you, but I know you have had other meetings with representatives of the UK Government. Could you clarify when those were and whom you have met?

Kenny Jordan: In 2012, we met Peter Luff, who was the Minister for defence procurement. That was before we had a date for, or knew the shape of, the referendum. That was the initial point where the UK Government stated quite clearly that, as far as they were concerned, complex warships had not been built outside the UK for a number of years and that was not going to change. That was an obvious warning light to us that we needed to seek some sort of clarification on the other side, if we had a yes campaign claiming that things would not change. We therefore wrote to the First Minister and requested a meeting. First of all, there was the usual response that they had noted the letter and—

Q5854 Chair: I am sorry—when was that?

Kenny Jordan: That was at the same time, in 2012. What emanated from that was that they offered us a couple of civil servants, whom we met. However, the answer at that time was that there was a White Paper to be produced in November the following year, which would give the answer to our questions. Our belief, post the White Paper, is that the White Paper does not answer those questions, so we followed it up by writing to, and requesting a meeting with, the UK Government, in the form of the Secretary of State for Scotland, who met us quite readily. At the same time, we wrote again to the First Minister. The matter was handed to Keith Brown to offer a response. Unfortunately, because of parliamentary business or whatever, the earliest opportunity that they have is 13 August, for three quarters of an hour.

Q5855 Chair: Can I clarify when you met Alistair Carmichael? Was he the person you met?

Kenny Jordan: Yes. It was on 5 June.

Q5856 Chair: You met Alistair Carmichael on 5 June. You have been waiting ever since then to meet the First Minister but have been given a meeting with Keith Brown for 45 minutes at some time in August.

Kenny Jordan: Yes.

Q5857 Chair: That is helpful. Does anyone else want to add anything at this stage about the process so far, before we get on to detailed questions? If not, can I clarify for the record how many people we have employed in defence jobs in Scotland, plus the various subsidiaries, subcontractors and all the rest of it? What is your estimate of the figure?

Raymond Duguid: In excess of 10,000 jobs in Scotland, I would say. At the present time, we have 4,500 people working at Rosyth on the QEC. There are another 3,000 on the Clyde.

Henry Wilson: BAE has about 3,500 spread across different areas of Scotland.

Kenny Jordan: Of course, we have a number working at Selex in Edinburgh, at Raytheon, and at Thales. If you compound that with the supply chain and the support for that, I would estimate that we may be talking about in excess of 20,000 jobs.

Q5858 Chair: The figure that we had was that the companies in the aerospace, defence and marine industry employed about 40,000, with the defence sector employing about 12,500. There were also various service personnel, as well as various subcontractors and the like. The point that I drew from that was that, if you are getting 45 minutes with a junior Minister in the Scottish Government, that is roughly a minute for every 1,000 jobs, which is perhaps not the best use of time in the circumstances.

Kenny Jordan: Maybe my estimate of 20,000 was wrong; we might then have got only 20 minutes.

Q5859 Chair: Maybe I should not have said that, in case your time gets cut. How long were you with Alistair Carmichael?

Kenny Jordan: An hour and a half.

Q5860 Chair: That is an indication. Can I ask you about the views that have been expressed by the employers? I know from previous discussions, both formal and informal, that you have written both individually and collectively to the employers to ask them for their views on the likely impact of separation on employment in the defence industries in Scotland. Did you get a collective response or individual responses?

Kenny Jordan: We asked that question as a collective but there were individual responses. It would be appropriate for the companies represented here to give an answer.

Raymond Duguid: Babcock was quite clear with the trade unions that the consequences of an independent Scotland for Rosyth dockyard would put at risk the Royal Navy contracts that Rosyth has at the moment and could potentially have in the future. Rosyth is a yard that is diversifying. We are diversifying into the commercial markets with BP, but Babcock will also see an impact on those jobs if Scotland votes for independence, due to the pause in setting up regulatory bodies for nuclear, oil and gas and aviation. Potentially, that could change some of the rules and how we go about our business in Scotland.

On the defence front it is quite clear. The company's audited accounts refer to the risks to the business in Scotland, which I can read out to you from this iPad. They include "A significant long-term reduction in revenue at HMNB Clyde and the inability to win contracts for the Royal Navy at Rosyth" and "In the case of Avincis"—a company that Babcock bought—"a reduction in demand for offshore crew-change helicopter services due to less investment in the North Sea." The report also states, "New Scottish regulatory and ownership regimes for the rail and nuclear industries and the aviation sector (plus health and safety as a whole) may have consequences for the Group's rail and nuclear

businesses in Scotland and the Avincis business in the North Sea.” If independence goes forward, Babcock sees it as touching the majority of its business.

The other point I would make is that Babcock can replicate at Devonport what we carry out at Rosyth—ship refit and the Royal Navy work. To say that Babcock might lose the contracts may not be right; the facts are that the Scottish Babcock employees would lose their jobs.

Q5861 Chair: Could I clarify that? The Navy work that you have in Rosyth is of different types. It has been suggested that there is nowhere else the second carrier could be assembled and that that work would therefore be secure, although obviously it would come to an end at a certain time. Is that a vision that you understand?

Raymond Duguid: The Queen Elizabeth, which we saw named on Friday, will finish at Rosyth in 2016; that work is safe. The Prince of Wales, which starts in September on No. 1 dock, should be constructed at Rosyth. There is some concern or doubt about whether she would be finished there. That is around things other than just the divorce and the fallout from that. It is also around things like ITAR—

Q5862 Chair: Can I come on to that later? We have a question specifically about ITAR. You envisage that the first carrier would be finished at Rosyth. The second might be finished at Rosyth and then moved elsewhere for the fitting-out to be done.

Raymond Duguid: That could happen. If not, we would have the Prince of Wales until 2018, when she goes on sea trials.

Q5863 Chair: The third issue, which is related to that, is the question of the blocks. Quite a number of the blocks for the carrier have been done in Scotland. My understanding is that those could be done elsewhere. The suggestion is that in the event of separation many of them would be. Can you clarify your understanding of the position?

Raymond Duguid: The majority of the blocks for the Prince of Wales are under construction already on the sites that are doing them, so those would not change. The money for moving blocks would be quite large, so I think the Prince of Wales will continue in its build format through to when it is a floating vessel. After that, I hope it will be left at Rosyth for outfitting, but there is no certainty around that.

Q5864 Chair: Could you pick up issues about the Clyde as well? You mentioned the possible loss of jobs at Babcock Clyde.

Raymond Duguid: The SNP Government have made it very clear that, in an independent Scotland, Trident and nuclear submarines would be removed from the Clyde. People in the industry understand that far more resource is required to maintain and refit submarines than to maintain and refit ships, so the impact on those specialist skills on the Clyde would

be quite severe. The “Scotland’s Future” White Paper states that there would be 15,000 people on the Clyde, but it does not give you a breakdown of how many of them would be military personnel and how many would be civilian personnel looking after the kit. Although 15,000 soldiers is good for the Army, it is not very good for the people of Helensburgh and Dumbarton, who work on the Clyde.

Q5865 Chair: So you have not had any of that clarified to date.

Raymond Duguid: No, I have not seen any clarity on it. All that they say is that it will be the headquarters of the armed forces for Scotland.

Q5866 Chair: Have you specifically asked the Scottish Government how many of the existing Babcock work force would be retained under separation?

Raymond Duguid: It is hard to ask somebody who does not want to meet you.

Q5867 Chair: That is a very fair point. Eric, do you want to add to that?

Eric McLeod: Not really. Earlier, you mentioned Philip Hammond. On Friday, he did come over to speak to us. Basically, he said the same thing that Peter Luff said—that the carriers would be refitted in Scotland, when they were due for refits, if there were no independent Scotland. We know that that would be 50 years’ work. In between that, we would need to get other work to keep the docks going and to keep the work force there. He made it quite clear again that the likelihood of refits being done at Rosyth would be zilch—they would be moved elsewhere—if there is a yes vote. We can understand why, because the unions down south would not be very happy about an independent Scotland taking the work away from Portsmouth, Devonport or wherever it was. That is what Philip Hammond said.

Q5868 Chair: It has been suggested that only Rosyth could undertake this work. Is that your understanding of the position?

Eric McLeod: There is only one other. Harland and Wolff’s dock might be able to do it, but anywhere else it would cost millions to create new docks.

Raymond Duguid: It would cost a lot of money to replicate the facility at Rosyth. We are under no illusion—we believe that Rosyth has a first-class facility, better than all the rest. However, if we are independent, that changes everything for us. At the moment, we have to fight against the south coast to win work for Scotland and for Rosyth. I do not see any politician committing political suicide by giving work to a foreign country. That is what we believe.

Q5869 Chair: Henry, you represent the Clyde. What is the position of your employers?

Henry Wilson: A few months ago, Ian King, the CEO, released a statement to the employees putting forward the company's position at the time. It said that, at present, there was a measure of stability and certainty within the company, because we were moving forward on the basis that there would be a no vote and the expected placement of the Type 26 contract at the end of this year would therefore come to the Clyde. On the back of that contract placement, circa £270 million-worth of investment is planned for the Scotstoun facility. Planning permission has already been given to do all the site surveys and so on to test the land for the new facilities. The investment in that site is significant. It will become a state-of-the-art shipbuilding facility, almost second to none, with an approximately 330-metre dock hall specifically for the construction of Type 26 frigates. That will be big enough to take one and a half of them. In relative terms, the Type 26 is roughly the same size as the current Type 45 destroyers, so it is a big facility and a major investment.

The company has also made it quite clear that in the event of a yes vote that position would become completely uncertain because of the placement of contracts with a foreign country, which we would be at that point in time. They would need to go back to the UK customer and have discussions about how those and other Navy contracts would be placed going forward. From a TU perspective, we are in no doubt whatsoever from the statements that have been made in Parliament that those contracts would not be placed in Scotland. As far as we are concerned, if there is a yes vote in September shipbuilding in Scotland is finished from a defence point of view. We cannot see any change to that.

That position has been more or less maintained by the company until yesterday, when Sir Roger Carr, the chairman of BAE Systems, quite clearly came out and stated that the company's expectations are that, if there is a yes vote and Scotland becomes independent, Navy and UK Ministry contracts will not be placed in Scotland. That has been quoted in the press today. He also stated that it is possible for the Type 26 to be built in Portsmouth. That would be at a significant cost to the UK Government, because it would cost them more to build them down there than anywhere else and would probably end up in a reduced number of ships. Right now, we are trying to get a full 13-ship contract. If it will cost them more to do it by building them somewhere else, they will just cut down the number of ships to make that affordable. As the guys have already said, from a TU point of view, in particular, we do not expect that these contracts will be placed north of the border in the event of an independence vote. We would not expect our colleagues down south to allow that to happen.

Q5870 Chair: It seemed to me that Roger Carr was just confirming what a number of BAE people have said to me privately—that there is a plan B in the event that the UK Government say, “We are not building in Scotland,” which is to build the ships either in Portsmouth or somewhere else.

Henry Wilson: Alex Salmond continually says that there is nowhere else these ships can be built. That is quite blatantly not true. We own two shipyards in the south that could do that. There are also another three.

Q5871 Chair: The “we” who own those two shipyards are presumably not you.

Henry Wilson: It is BAE Systems. We have the Barrow facility and the lease on the Portsmouth facility, which could be reactivated. There are also Cammell Laird and other sites down south where, if necessary, ships could be built, with a little bit of refurbishment of the yards. If the no vote is not successful and we go independent, that 270 million quid of investment will not come to Scotland.

Q5872 Chair: I turn to Thales.

Andy Johnston: The situation is very similar. Thales Glasgow is now a Thales UK site. We are now one legal entity in the UK, so we are Thales UK Glasgow. We have similar problems. Since last year, the stewards in Glasgow have been asking our senior management on site about the future of the site, based on what our colleagues have been saying here, but we have not been given any clear, definitive views on it. We in Glasgow were founded in 1888; we were formerly Barr and Stroud. Our concern is that we are in a highly vulnerable position, based on what has been said by UK Government Ministers. Recently—on 15 April—the Defence Minister, Philip Hammond, visited the site. He endorsed all the concerns about other indigenous businesses and said they would look at what they could do.

It has been said in some circles that if you have a specialism you are safe, but to me that is nonsense. The Glasgow site, where we are, has benefited in the last 10 years from closures of other Thales sites in the UK, with a work transfer to Glasgow, but the only product we have had is submarine periscopes and optronics masts for the Royal Navy, for which we have been the sole suppliers since 1917. An open letter was sent to *The Scotsman* with key questions, and we have asked the Thales UK corporate for its view. On Friday, we put out a statement to our members in the work force, with two questions addressed directly to the corporate. Those were, “Should Scotland leave the United Kingdom, what is the Thales corporate business continuity plan for Thales UK Glasgow?” and secondly, “Should Scotland leave the United Kingdom, will the Thales UK Glasgow site remain open?”

The concern that we and our colleagues have is this. There are six manufacturing sites in the UK. There is one site in Scotland; the other five are in Belfast, Templecombe, Crawley—the big new supersite—Basingstoke and Cheadle Heath. It is nonsense to say that you have a specialism and your job is safe. We are in a highly skilled industry. We have mobility of labour and graduate programmes and apprenticeships up and down the land. It has not been plain sailing with the UK MOD—we have still had redundancies as part of the UK—but the marketplace is shrinking ever more. I will give you the most recent figures. About 70% of our orders are UK MOD and other, non-MOD, UK orders, and 30% are export. In 2011, we won a Queen’s award for enterprise in international trade, but we got that because many of the products were endorsed by the Government of the day. It is not a guarantee that you will win the orders, but it is a help to get an endorsement from your Government. If Scotland is independent, our Government will be telling us to bid to another Government when we are no longer part of that marketplace, and they will not be able to endorse our product line.

The concern that we have quite categorically—I appreciate the work that Kenny and the guys at the Confed are doing to highlight this—is that we are still waiting for a definitive answer from our CEO. I put forward our questions last Friday. We did get a response, in fairness to the CEO, who was there when Philip Hammond was on the site. We thought that we might get something then, but we did not. However, when the open letter was put into *The Scotsman* we did get a response. I am sorry for going on, but I think it is key; I can give you a copy of it after the meeting, Chair. It says, “While we cannot predict the exact consequences or circumstances that would follow from a yes vote in the referendum in September, there would inevitably be significant uncertainties in the business environment that could only add to the challenges and competitive pressures we already face in Thales Glasgow.” I know I am reading between the lines or the scriptures here, but that tells me there are problems afoot. It may be unfair for me to read parts of the response, in case I get accused of scaremongering, but in another paragraph it says, “Having reviewed this information to date, and noting the views expressed by a number of business organisations in Scotland”—this is key—“I can see no specific changes to the business environment from independence that would benefit Thales’s business in Glasgow, either in domestic or export markets.”

As stewards—Ronnie is one of 10 stewards we have on the site—we have sent out an update saying that we are coming here and that the Veterans Minister is going to meet us in mid-August. The big concern we have, which we re-emphasise—we are not scaremongering—is that we believe Thales Glasgow is in a vulnerable position, based on the fact that in the last 10 years we have had transference of workloads from other UK sites. One of my colleagues mentioned other sites. If there were a yes vote, and I were a convenor down at a supersite with a poor order book but chasing MOD work, I would be saying to my respective MP or the CEO, “They are no longer part of this. Rather than have redundancies, we have the right as part of the UK base to seek that work.” That is logical.

Rather than go on about this any more, I would say that the key for me is that we are one legal entity. We are a Thales UK site. We have five other manufacturing sites elsewhere in the United Kingdom and a sole manufacturing base in Scotland. I may have given you a wee bit more than you anticipated, but I think that is key. We are really pleased to be here, because we have concerns about the future of the site. The company will need to come out. We will continue to ask it to answer our two questions, which are not hard to answer. BAE Systems’ boss has come out. The chairman of MacTaggart Scott, which is part of the consortium Thales is involved with at Rosyth—we have a design team of 40 based at Rosyth for Thales UK, so we are part of that on the shipbuilding side—should be commended for the statement he made last Friday, which I have here. It says, “In an effort to continue to be a responsible employer, we do not see it as a responsible choice for us as a company to support anything other than staying in the UK.”

Q5873 Chair: Can I be clear on who the statement is from?

Andy Johnston: That was Richard Prenter, chairman of MacTaggart Scott.

Q5874 Chair: What is MacTaggart Scott?

Andy Johnston: MacTaggart Scott is part of the consortium. It has been working on Royal Navy contracts since 1898 and is working out of Rosyth.

Q5875 Chair: I did not mean to interrupt your quote. I just wanted to be clear about who they were.

Andy Johnston: What I am getting at is this. They have a work force of about 350. They rely on the UK Government, no matter what Government, and have been doing that since 1898. We have been supplying periscopes to the Royal Navy since 1917. We supply the whole Royal Navy fleet. If its base moves elsewhere from Faslane, where do we move? The Royal Navy will not stop building submarines; Barrow builds them. If it retains the same tendering process and that stays indigenous, it will still need periscopes, especially on the optronics side of the business. That is a real concern. From Barr and Stroud to Pilkington and Thales, we have had a lot of changes, but we are still based in Glasgow. Last year, we celebrated 125 years in Glasgow. We have changed names a lot, but we have never left Glasgow. There is a concern about our future.

Q5876 Chair: Ronnie, do you want to add anything to that?

Raymond Duguid: No, Andy has covered all the concerns of the work force at Thales in Glasgow.

Q5877 Chair: We do not have a representative here from Selex; I understand that there were some difficulties about that. Kenny, is there anything you want to add relating to Selex?

Kenny Jordan: If you take the dilemma and position Thales is in, the same concerns are almost mirrored at Selex. More jobs are probably at risk there than at Thales.

This is our main concern. We offer up an apology, as Selex hoped to be here. There is not only Selex; Rolls-Royce is a bit more distant from the sector but is still involved. It is unfortunate that we are coming here before having met the Scottish Government, because we are seeking answers from them to a number of questions you are asking us. I do not know whether we will get the opportunity to revisit and update our evidence to the Committee.

Q5878 Chair: By coincidence, before you came in, we were discussing whether or not it would be possible for us to meet you after you have met Keith Brown for 45 minutes. We were going to suggest that, if it was agreeable, we would try to meet all of you the next day, which is 14 August. We are trying to set that up and to make arrangements for a quorum. At the moment, that is what we want to propose, but we will come back to you once we have clarified whether or not we are able to manage that. It would be helpful if you were able to speak to Selex and Rolls-Royce stewards to clarify whether or not they want to let us have

something in writing, given that they are not physically able to be here, so that their concerns are on the record as well.

That has been very helpful. The other category I want to raise with you before I move on to my colleagues is the question of pensions. I know that, in the submission that you made to employers, you asked specifically about pensions. We have had reports from various witnesses—indeed, we produced a report ourselves—about pensions. The question of cross-border pension schemes is under doubt. I would be grateful if you could clarify, first, whether you have raised that with your employers individually and collectively, and secondly, what sort of responses you have had.

Kenny Jordan: That is an issue that goes right across the companies represented here today and the two that are missing, namely Selex and Rolls-Royce. I know that there have been conversations within the companies. It might be best for the leading stewards to comment.

Chair: Let us do that again. I turn to Raymond and Eric from Babcock.

Raymond Duguid: From a Babcock point of view, the Institutions for Occupational Retirement Provision Directive, which has been rubber-stamped recently, stipulates that cross-border pension schemes within the EU must remain fully funded. Ironically, an independent Scotland not being in the EU would probably be better for the work forces in defined benefit pension schemes, because this directive would take effect when it got into the EU.

Rosyth's defined benefit pension scheme is run from Rosyth, so it might not be classed as a cross-border pension scheme. Whether it was or was not would depend on the wording and the decisions that were taken at that time. Babcock is not currently looking at this. It has asked for legal advice, and the legal advice is, "We don't know yet." Like everything else with independence, nobody knows what is going to come out of the shaker at the end of this if there is a yes vote.

The concern that we have as trustees is that we do not know how the tax implications of an independent Scotland will impact on pension schemes or whether they will make the schemes too expensive. It is up in the air. Rosyth's scheme is based in Scotland and the Clyde scheme is based on the Clyde, so that is okay. The real issues are with BAE Systems and the other—

Q5879 Chair: I will come to them in a second. Let me be clear. As far as you are aware, neither the Rosyth scheme nor the Babcock Clyde scheme would be a cross-border scheme, so the question of having to end any deficits within a certain period under EU regulations probably would not apply.

Raymond Duguid: Yes. We do have some members who are down south in England. Potentially, they would just have to leave the scheme.

Q5880 Chair: Henry, can you clarify the BAE position?

Henry Wilson: As part of his statement to the work force, Ian King commented briefly on the pensions. I will quote from that. He said, “The issue of pension schemes has been raised and is especially complex. If Scotland became independent and then subsequently joined the European Union, our pension schemes, along with many other UK company schemes, may be caught up in EU regulations relating to cross border pensions. The reality today is we can’t say how our pension schemes would be affected.” That is because of all the red tape and the cross-border issues. At present, they do not know exactly how each of the different pensions schemes that we have would be affected and in what manner.

From a TU perspective, if they got caught up in those kinds of issues, we would definitely expect the current final salary schemes that are in place to be terminated, because of the affordability of those schemes having to become fully funded. People would have to go on to some kind of defined contribution scheme. From a TU member point of view, that would be a significant detriment to our members.

Q5881 Lindsay Roy: Is it the trade unions that have raised this with the company, not the Scottish Government?

Henry Wilson: We have raised the questions with the company about what would happen on that.

Q5882 Lindsay Roy: So they have not raised the question of pensions for employees at all, as far as you are concerned.

Henry Wilson: No, not as far as I am aware.

Q5883 Lindsay Roy: Are you surprised about that?

Henry Wilson: Yes, I am. It does not matter what question you ask the current Scottish Government right now—you do not get an answer back.

Q5884 Lindsay Roy: So this is a-wing-and-a-prayer stuff.

Henry Wilson: That is definitely what I feel about it. I have not heard them give any definitive answer to any question that has been asked in relation to industry. All they say is, “Oh no, it is all right. We will be building warships in Scotland.”

Lindsay Roy: It will be all right on the night.

Henry Wilson: One every five years, which would never keep us going. We need significantly more than that.

Kenny Jordan: The CSEU in Scotland took the view that perhaps we were asking too specific a question when we asked what would happen to defence-related manufacturing

operations in Scotland. We broadened that question to the First Minister and asked what the vision was for the industrial landscape in a possible independent Scotland. I do not know whether the Minister will be able to explain that in 45 minutes, but we are hoping to get some sort of exposé.

Q5885 Chair: Can I come back to the question of the BAE position? My understanding from other discussions is that there are a number of options. One, as you said, is the closure of the existing final salary scheme. The other main set of options is around the question of eliminating the deficit, which would involve a combination of three things. One is to cut benefits. The second is to increase payments into the scheme from the firm. The third subset is to increase payments into the scheme from employees. Have you had any indication from BAE, either individually or collectively, of which of those options it is considering at the moment?

Henry Wilson: No, not at this time. All they have really said is that at the moment they cannot say how the pension schemes would be affected. They do not know that at this point in time because they do not know what the end situation will be.

Q5886 Chair: The end situation, if there were separation, would be separation. I am not quite sure what they do not understand about that.

Henry Wilson: As Raymond said, a lot of it would depend on whether or not Scotland got into the European Union, as a lot of this cross-border stuff is tied up with EU regulations. All they have said to us right now is that they cannot definitively say at this point in time exactly how the schemes would be affected.

Chair: Right. We will have to try to get some straight answers from BAE on this. We will have to see whether we can find somebody with a public sector-facing remit and whether or not they can clarify this for us.

Raymond Duguid: Our view is that defined benefit pension schemes are a dying benefit to the members. They are expensive for companies. In an independent Scotland, they would become more expensive. Some of the issues are around contracting out, where companies do not pay into the second state pension and contract out of that part of it for their defined benefit schemes, which cuts the costs. That could disappear in an independent Scotland, which would increase the cost to the company and employers involved in a pension scheme. The other thing to realise is that people on the dole do not get defined benefit pension schemes. The fact that the schemes might not be cross-border come independence might be a non-issue for BAE Systems and Babcock, because there might not be anybody in Scotland working in shipbuilding.

Q5887 Chair: To be fair, we do understand that. Your position in the defence industry is particularly vulnerable because the UK is the main orderer, but the issues that you are facing as trade unionists in terms of cross-border pensions will be replicated with a lot of people employed in the private sector. Any precedent that we are able to clarify in relation to you

could be carried over and would inform the position for a lot of employees elsewhere. We will probably want to clarify with both Babcock and BAE Systems the position on pensions as they understand it. I turn to Thales.

Andy Johnston: We have not raised it, but I certainly will now. We discussed the cross-border issue prior to coming in. We had nine defined benefit schemes, which were amalgamated into one. I understand that, since 2008, there has been a Thales UK pension scheme. I do not know too much about the detail, but if you are talking about cross-border schemes, we have a Thales UK scheme that is run from London—or the head office, which is Weybridge corporate. Without going into detail, we will certainly ask about that when we go back up the road. I will take that back and add it to the two questions that we are sending to the CEO, because it is a key one, too. Thanks for that.

Q5888 Chair: You were in the position that Babcock Rosyth is in of having a Scotland-only scheme, but now it has been changed to a UK-wide scheme.

Andy Johnston: It used to be a Barr and Stroud scheme. Along the way, it was changed to a Pilkington Optonics scheme. It is now a Thales UK-driven scheme.

Chair: Kenny, it would be helpful if you could feed this back to Selex and Rolls-Royce and clarify whether there is any information that they have obtained from their employers about the pensions position there. That was very helpful.

Q5889 Mr Reid: Thanks for coming along this afternoon. As we heard earlier, it is likely that in the event of separation the continuing UK Government will want to base all their defence work within the continuing UK. Would the companies be able to transfer all of the work, or are there certain types of work that would have to remain in Scotland, either because of the problem of replicating facilities south of the border or because of lack of skills south of the border? Are you aware of any examples of that?

Andy Johnston: As I said earlier, we have benefited over the last number of years. I used that word because it is true. For logistical and business reasons, the company made business decisions to close big sites that were highly skilled and to move work to Glasgow. What I said earlier still stands. There is a specialism on the periscopes, but we moved from Anniesland to where we are now in Glasgow. In my view, if you can move 4 miles, you can move 400 miles.

What I am getting at is that the people at the sites we closed were highly skilled—we are discussing a highly skilled business. People were asked to come. If your site is closing down and you know your job is finished, you may be given x amount for a transfer for three years to go and retrain someone. That did happen in Glasgow—we still have guys from Bury St Edmunds and the laser site at Taunton, which was closed down, helping us. People say that if you have a specialism that is your anchor and you have job security, but right now we are in the UK and do not have job security. We are in the defence game, which is a precarious business. It is said that, if you have a specialism, you cannot move no matter what happens—that you will be safe even if you get invaded or go independent—but I would say that no one is safe. You can move anywhere. Maybe it is

different for my colleagues who are at Faslane, Rosyth and so on, but I am talking about a dry-land site.

Q5890 Mr Reid: So you think individuals would just be given an inducement to move.

Andy Johnston: I think they would. That is what has happened. We have had business transfers into Glasgow. Folk have been offered the chance to come up. We have had guys working with us for two years. They travel back and forth. Other people have stayed even longer to help us out. They have a skill level that we still need on the site, but I dare say that you could replicate that.

Q5891 Mr Reid: What about Babcock, which has a lot of fixed assets, both at Rosyth and at Faslane and Coulport? Could those be replicated south of the border?

Raymond Duguid: I will start with Rosyth and the Royal Navy work that is carried out there, bar the building of the aircraft carriers. You need to understand that we at Babcock Rosyth are not shipbuilders. Although we are very good at it, that is not our core work—our core work is refit and repair. That facility is available down at Devonport. If people were being honest and businesses were running the Navy, there would not be three refit yards in the UK. Rosyth survives because it is the most efficient and the best. The other two are attached to naval bases. Work at Rosyth for the Royal Navy could transfer to Devonport. That has actually happened—because of the work force being diverted into building the carrier, all the refit work at Rosyth has gone to Devonport in the interim.

Faslane is a totally different kettle of fish. The nuclear submarines and Coulport, in particular, are strategically important to the UK. Replicating Coulport anywhere else in the UK would be incredibly expensive and finding the right site would be incredibly hard. The Scottish Government believe that this separation will be an amicable divorce, but I think it will probably be one of the nastiest in history—and I have been through one that was not too good.

Chair: Enough! Moving on—

Raymond Duguid: The Scottish Government could unilaterally disarm the United Kingdom, because there would be no place to put these missiles unless the Americans agreed to store them. The facility at Coulport is key to the UK deterrent.

Q5892 Mr Reid: We know that the Scottish Government's policy is that anything nuclear has to go; they are quite definite on that. If the nuclear part of the business goes, is there enough left to justify any work remaining at Faslane and Coulport for the UK, as opposed to a new Scottish navy?

Raymond Duguid: If you look at the “Scotland's Future” White Paper, there would be a Scottish navy. A lot of it would be assets from the UK Navy, which would need to be negotiated, but the SNP has a clear view of what it is entitled to. It has clearly stated that

Faslane will be the naval base for an independent Scotland, with the potential for a small naval base at Rosyth. Somebody pointed out that all the things that an independent Scotland would have to protect—the oil and the fishing grounds—are actually on the east coast, not the west coast, which made the SNP think.

I do not think there are enough ships for two naval bases. We would not have any submarines. The UK, which has a far larger navy, has naval bases at Portsmouth and Devonport and submarines at Faslane, so it has three naval bases. Scotland would have two. I worry that we will be warmongers in Scotland, because we will have every battalion reinstated, we will have two naval bases and all the air bases will be opened up again; we will be pretty mighty. As I said, the “Scotland’s Future” White Paper says that there will be 15,000 people at Faslane but does not give any breakdown of what will be civilian jobs and what will be military jobs and how those will be costed and afforded. We have no faith in what is in the “Scotland’s Future” White Paper on defence.

Q5893 Mr Reid: Do you see any possibility of still carrying out work for the UK from the likes of Faslane or Coulport, even without anything nuclear? Is there any possibility of any non-nuclear work?

Raymond Duguid: There would potentially be refit work on the Scottish navy at Faslane and Rosyth, but nobody knows how big that would be. I do not think there would be enough to sustain two yards. It would become a fight between Faslane and Rosyth about which one was more valuable. My view—and the view of the trade unions at Rosyth—is that when the SNP clearly stated that it would make Scotland a nuclear-free country it had to appease Faslane in some manner by saying, “Here, have everything else,” which was a bit unfair to Rosyth. Perhaps that is why the Scottish Government refuse to come and visit us.

Q5894 Mr Reid: What about BAE? Could the fixed assets at the shipyards on the Clyde all be transferred to shipyards south of the border?

Henry Wilson: From a fixed asset point of view, we do not own the Govan site—it is rented. The only site we own is the Scotstoun site. It is virtually in a mothballed situation at the minute because we are going into a redevelopment, based on getting the investment I have mentioned. If you listen to Mr Salmond and co., he would like the Scottish people to believe that the Clyde yard is the only yard left in the country capable of building warships, which is clearly not true. Sir Roger came out and confirmed that just yesterday. He stated clearly that, from the comments made in Parliament about not placing contracts north of the border, he does not expect that situation to change.

From a TU point of view, we do not see any reason for that to happen or to anticipate any change to that position by the UK Government. Although we are an extremely skilled work force and are very progressive in our attitude and in the things we are taking on to evolve for the future in order to make the Type 26 affordable, there is nothing that we do on the Clyde that could not be done elsewhere.

Q5895 Mr Reid: As you know, article 346 of the European Union treaty allows the UK Government to award work within the UK without having to go out to international competition. If you no longer had the benefit of article 346 as far as UK work is concerned, would your companies based in Scotland be in a position to win work in international competition?

Kenny Jordan: BAE Systems did not even tender for the MARS programme, the ships for which are being built elsewhere. That is an indication of the best place for taxpayers' money. If Scotland were independent, for its yards to win, it would need to enter the competitive market, which is quite obviously going eastwards in the world.

Q5896 Mr Reid: Does the rest of the panel agree with that? Would any of your companies be in a position to win against all international competition?

Raymond Duguid: Babcock's vision for Rosyth is that we will have between 60% and 70% commercial work and 30% to 40% Royal Navy work going forward. That is an indication of the size of the Royal Navy and how many ships it has. It is a much more advanced navy now, with better kit but fewer ships. For Babcock, Rosyth will be there if the oil and gas industry succeeds and the price of oil stays up, but it is all ifs, buts and maybes. The Royal Navy work will go. There are 2,000 core workers at Babcock, so between 600 and 800 jobs are tied into that Royal Navy work. There is also the potential for Babcock to win work on Successor, which is the replacement for Trident; we are well placed for that. However, these decisions are all on hold because of September.

Q5897 Mr Reid: Without the 30% to 40% of Royal Navy work as a secure base to start with, would the company be in a position to win other work?

Raymond Duguid: We would not be in a position to win Royal Navy work if it were put out to tender. Alex Salmond and the SNP continually say, "Look at Norway." If you look at Norway, it has had five new ships built. They were built in Spain; they were not built in Norway. That is what would happen. The Scottish Government had two ferries to build. They went to Poland because the Scottish companies could not compete. The direct review said that they could not use the exemption for ferries, so they had to go to open tender in Europe. The answer to your question is no. Scottish shipbuilding had to specialise in military work for the Royal Navy because we were wiped out by eastern Europe. Eastern Europe was then wiped out by the Pacific rim. That is where we are. We cannot compete.

Q5898 Mr Reid: What about Thales?

Andy Johnston: It is down to the decisions the boardrooms will make and whether there is a plan B. We have been asking about that. If there is a yes vote, will the business remain where it is? I do not want to second-guess this, but we have bid in international markets and won awards; 30% of our business is exports around the world. However, that depends

on what decision is made by our owners. Will they want to use the same product line but to bid from within the UK? It would be untrue for me to say, “Yes, we could do it.” It would have to be a business decision, based on what is best for the shareholders and the product line that they have.

Q5899 Chair: My understanding of Thales’s export work was that those orders had been won on the back of orders that had been won from the Royal Navy.

Andy Johnston: Exactly.

Chair: By being in the UK, you were getting those orders. The export orders were not standing alone—they were based on piggybacking.

Andy Johnston: You are perfectly right. It is not a guarantee that you will get it, but it is certainly a help when we get an endorsement from your Government. Maybe I answered the question wrongly. If, post a yes vote, this site is in a foreign or an independent country, Thales will need to decide what business decision to make, based on what the Chair has said. Everything to date, barring a few contracts, has been with the help and endorsement of the sitting Government in the UK.

Henry Wilson: Historically, BAE has not been particularly good at winning overseas work. We have had a few OPVs and stuff like that, but the company’s vision and strategy going forward is to be far more successful in overseas markets. A large part of that is based on investment in the new facility, because that is part of what will drive in the efficiencies to get our costs down and to make us more competitive on the open markets. The winning of the Type 26 contract is part of that, because that will be our main product for the next 20 or 30 years.

Q5900 Mr Reid: Would it be right to say that without the Type 26 contract you would not be able to compete?

Henry Wilson: Without the Type 26 and without the investment, we have virtually no chance of winning overseas orders—other than, potentially, a hand in design work, selling designs overseas and things like that.

Chair: Raymond, you wanted to come in on that.

Raymond Duguid: Your question is quite hypothetical, as everything is at the moment because of the independence referendum, but Babcock would not want the UK Government to throw away the directive that keeps the work in the UK. Babcock would want the work at Devonport because then it would get a decent profit out of that. It is the same for Selex, Thales and BAE Systems. This is not about Babcock and BAE Systems losing work—this is about losing Scottish jobs. It is the Scottish jobs that are at risk, not the companies. The companies have facilities south of the border. The geography changes for them, but it is business as usual afterwards, potentially.

Kenny Jordan: The danger is that you can have haggis in any workplace canteen.

Pamela Nash: Including the House of Commons.

Kenny Jordan: Not the House of Commons.

Q5901 Lindsay Roy: The *UK Defence Journal* raises questions about licensing of US technology. You mentioned ITAR. Can you tell us what ITAR is and how it could be a barrier to the UK awarding licences to any companies in a separate Scotland?

Raymond Duguid: ITAR is the International Traffic in Arms Regulations, set up by the United States Government.

Lindsay Roy: I just wanted you to say that, because it is a mouthful.

Raymond Duguid: Basically, it means that to share technology with the US you have to do so under a licence. Not everybody gets a licence. There is nothing to say that an independent Scotland would get that licence. If, as I stated earlier, the Scottish Government in an independent Scotland forced the UK to be disarmed of nuclear weapons, I do not foresee the Americans being very happy with that state of affairs.

ITAR impacts on just about every naval ship. The Type 45 is covered by ITAR. The carriers are covered by ITAR. Successor, which I talked about earlier, is covered by ITAR. The Type 26 will be covered by ITAR, because of the shared technology. If Scotland did not get an agreement with the Americans to operate American equipment under ITAR, the Prince of Wales would be moved out of Rosyth as soon as she was floated. We would not be allowed to touch that ship because of the ITAR implications. If you walk through the Queen Elizabeth, you will see compartments with American flags on the door. Only specific employees are allowed in those compartments, because there is ITAR equipment in them. It is that serious. There are huge fines for anybody who breaches ITAR. The concern we have about the Prince of Wales sailing under the Forth bridges early is because of ITAR, which could mean her being taken down to Portsmouth to be finished there.

Q5902 Lindsay Roy: Does that apply equally to Thales?

Andy Johnston: I think we have one or two contracts involving ITAR, but generally it would be much the same. I cannot give you the same technical detail, but we have ITAR contracts. We deal into America, but we do not get into America much; they are very protectionist—very like the French, which may be why they are sometimes at loggerheads. We have got into sub-assembly for America in the past, but there are ITAR agreements. I would say that the position is similar. I dare say that the same applies to Selex. Wherever there is international trade and we have exports, especially to America, ITAR may affect those contracts.

Q5903 Lindsay Roy: Are there any other comments from the panel?

Henry Wilson: The same stuff applies equally to us. All of our employees have had to do online courses on ITAR to make sure they are aware of what it is, what they can do and

what they cannot do. There are areas even within the office environments that are designated as ITAR areas, where all that documentation needs to be kept so that it is not on open access to everybody. It would be a very different environment indeed if the people who had those licences—

Q5904 Lindsay Roy: To what extent are you aware of other companies in Scotland that would be similarly affected? I am not necessarily talking about naval companies. There are companies in Fife, for example.

Eric McLeod: BAE Systems at Hillend would be affected.

Raymond Duguid: Anything where there is partnership or co-operation with Americans would potentially be affected. If the SNP's asset sharing involved an F-35, that would be an issue, because that is an American plane and would have ITAR. It is anything that has American equipment.

Q5905 Lindsay Roy: I am conscious of the concern of a number of my constituents at Raytheon.

Raymond Duguid: Yes—Raytheon would potentially be affected as well.

Andy Johnston: ITAR affects not just America—I think it impacts on contracts with Japan and so on.

Ronnie Taylor: There are similar ITAR problems with them as well.

Q5906 Chair: Kenny, can I clarify whether or not you have raised this with the Scottish Government and had any response? Has this been identified as an issue by the Scottish Government? Have they put forward proposals as to how it would be addressed?

Kenny Jordan: The short answer is no. We cannot get by the request to have an opportunity to put questions. We are being told straightforwardly, "You will get a meeting on 13 August." The other response is that the White Paper was supposed to answer all of the questions that had arisen. It is obviously another of those questions that we will probably need to make as brief as possible so that we can fit them in within those 45 minutes.

Q5907 Chair: Have any of you raised these ITAR issues with your own employers? Is there any evidence that your employers have thought about these issues and have a proposal to deal with them?

Raymond Duguid: We have certainly raised ITAR with Babcock. The answer we get back is, "We don't know." It is like everything else around the referendum. They say, "We don't know what the impact will be on anything after that, because we do not know what

Scotland's standing will be within the defence industry—what our standing will be with the Americans and with the UK.” There is uncertainty.

Q5908 Chair: You have raised this with Babcock; they have said that they do not know. Do you know whether Babcock has raised this formally with the Scottish Government?

Raymond Duguid: It was raised at the ADS. The question was asked there of, I think, Keith Brown. I do not think the answer was very forthcoming.

Q5909 Chair: Kenny, it would be helpful if you could clarify whether any of your colleagues have raised this directly with their companies, whether their companies have then raised it with the Scottish Government and, if so, whether there have been any responses.

Kenny Jordan: Rolls-Royce has a great deal of connection with America, in particular. I imagine that at Rolls-Royce there may have been conversations with the employer on that issue. It will be part of the request for a submission that, hopefully, we will be able to give you before we meet again.

Q5910 Chair: That is fine. I presume that you will not just wander into the meeting with the Scottish Government without having told them the sort of issues you will want to have responses to.

Kenny Jordan: They have not asked for an agenda in that respect.

Q5911 Chair: However, you are sufficiently astute to know that producing an agenda for them in advance would probably be a good idea.

Kenny Jordan: On each and every occasion we have given an open agenda. They do not seem to stick to the script anyway.

Q5912 Pamela Nash: All of you have expressed a feeling of uncertainty about the future of the defence industry in Scotland, should there be a yes vote. The comments made by the Scottish Government so far suggest that they are quite confident about its future, particularly in shipbuilding. Alex Salmond is quoted as saying, “The Royal Navy will continue to order ships from Scottish yards, based on the fact that these are the best places to produce these vessels.” You may know about Nicola Sturgeon’s comments at the Scotstoun yard about the future of shipbuilding there. That is despite the fact that both Philip Dunne and his predecessor have clearly put on the record that they cannot foresee a circumstance in which the UK would order from a foreign country; indeed, history tells us that. Do any of you have any insight into why the Scottish Government appear so confident and assured that shipbuilding will continue if Scotland becomes independent? Are they right to be so assured about that?

Henry Wilson: We are certainly not under any misconception that we could expect the UK Government to continue to place orders with us in an independent Scotland. Neither is the company.

Eric McLeod: Do you think the MPs in the Portsmouth area and the trade unions in the south would stand still and watch work go out of their country to a foreign country? We cannot see that.

Henry Wilson: That is the argument that we have used for years, so why would you expect anybody in the shipbuilding industry down south not to use exactly the same argument? We would not expect them to do otherwise. The only reason I can see is that Alex Salmond does not want to turn round and tell the Scottish people that they would not be able to afford to keep our shipbuilding industry running. That would not be a nice thing for him to have to say running up to an independence referendum.

Raymond Duguid: If you look at the “Scotland’s Future” White Paper and listen to the assertions of the yes camp, there are no negatives to independence. There are negatives to everything. I think Keith Brown was at the CSEU conference. When we meet the yes side, all we ask is that they give us the truth and the information, so that when our members—Babcock employees—go to the polls on 18 September they can make an informed decision for themselves. Be under no illusion—if it could be proven that in an independent Scotland everybody would be £1,000 better off or we would all have mansions, castles, moats and everything else that the SNP is promising us, it might be a good idea, but right now there is nothing there. Nothing at all is coming from the yes side. I firmly believe that the people of Scotland are not daft enough to believe that this is all milk and honey and everything will be better, because it will not at all.

I was at the naming ceremony for the Queen Elizabeth on Friday. Alex Salmond was booed to such an extent that my brother-in-law, who was in the crowd, thought that the Red Arrows were going over. That is an indication of how the people of Rosyth and at Babcock and their families feel about independence. David Cameron got a better reception, which is an even bigger indication, although he was heckled a little bit. It was obvious. I will tell you something else that was obvious—Alex Salmond was the only one from the SNP who bothered to turn up for that proud day at that yard.

I do not believe the Scottish people are mugs. As this moves forward—as MacTaggart Scott, BAE Systems and, I believe, Babcock come off the fence and as industry starts to be a bit more confident, feels less pressured by the Scottish Government and comes off the fence—the truth will out. I am a firm believer in that. When we have the facts, we will get the right result on the 18th.

Pamela Nash: They do not have much time to come off the fence now, so they should jump quickly.

Andy Johnston: I totally concur with Raymond. The big concern that we have, when we’ve discussed it, is that not one disadvantage is cited anywhere in the paperwork. It is like chasing El Dorado—everything is lovely. The big issue for us—this goes back to what I said initially—is that we are really pushing our CEOs and corporate owners. Whether or not they come off the fence remains to be seen, but it is unacceptable for the SNP or whoever it may be to say, “You will be okay. You will keep your job.” No politician has

the right to say that, unless he has been sitting in a room with the owners of the company and they have had meetings. To my knowledge, our business has not met the Scottish Government. I could be wrong—they would not tell us, anyway, if they had. However, it is a disgrace that anyone can say, “You will be okay. You will still build ships. You will still make periscopes.” That is doing a disservice to the employees in that business.

That is why I am stressing that our corporate owners have to come out. We are getting nearer to the line. Maybe they do not want to, in case they get bullied or something like that; I do not know. I do not want to get into that—it is not my business. We are saying that we represent 700 folk where we are. There is the GDP that comes from the site, and the salaries and everything that goes into the surrounding area, in a good place, with graduates and apprentices. We are talking about quality, high-value jobs. It is unacceptable for anyone, especially a Government, to say, “You will be all right. You will still get the work post- independence.”

Q5913 Pamela Nash: That is a really interesting point. The Scottish Government could meet the companies you represent, but it would not be down to the companies—it would be down to the customer, the MOD, which could not be any clearer in its statement that it would not order these products from your companies and build them in Scotland.

Andy Johnston: You are right.

Q5914 Lindsay Roy: Why do you think that, despite the mounting wealth of evidence, we are still getting these blithe reassurances that the ships would be built on the Clyde and at Rosyth?

Raymond Duguid: It is perfectly clear to me. I believe that the yes side accept that they will lose 12,000 defence job votes but believe they can hoodwink the rest of Scotland.

Lindsay Roy: So they are worth sacrificing.

Raymond Duguid: Yes—defence jobs are worth sacrificing. An interesting thing happened to me. I was at my mother’s house for my tea and there was a chap at the door. It was an unfortunate yes campaigner, who did not realise that I was in the house. He stood at the door and told my mother that the Type 26 contract had already been given out to the South Koreans, that the aircraft carriers had no planes and that they would be sold anyway. He stood at the door and lied his back teeth off. I stepped out and said, “You may be a bit wrong.” He said, “I’ve researched this. I am not from the SNP—I’m a yes campaigner.” Half an hour later, he staggered away from my mother’s door, battered and bruised verbally, because he had no answers to the questions that I asked him. They were not just on defence—they were on the economy and everything else.

They are going around the doors and lying to people. That is the thing that is galling. One thing about Scotland is that we are quite honest folk. People like to hear the truth and to make an informed decision, but they are not getting that opportunity. The reason is that the SNP accept that they will not get the 12,000 defence votes but are willing to try to

hoodwink the rest of Scotland. That is why it is important that the work forces are heard, the trade unions are heard and the companies are heard.

Q5915 Pamela Nash: You have just raised an important point. I feel like I am getting to know your whole family in this session.

Raymond Duguid: It is where to come for tea.

Pamela Nash: Where is my invite? It is not just you or the individuals who work there—their friends and families and Scotland beyond that care about the defence industry as well. People care about this issue.

Henry Wilson: As an example of that, Philip Hammond was at Thales a number of weeks ago and gave what most of us think was a very good speech to that work force. Afterwards, on television, they spoke to Mr Salmond about it. I found the basic gist of his comment particularly disgusting in relation to the Scottish people. He turned around and said, “What we are here about is Scottish independence—Scottish jobs for Scottish companies. Why are we worried about Thales, which is a French company?” He completely dismissed that work force on national television. I thought that was particularly bad for someone in his position.

Q5916 Lindsay Roy: Are there any other defence contracts that might be affected by a yes vote in the referendum?

Raymond Duguid: For Babcock, the big one is the missile tubes for Successor. The other point, which we touched on earlier, is that the defence jobs—the Royal Navy work—involve cutting-edge technology. That trains the work force and gives us the capabilities to compete in other industries. Being at the cutting edge of that technology gives us that little edge with the subsea stuff for BP and so on.

Q5917 Lindsay Roy: Could you clarify an issue for me about assets and liabilities at Rosyth? There are seven shells of nuclear submarines still there. Are you aware of who would be responsible for funding their decommissioning in the light of a yes vote?

Raymond Duguid: In my view, it would be the RUK Government and the MOD—it is their asset.

Q5918 Lindsay Roy: Does Scotland not share part of that asset?

Raymond Duguid: Potentially—I was about to say that that is potentially part of the asset. If you are taking two frigates, you can have seven submarines.

Q5919 Lindsay Roy: The work to decommission them would last for something like 12 years—from 2016 to 2028.

Raymond Duguid: That is right. They are looking to do the trial run on the first one shortly. It is all good work that allows us to hone and keep the skills at Rosyth. As Eric touched on earlier, there are 50 years of carrier refits. That is not constant—the carrier will be docked down roughly every seven years. A lot of the work will be done at Portsmouth, our home port, but it is incumbent on the Royal Navy to maintain that No. 1 dock facility and the skills there.

Q5920 Lindsay Roy: So in the event of separation, the Scottish Government might have to pay some of the dismantling costs.

Raymond Duguid: That would be part of the negotiations.

Q5921 Lindsay Roy: As far as I am aware, there is no place in Scotland to deposit nuclear waste.

Raymond Duguid: No.

Lindsay Roy: So there are question marks about that as well.

Raymond Duguid: Yes, but in milk and honey that does not exist.

Q5922 Mr Reid: I turn to the defence needs of an independent Scotland. Are you aware of whether any discussions have taken place about what the defence procurement needs of an independent Scotland would be?

Raymond Duguid: The only indication you get is from the “Scotland’s Future” White Paper. If you look at that, on the naval side it will get an asset share that is a few frigates, a command ship and some minesweepers. Potentially, in the first Parliament, it will order two frigate-type ships. For anybody in naval shipbuilding, that means that they will get built at some point in the second Parliament, so in years 7 to 10, roughly. In the second Parliament, it will potentially order another two ships, which would be built in years 10 to 15. Henry can attest to the fact that there is currently a redundancy of 800 people at BAE Systems on the Clyde. That is with a potential Royal Navy order of 16 ships over 20 years, so imagine how devastating it will be if there are four ships over 20 years. That is not an industry. To me, that is not a business that a BAE Systems, a Babcock or anybody else would be interested in.

Q5923 Mr Reid: Could four ships sustain a shipyard?

Henry Wilson: We are looking at a 13-ship contract. At its height, we will be producing a ship every six months. For four ships over a period of 20 years, we might as well not bother. We would not even get to the build of the first ship.

Q5924 Mr Reid: Do you think the order would be placed abroad?

Henry Wilson: Potentially, based on the way they are working now.

Q5925 Mr Reid: Presumably, under EU law the Scottish Government could, if it chose, place the order in Scotland. Would that result in an astronomical cost?

Henry Wilson: They could, but by that first build time, there would not be a yard to place them in.

Eric McLeod: There might be—Ferguson in Port Glasgow might be able to do them.

Henry Wilson: Right now, we are looking to start a three-ship OPV contract in the last quarter of this year, which will sustain our capability to the start of the build for Type 26, assuming that we are still in the UK and those contracts are placed at the end of the year. I do not think it is any coincidence that the timing of the placement of those contracts is after the vote in September. We are not under any illusion that that vote will have a significant impact on whether or not those contracts are placed. If we do not have the work to sustain that capability, we will never get to the five-year build point when, as Raymond said, they will place the first contract.

Q5926 Mr Reid: What about warship maintenance? Would a Scottish navy provide a significant number of jobs in maintenance?

Raymond Duguid: No. It comes back to the fact that Faslane and Rosyth would be competing for the work. For Rosyth to be viable as a refit yard, we need to be refitting two destroyers or frigate-type ships a year.

We had an interesting conversation with Angus Robertson back in 2007, possibly, when he was talking about independence but never thought he would get there. He was in my office—it was the last time he visited us—and we pointed out that we would need two ships a year on a five-year rotation, so 10 destroyers or frigate-type ships. He said, “We have £2.5 billion.” I said, “Yes, but that isn’t enough.” I pointed out that he would also have the Scottish air force and the Scottish army to look after from that £2.5 billion. He was quite flabbergasted by how expensive defence was. He has never spoken to me since, because I relayed our conversation to the *Daily Record*. Maybe that is why he does not visit us any more.

That is what Rosyth needs. Rosyth will struggle going forward with the size of the Royal Navy—that is why we are looking at commercial work—far less with something as diminutive as a Scottish navy would be. It would be just for coastal protection, basically.

Q5927 Mr Reid: Would you be able to win contracts for non-defence work? Obviously, that would have to be against international competition.

Raymond Duguid: There is that possibility. The work force at Rosyth are first class, but it is about whether the profit margins and everything else are enough to sustain Babcock's interest. I do not say that in a "Babcock is a greedy monster" way. Earlier, we talked about defined pension schemes. There is also sick pay, holiday pay, wages, overheads and the cost of running and maintaining the site. All of that adds up to something that is not £6 or £7 an hour but a lot more. Babcock is in business—it has shareholders. It will keep something going only if it has the potential to make profit.

Q5928 Mr Reid: So your feeling is that if it has Devonport anyway, where it will be doing work for the Royal Navy, it will just carry out other contracts that it wins there as well.

Raymond Duguid: The work for the rest of the UK, as it would then be, would be done at Devonport anyway. I have no doubt that the Royal Navy work will be done in the UK. If we are not part of that, we will get none of that work. We could do the work for the Scottish navy, but that certainly would not require a yard the size Rosyth is at the moment—and growing. That is the thing that people forget. We get bashed quite a lot on Twitter and Facebook about all the shipyard jobs that have been lost since the 1970s, but Rosyth is actually growing. It has grown from having 1,000 employees in 2006 to having 2,000 now. It is thriving.

Kenny Jordan: The crucial point is that if you do not have the Royal Navy orders you are not in the shop window for exports.

Q5929 Mr Reid: That is right. Are you aware of any discussions that would give work at Thales?

Andy Johnston: None at all. We do not know what discussions have taken place behind the scenes, but not to my knowledge. At one of the CSEU conferences—Ian was there—I asked the chair, "Are you aware of there being any talk behind the scenes?" The answer was, "No, I don't know of any." It goes back to when the companies will make a move on this. I think they are looking at the opinion polls. That is not enough for us. We are saying, "Let's get out there. Give us definitive answers."

Q5930 Pamela Nash: Most of what we have spoken about this morning has been based on the presumption that the Scottish shipbuilding industry is solely or primarily dependent on MOD contracts. Obviously, that is the case at the moment. Is there any possibility of its diversifying its contract base so that in the future it is not as dependent on those contracts?

Kenny Jordan: That is the conversation we had earlier. In a competitive market, it is difficult to secure non-military orders. The shipbuilding market for civil shipping is moving eastwards, so you would be competing with difficult circumstances.

Andy Johnston: Thales has a lot of assets—not just defence. There are 8,000 employees in the UK, 34,000 in France and 66,000 worldwide. It is a big, big place. In Glasgow, we have a few commercial contracts, but not enough to survive on. I know we are talking about shipbuilding, but the bigger picture is the Scottish defence industry. The UK MOD is not giving us a handout, I may add—it rips it to the bone to make sure that the taxpayer gets their money's worth from everybody who tenders. At the same time, it is still very competitive to get there. We have asked, “What is the winning bid process for our company when bidding from a Scottish Government, should there be a yes vote?” The answers are not out there yet.

On diversifying, there are a lot of folk even in my own trade union who think that we can turn to making white goods overnight and still pay the same level of wages. You are talking about very high skill levels, with salaries to match, in our industry. I mean no disrespect, but commercial white goods are not the same level of product. The old Barr and Stroud tried diversification years ago; at one point, it made everything that moves. We are strictly where we are—we are part of Thales Defence. Diversification is a thing of the past. We have all discussed it and have moved on. Right now, it is not on the agenda on our site.

Kenny Jordan: It also has to be borne in mind that without these types of orders and this type of investment you are not able to spin off into the outside market. In other words, if you do not have that type of work and research, you will not be able to compete.

Raymond Duguid: From a Babcock point of view, we are diversifying. We have been quite successful. We helped to build T5 for Heathrow. We are currently doing a project for BP. Again, that is because of the Royal Navy work we carry out, not aside from that. The Royal Navy work allows us to build the skills and the platform to bid for those work streams.

It is very hard to get work there, as you are competing with everybody. There is no placing of contracts for being inside the UK or anything else. We have had some successes and some failures in the last year and a half. Those are the vagaries of commercial industry. There is no refit around the corner—you do not know what you are going to get. We have got some and have lost quite a lot. The Royal Navy allows us to train our guys to be slightly better than the competition in those areas, but these companies—especially in oil and gas—want a very quick turnaround. They want a ship to come in and leave on a certain day and for us to get the work done. Sometimes, that is not doable. It is a very hard industry.

Q5931 Lindsay Roy: To what extent are you aware of subcontractors and suppliers approaching your company or, indeed, the unions about security of work? I am talking about companies like Brand-Rex in Glenrothes.

Raymond Duguid: They have never approached the trade unions at Rosyth about how we feel things would go. I have never heard of their approaching Babcock. Certainly, the subcontractors that are involved in the carrier project see themselves as being there for the carrier. The vagaries of that industry are that they work project to project, very much as Babcock does on the commercial side. T5 is a great project, but it will finish. The Carrier

is a great project, but it will finish. The question is what is behind that. They see it as being project work and hope to do a good job on one project so that they get—

Q5932 Lindsay Roy: Even in terms of refit and repair, there must be subcontractors and suppliers that provide components for the ships.

Raymond Duguid: Yes. We have had companies like Pyeroy, which is now part of the Wood Group, on site for 17 or 18 years. A lot of the guys who do the painting and stuff on the ships have been there as long as a lot of the Babcock guys. They are part of the whole defence industry and the jobs that are at risk.

Q5933 Lindsay Roy: Would it be fair to say that there are a number of suppliers that are likely to be concerned at the moment?

Raymond Duguid: Yes, they will be concerned. However, if the work transfers, they may transfer with it.

Lindsay Roy: They will have outliers elsewhere.

Raymond Duguid: Yes—offices elsewhere.

Q5934 Chair: Are there any final points that you want to raise with us? I said at the beginning that if there were any answers that you had prepared to questions that we had not asked, it would be appropriate to raise those points now. Do you think we have covered everything?

Raymond Duguid: The only thing I would like to say is that if anything good comes out of this referendum—I think that a no vote will be the good thing that comes out of it—it is that everybody, whether they be at Westminster, in Scotland or in the UK, needs to realise that what makes Great Britain great is the sum of all its parts, not some of its parts. Hopefully, there has been a realignment of understanding of the value of Scotland within the UK, as I feel that sometimes we do not get a fair hearing against our south coast colleagues. If anything good comes out of this referendum, I hope it is the fact that the “great” in Great Britain is the sum of all our parts.

Chair: Given that we are meeting the day after Sir Roger Carr of BAE came out and indicated that BAE clearly has a plan B, it is obvious that we want to have a plan B from the Scottish Government. I am quite appalled—I think the Committee is also appalled—that the Scottish Government not only have not been willing to meet you until August but that, when they do meet you, they are offering you only 45 minutes.

We reiterate that we would be keen to see you after that, just to clarify whether or not you think that the responses that the Scottish Government have given you are adequate. We would also suggest that, rather than go in with an open agenda, you ought to itemise

beforehand the sort of things you want positive responses to, just to make sure that they are not able to say, “That got squeezed off the agenda,” or, “You didn’t raise that because you ran out of time.” It seems to us important that the Scottish Government have the opportunity to deal with the range of issues that you are raising.

I draw the meeting to a close by thanking you very much for coming. We look forward to seeing you in August to hear what the Scottish Government’s responses are.