



Scottish Affairs Committee

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

Thursday 14 August 2014

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[Watch the evidence session](#)

Members present: Mr Ian Davidson (Chair); Graeme Morrice; Pamela Nash; Lindsay Roy.

Questions 6042 – 6120

Witnesses: **Jim Moohan**, Chairman, CSEU Scotland, **Kenny Jordan**, Regional Secretary, CSEU Scotland, **Joe McLaren**, UCATT Regional Office, **Gillian McKay**, Unite Regional Officer, **Eric McLeod**, DIJC Secretary, Babcock Marine, Rosyth, **Raymond Duguid**, DIJC Chairman, Babcock Marine Rosyth, **Duncan McPhee**, Unite Convenor, BAE Systems, Scotstoun, **Henry Wilson**, Unite Staff Convenor, BAE Systems, Scotstoun, **Jamie Webster**, GMB Convenor, BAE Systems, Govan, **Billy McKay**, Unite Convenor, BAE Systems, Govan, **Ronnie Taylor**, Senior Unite Shop Steward, Thales UK, Glasgow, **Jim Bredin**, Senior Unite Shop Steward, Thales UK, Glasgow, **Tam Mitchell**, Unite Convenor, Rolls Royce PLC, East Kilbride, **Jim Thomson**, Unite Convenor, Selex ES, Edinburgh, and **James Cull**, Senior Unite Shop Steward, Selex ES, Edinburgh, gave evidence.

Q6042 Chair: I welcome you all to this meeting of the Scottish Affairs Select Committee. As you are aware, we have been conducting a series of hearings into various aspects of the consequences of separation and we have taken a particular interest in issues relating to defence and defence employment. Now, we are having the meeting today specifically because we know that you had a meeting arranged yesterday with the First Minister and the Scottish Government and we would be grateful if we could have a discussion about how successful that meeting was and whether or not the points that you have of concern have been answered. We are aware that you had submitted a list of written questions to the Scottish Government beforehand and, again, we would be grateful if we could have clarification as to how you feel about the answers you got. Since we are meeting in Glasgow and not in Edinburgh, we took the view that you would not necessarily have had your tea and, therefore, we are glad to see that you have all been able to get a cup of tea or a glass of water.

I wonder if I could, therefore, start off by just asking the panels to introduce themselves. I know that we are in a slightly unusual position because we have so many of you here. We have done that because we invited along everybody who was meeting the Scottish Government yesterday. We thought that was the best and most reasonable way of doing it. Could I just start with you, Duncan? If people could introduce themselves, say who they are,

in what capacity they are here and in what capacity they were meeting the Scottish Government yesterday. As was mentioned, you have to press the button and then press it afterwards to make the microphone go off.

Duncan McPhee: I am Duncan McPhee. I am the regulatory union convenor at BAE Systems Scotstoun shipyard in Glasgow.

Raymond Duguid: Raymond Duguid. I am the Babcock Marine representative and Unite convenor at Rosyth boatyard.

Kenny Jordan: Kenny Jordan, Regional Secretary, CSEU in Scotland.

Jim Moohan: Jim Moohan, Chairperson of the CSEU in Scotland.

Tam Mitchell: Tam Mitchell, treasurer and convenor at Rolls Royce in East Kilbride.

Ronnie Taylor: Ronnie Taylor, union rep for Thales UK.

Jim Thomson: Jim Thomson, convenor at Selex ES.

Chair: Fine, thanks. Now, if we can move over to the cheap seats.

Gillian McKay: Gillian McKay, regional officer for Unite.

Jamie Webster: Jamie Webster, GMB convenor, BAE Systems, Govan.

Henry Wilson: Henry Wilson, senior Unite staff convenor in Clyde.

Eric McLeod: Eric McLeod, GMB convenor, Rosyth dockyard.

Jim Bredin: Jim Bredin, GMB convenor at Thales, Glasgow.

Billy McKay: Billy McKay, Unite convenor in Govan and Glasgow.

Q6043 Chair: Fine, thanks very much. I wonder if we could ask then Kenny or Jim to lead off by telling us about the meeting that you had yesterday with the Scottish Government.

Jim Moohan: Thank you very much, Chair. The meeting yesterday was the fourth occasion we have met with the Scottish Government due to the concerns of the CSEU employees based within the geographical spread in Scotland. At the four engagements we have had, the four meetings, approximately 40 to 50 stewards or representatives of those companies attended those meetings and those were held at John Smith House. We asked the same questions yesterday that we had asked before and this included Faslane and Coulport, and there was disappointment on three occasions previously in the reply from the Scottish Government. The CSEU has always taken a position that our aim and the job we do is one of job security and work programme and investment. We do not cross a line into politics. In fact, we hammer the political door of any party on behalf of employees within any company with CSEU Scotland.

Yesterday was an engagement of putting to the Scottish Government once again—for a final time—seven questions from five of the major employers who are represented by the CSEU and the colleagues at the table here will outline to you the questions that they put to the Scottish Government yesterday and the reply they received. They will speak for

themselves, of course. At the end of the day, from our perspective, it was very unclear as we had not received a written response from the Scottish Government in the times we have engaged with them. They have promised on this occasion as soon as possible to give us a written response to the seven questions that were tabled yesterday in more detail. We look forward to that and the secretary, on behalf of the CSEU, shall be pursuing that, but my colleagues around the table will enlighten you as to how the questions went yesterday and the answers that came from the Scottish Government.

Q6044 Chair: Kenny, do you want to add anything as secretary?

Kenny Jordan: Thank you, Chair, yes. For the sake of clarification, I noticed in your opening you mentioned that we met with the First Minister yesterday. That was certainly probably our publicly announced intention. However, we were never informed by the First Minister that he would be meeting us yesterday and, if he was there, he was certainly very much in the background. He certainly was not in the same room as we had the meeting. The Minister that we did meet yesterday was Keith Brown, the Minister for Transport and Veterans for the Scottish Government. The Chair quite rightly says that this was the fourth occasion we had met with the Scottish Government. On the occasions before that it was in the arena of a conference that we had set up for our shop stewards who are working in the defence-related manufacturing sector.

Yesterday was a meeting that we had requested way back in June. We had also sent the same request to the UK Government and we did have a meeting with Alistair Carmichael, the Secretary of State for Scotland, shortly after that request. However, it was not until yesterday that we were able to meet with the Scottish Government and, unfortunately, we could only get 45 minutes. As the Chair has alluded to, we had submitted those written questions some time ago and it was a bit disappointing that the Minister could not respond in writing, which he has promised to do. However, there was verbal response to our questions of yesterday and that is what we are here to expose to you today.

As I say, I think there was disappointment because, if we contrast, the UK Government have been able to put in writing responses to similar questions that we have posed. It would have been much more beneficial if we had both written arguments with regard to those questions so that we could contrast them. If we receive a written response to the questions posed yesterday then I would suggest that we submit them to the Scottish Affairs Committee at a later date. Hopefully, we will receive that before 18 September because I think it becomes a bit redundant if we receive it after that particular date.

Q6045 Lindsay Roy: What currency does the First Minister have with the shipbuilding employee representatives if he has not deemed it a high enough priority to meet with you?

Jim Moohan: That is a question that only the Minister can answer. From the outset, we requested to meet the First Minister because he is the voice of the Scottish Government and it has been disappointing that he has not given us the respect of sitting at the table with us. As I said, we do not have any force to find with any company and we work alongside other companies but we do need the politicians to support us come the time when there is concern over short to medium or long-term future of the industries that we cover.

Q6046 Chair: I am surprised the First Minister has not met you because, following the last dialogue we had, it was in *The Scotsman*. Admittedly you cannot always believe what you read in the papers, but I did assume that when the First Minister was quoted in *The Scotsman* as saying he would meet you that he would make that arrangement.

Kenny Jordan: It is one of those enigmas. Since 2012 the CSEU wrote to the First Minister with the concerns regarding the impact of a possible separate Scotland on our members' jobs and what have you. In 2012 the First Minister did not respond directly to that correspondence. He then handed it to Fergus Ewing and Fergus Ewing saw that he should hand it over to civil servants working with the Scottish Government to meet us. In 2012 we met with Scottish Government civil servants who had the responsibility for that type of industry.

The latest communication we sent to the First Minister was directly in response of asking questions that were burning issues of our members working in the industry. The First Minister, once again, did not respond to that correspondence. The First Minister handed the responsibility of meeting us to Keith Brown and it was only since we met with the Scottish Affairs Committee back in July that the First Minister seemingly came out to say that he was prepared to meet us, but there has never been a direct communication from the First Minister to us giving us that invite. It is a disappointment because it has led us to believe that we are shuffled away down the pack as far as priority is concerned because the First Minister is prepared to have discussions with others and not with the representatives of so many union members working in the industry.

Q6047 Lindsay Roy: Would it be true to say then that you feel snubbed he has not given you high enough priority given the contribution it makes to our economy and the number of jobs involved? I would like to hear other views, if possible, from the panel.

Chair: Let me come on to the rest of the panel in a moment, but that is a point. Presumably you do feel snubbed.

Kenny Jordan: Yes, we do. From the outset we believe they have not taken our questions seriously because what we want to talk about is the nuts and bolts of jobs, job security, investment and so on. Our belief is that the public debate has been moving away from those subjects and I think it is a disappointment that the First Minister is unprepared to enter into that debate with us.

Q6048 Lindsay Roy: You are looking to not just short term but longer term of Scotland's future.

Kenny Jordan: Exactly, yes. We are talking about a situation that will be a lifetime change. It is not a simple change of government that we have the opportunity to reverse at a later stage. When we talk about our members entering into a separate Scotland, it is for generations.

Lindsay Roy: Thanks, Kenny. You could not be clearer in that response.

Q6049 Graeme Morrice: I think Kenny said earlier that the meeting you had yesterday you had asked for back in June, so two months before it happened, and obviously you wanted that

meeting with the First Minister. When you went to the meeting yesterday, was it your expectation that the First Minister would be there?

Kenny Jordan: No, it would have been a welcome surprise because prior to the meeting I did the usual correspondence between us and the Scottish Government of who was going to be there. I asked the question of who was going to be there supporting the Minister, Keith Brown, and the response I got was a list of civil servants. Obviously if the First Minister did intend to appear but something else had come up or whatever, he was not on that list.

Q6050 Graeme Morrice: Yes, okay. That meeting was passed to the Transport Minister and you only had 45 minutes to have a discussion. I think you said at the beginning, Kenny, that if the First Minister had been in that room then nobody noticed. Of course, it would be very unusual that if the First Minister had been in the room that nobody would have noticed. Everybody would have realised.

Kenny Jordan: I think so. He has lost a bit of weight, however—

Q6051 Chair: This is not a Weight Watchers discussion. You mentioned earlier on that you had submitted lists of questions to the Scottish Government. I have certainly seen then. I think it would be helpful if you could formally give them to the Committee and we could print those on the internet because I think it would be on our website simply in order to keep the public informed. I wonder if we could turn now to ask representatives of the individual companies the sorts of issues they were pursuing with the Scottish Government and what answers they did or did not get and, in particular, what concerns they still have outstanding. Maybe we could just start from this end again, Duncan?

Duncan McPhee: Obviously the concern in the shipbuilding industry is future complex naval ship procurement, knowing the programme is going forward. What we were trying to get answers on was, if there is an independent Scottish Government, what work will the shipyards based in Glasgow receive from the Scottish Government? What would their plans be? We have had answers from the UK Government. It is quite clear all UK parties and UK trade unions support the policy that complex naval ships are built within the UK. So that is quite clear. They do not see that changing. We asked the Scottish Government, “If that policy then continues what contracts basically would the Scottish Government supply to keep the naval shipyards going in Glasgow?” They basically said they think the Clyde is the only place where they can build complex naval ships within the UK, so the UK Government has no choice but to place them on the Clyde. We said, “Well, even if the UK Government adopted that policy, under Article 346 the European Union would have the ability to do that without putting it out to own tender”. The response to that was they have advice to say that they do not believe that would apply and the UK Government could procure the ships in Scotland.

Q6052 Chair: This advice that the Scottish Government has about 346 applying, is this legal advice that you have seen?

Duncan McPhee: No, they said they would supply it at a later date.

Q6053 Chair: They said they would supply that to you. That would be very helpful because I do not think we have ever seen any legal advice that the Scottish Government has had about 346. Could I just clarify in terms of the Scottish Government's own procurement pattern? I think we have seen the letter that was sent to you by Alistair Carmichael and in that I think he was indicating that his understanding was that the Scottish Government's capital budget for military equipment in total was £350 million per year. What is the cost of a type 26?

Duncan McPhee: A type 26 will come in at around £500 million.

Q6054 Chair: That would be roughly two years budget for capital equipment for each type 26 that the Scottish Government wanted to buy and I think they have said they would build four, have they not, over a period?

Duncan McPhee: Yes.

Q6055 Chair: That would be roughly six or seven years of the capital budget with nothing else being purchased. Are there any other points that you want to raise with us about the discussion that you had?

Duncan McPhee: What the UK Government says is quite clear. If we are going to remain within the UK the company has already laid out we are the one to build the ships. We know that it is in Glasgow; potentially a £270 million investment to produce a world-class shipyard to help us hopefully win export orders as well, which is obviously a good thing. Is that in jeopardy if it is independent? If the UK stick to their policy then there is no way you are going to have a £270 million investment in Glasgow. What contract would we be building?

If BAE Systems have to build them elsewhere in the UK then what is going to happen to the Scottish yards if BAE Systems do it in any of their shipyards? They can still do it at Portsmouth and they can do it at Barrow and other places. I find it quite insulting, the comments that the Clyde are the only people that build complex naval ships. That is patently not true and an insult, I think, to the workforces in some of the other shipyards in the UK. I do not accept that for one minute. If there is a political decision for the UK Government to stick to their policy of building these ships and remaining part of the UK then, unless the Scottish Government are going to attract some other private company or nationalise the shipyards in the Clyde and supply them with work, I do not see what the future is for the shipyards.

Jim Moohan: Chair, can I make a comment, please, to supplement that? The type 26 contract is worth £13 billion for 13 ships. Now, the Deputy First Minister stated several months ago that the Scottish Government would take one of these ships and build it on the Clyde. Now, those who have experience of shipbuilding will tell you that when you build 13 ships, you build 13 ships for a reason: to reduce the cost overall. You cannot build a £1 billion ship in a cost-effective manner. What you do is you get it to a point of excellence and then you tweak the second one, so, come the third one, you will start to reduce and kick any overheads in the costs of the £13 billion contract. That is the way the system worked for the type 21 frigate, the type 23 frigate and the type 45 destroyer. That is the way shipbuilding works and it has always worked that way. We work on a very difficult,

competitive edge in relation to getting a profit margin within the MoD work, so it was a certain naivety of the First Minister in relation to stating that you could take one ship away from, post-18 September, a foreign country. That is another story of course, but it is important that that point is made about the cost factor in relation to that.

Q6056 Chair: Later on we may come to the issue of alternative markets and the possible provision of ferries, but at the moment we can maybe move along and turn to Raymond about the questions you were asking and whether or not you were happy with the replies.

Raymond Duguid: The questions I was asking were along the same lines as Duncan. It was about the fact that currently the UK do not put work outside the UK for complex warships and that is all about maintaining our sovereign capability so that we can build our own ships in time of need. I asked them why the Scottish Government and the “Yes” camp believe this would change after independence day when Scotland becomes a foreign country. They did not have an answer to that and that was a concern. They believe that these type 26 ships will come to Scotland because they are building them—his actual words were, “They can’t be built in the UK”. So they cannot be built in the rest of the UK, only in Scotland. They believe that the ships will come to Scotland and that would imply that the rest of the UK would lose that capability to build complex warships. I do not see that happening.

The concerns from Rosyth is that we refit these complex warships and during meetings with defence secretaries through this campaign we have been told that Rosyth is primely placed to refit the carriers because we have the dock, the craneage and things that are required to dock down the ships we are building. For Rosyth that is 50 years of work. It is not a refit of seven years and then nothing. It is sustaining that workforce, those skill levels and the facility. It would be sustained work at Rosyth for 50 years. When we look at what the “Yes” camp and the Scottish Government who are leading it are proposing, they are offering us the refits of the Scottish navy, but they are offering that to Faslane as well. We cannot both refit the same ships as we found out with Portsmouth and Devonport in competition with Rosyth refitting the Royal Navy ships, which were far more in number and those three yards are in fierce competition to refit ships. The sums do not add up.

I think one of the things he said was that Scotland’s share of the defence budget should be £6 billion. The UK defence budget should be £6 billion. We only get £3.6 billion and an independent Scotland would have £2.5 billion budget for defence. I think he was implying we would be better with 100% of £2.5 billion than 70% of £6 billion. It made me glad that he is not the finance secretary because I would much rather have 70% of £6 billion than 100% of £2.5 billion.

Q6057 Chair: I do not have enough fingers but I will take your word for the fact that that is—

Raymond Duguid: I also asked him what plan B was if the UK Government stood by their line that complex warships would not be built in a foreign country and he just says they will.

Q6058 Chair: You mentioned there that the Scottish Government Minister had said that the ships cannot be built anywhere else. Do you agree with that?

Raymond Duguid: Personally, no. I do not agree with that.

Q6059 Chair: Where else can they be built? The argument is that the Clyde has won this order because it is the most suitable place to build them and I agree with that, obviously, as a local Member, but the argument is that they cannot be built anywhere else and I would be grateful if you could clarify whether or not it is your view that they could be built somewhere else.

Raymond Duguid: I think that is a question for Duncan. I fully believe the Clyde has the best shipbuilders in the UK. I fully believe that the Clyde has the best ship-refitters in the UK. We know that because we are more competitive, we have had to be, but warships are not done on cost alone. It is a political decision. It is politicians and it is the Government that places the orders and those are done to sustain sovereign capability. We might be the best but if we are a foreign country that will not matter.

Duncan McPhee: I absolutely agree with that. The company have said they want to build it on the Clyde because they believe that is the best business case, the most productive and so on. We fully agree with that. We believe that is the case but, as the chief executive and the chairman of BAE Systems have said, in the event of a “yes” vote if the UK Government stick to their policy then they would have to adapt to suit that. You can still do them at Portsmouth. The facilities are still there. They could quite easily build complex naval ships there or Barrow. Barrow has built ships before. You can argue, “Will it be as good as the Clyde?” and vice versa. It is irrelevant if it is a political decision that is taken. There are obviously cost implications. It may well cost them more to do that, but if they take a political decision to retain that capability within the UK then that is what they will do. To say it cannot be done in the rest of the UK is patently wrong.

Q6060 Chair: Certainly if I was an MP in a separate Scotland I would always rather place orders in Scotland rather than somewhere else even if it was cheaper and it is reasonable to expect that the English, the Welsh and the Northern Irish would do exactly the same. Sorry, Raymond.

Raymond Duguid: The Minister did say that Barrow going forward would be joint procurement. He did say that Scotland would be ordering four type 26s, two in the first Parliament and two in the second Parliament. I think his view was that the Clyde yards would build the four for Scotland because that is the right thing to do politically, to build ships for your own navy, but we would also build the 13 for the UK. So it was a bit bamboozling.

Q6061 Chair: Duncan, can I just clarify whether a four-ship order over that sort of period that has been indicated would be sufficient in itself to keep the Clyde yards going?

Duncan McPhee: No, we need a longer programme. You need the full programme for the type 26s because the whole reasoning behind the proposed investment is basically to produce a production line type effect. That is where you get the cost savings. That is

where the taxpayer will save the money going forward. It is like a conveyor belt of these types of ships and that includes any designing of the next class of ship after that, so there is no break. Any break in production within naval programmes is the thing that puts the cost up. The whole business case for doing it is based on these 13 ships. If they added four on and it is 17 then obviously fantastic but is it realistic.

Q6062 Chair: We have some other questions that we were going to ask about shipbuilding but maybe we will come back to those later on if we could. If I could turn to Tam then?

Tam Mitchell: The question I asked was on the pensions issue. Now, this is not defence related. This is related to the whole of the manufacturing industry and also the private sector in Scotland. The five major companies here all have occupational pensions and if Scotland becomes independent then, overnight, they become cross-border pensions, which means they will not be fully funded. I asked the Minister what impact that would have on the employer and would it be an advantage or a disadvantage to the members within those pension funds. He said that he did not think it would happen overnight. It would be manageable. There would be negotiations with the UK Government and also the European Union. He gave an example that this had already happened between the UK and Ireland and he said that they came to some form of compromise there. He was very optimistic in his views on this and then he even gave examples that consultants have said to him that it is inconceivable that the European Union will not allow a compromise on this issue.

Now, the issue with Ireland and the UK, what happened back in 2006, I found surprising because the information that I have from actuaries and legal advice from people who are involved in the pensions industry was that, leading up to the legislation taking effect on 10 December 2005, there was time then for states to negotiate and also then to inform the pension industries within those states if they did have any cross-border pension funds coming up in 2006 they could deal with it then. The information that I have always been told and have had is that, for most of the UK schemes that have members in Ireland, the members in Ireland basically were kept out of the schemes, to be put it nicely. They were basically kicked out and if the companies were good they then initiated the DEC schemes, money purchase schemes, for them on an ongoing basis.

I was surprised with the answer that was given and it was a bit woolly from the point of view that when you negotiate the UK would have to agree something. We do not know if Scotland would be in the European Union. They would still need to negotiate that platform. The uncertainty for the people that I represent and for anybody who works within the private sector—because I think there are over 6,000 schemes in Scotland. Anybody who is involved in a private pension scheme and those members in another part of the UK will not be involved in this.

Chair: Maybe I can just tell you that we have representatives of the pension providers in to see us this afternoon about exactly these sorts of issues. Lindsay, you wanted to follow up something.

Q6063 Lindsay Roy: Does that match with the advice you have had from your employers?

Tam Mitchell: I have asked the pension manager for Rolls Royce, who says that it is something the company is looking at. I can say that Rolls Royce is probably in a better

position than most other companies because the state of their pension at present is probably healthier than most companies, but they said it is something they would look at. If it was a number of years ago when it was in deficit, it would be something they would find it difficult to deal with. Going back 10 years when they were £1 billion in deficit, if this had happened 10 years ago they said there was no way they could have fully funded it. However, as I said, the company I work for is in a very healthy position at present probably compared with other companies, but I am sure there are people around the table who are in a different position because their schemes are maybe in deficit.

Q6064 Chair: In fact, I have spoken to Rolls Royce and they were certainly confirming that they do not have separate schemes for their employees in Scotland. We have spoken to some firms, particularly those that have bought up other enterprises where they have kept the original pension schemes and, therefore, the cross-border issue would not necessarily arise, but this is something undoubtedly that seems to affect cross-border schemes. In fact, Rolls Royce were saying that the application of the EU cross-border funding arrangements is likely to have an impact on pension schemes. Now, people have raised with me the possibility of employers taking the opportunity of having to meet these deficits to close schemes down altogether and move them in their entirety to money purchase. You mentioned that. Do you think that is a real and genuine danger or is that just scaremongering?

Tam Mitchell: I think that is a real danger. Where companies close down, if it is an independent Scotland, they could potentially close down a scheme to the Scottish members if their headquarters are in England and that is where the majority of the membership of the scheme is. They could either shut it down to Scottish members or, if they were in a position where they could potentially deal with a deficit, they could reduce the benefits to the members' pensions or, as I have heard some say, there could be a fear that they may shut down the jobs in Scotland. If the financial position would be that dire for a company, potentially it could shut down their Scottish bases and move their work.

As I say, within the company I work for it is a concern but I think the funding level within them—I am not an expert, but I could guess that hopefully they could deal with that. That may not be the same for other companies here. When I asked the Minister whether that was an advantage or disadvantage to the members he did say, “Obviously a fully-funded pension scheme would be better for our members”, because that is something the trade unions were trying to negotiate anyway, for employers to pay in more money, but because of the timescales I never got a chance to come in again and ask him, “Obviously that is the position, Minister, but if the employer cannot afford it, what do you think is going to happen here?” I never had time to ask that; we only had 45 minutes and a lot of people to ask questions.

Q6065 Chair: Certainly the discussions we have had in the past with a number of companies informally have been that they saw the position that either benefits would have to be cut on the one hand or payments would have to be increased, and that would be a combination of employers and employees increasing payments, or a combination of both. There is always the option, as you indicated, of closing the pension scheme down. I have two people I want to bring in: Duncan and then Jamie.

Duncan McPhee: Thanks, Chair. I just have a point about what Tam said there. Obviously the company I work for, BAE Systems, has numerous final salary schemes at the moment. Most, if not all, have major deficits at the moment and are in long recovery plans to clear their deficits over anyway between 10 and 15 years. If they are classed as cross-border schemes and require full funding, and I am only mentioning figures here that are public knowledge anyway, you are talking substantial amounts of money that would need to be pumped into these schemes to make them fully funded. I think the strain that would put on the company would be basically untenable and I know it is high on the risk register of the pension schemes within that company of the dangers of the fully funding issue.

Basically the issue facing the company would be, “Can you fully fund it right away?” and, as I have already indicated, we are talking about billions of pounds here. Can the company put that in? The alternative is that we have to make other arrangements for the employees in Scotland, for example set up a new pension scheme completely or move them into one of the other company schemes that is a defined contribution one rather than a defined benefit, which obviously does not need to be fully funded. There is quite a lot of uncertainty there. If it is declared under European law that it has to be fully funded, just look at the figures involved for BAE Systems and you decide if they could fully fund that right away. We see that as a real danger for pension benefits going forward.

Q6066 Chair: Jamie, you wanted to come in on the pensions.

Jamie Webster: Being a trustee of the pension scheme, obviously the issue of pensions is very close to my heart. I must admit that, yes, there must be a risk relating to that. However, I do not share quite the alarmist view that has come from some quarters regarding the pension scenario. There has not been a definitive answer, as far as I am concerned, from Europe. I would be very interested to see it. In terms of how draconian the implementation of the full funding is, nobody has delivered that or explained that to me in terms of that. We understand that the full funding is an issue at the present time, certainly across all of the UK, with the pension regulator in the UK, because nobody likes to close a pension scheme generally because it has a dramatic impact and it seldom benefits anybody or any responsible person. We understand that they will give you a stated period within which to reach final funding and that could be anything up to 20 years.

Now, I would like to have information before we start taking it into the public arena as a responsible body, obviously yourselves as well, that that clarification is indeed concise in terms of do you have a scenario whereby, if Scotland was independent on 18 September, what edict comes out from Europe regarding the timescale for full funding. Is it a month? Is it a year? Is the dialogue open in which they are giving a window for full funding? I think that is very important. As far as the companies are concerned, most of the companies have given a “Maybe it is aye”, or, “Maybe it is no” answer, albeit there must be risks there.

In terms of the schemes, and the answer in relation to, “Yes, we will ring-fence it”, and such like, it rests on Europe’s actual answer. I remember watching a programme several months ago where the answers were fudgy and I remember at the chief executive’s forum the answers were fudgy. Nobody gave a definitive on that and I think it is imperative that any measures that come back to the Scottish people must have total clarity exactly on what Europe is saying and not a “maybe” or “perhaps” and such like.

In terms of what could happen, I would be surprised if the situation is a complete winding down of schemes. The more likely danger, if indeed there is no compromise in terms of becoming fully funded—remember, we are in a scheme right now that has an evolution of full funding for 20 years or such like—is that I personally would be very restless of any declaration totally until it clarifies from Europe what impositions of timescale do they put regarding full funding and then everyone would know; not only the consequences but the timescale of those consequences.

Q6067 Pamela Nash: Jamie, I think that is an important point you have just raised. Can I ask if you raised that with the Scottish Government at the meeting yesterday and asked if they had sought clarification from the EU on that matter?

Jamie Webster: I believe the answer was given and what the answer was, which is common sense, as I am saying, is there has to be full clarification but regardless of what the—

Chair: Sorry, before you go on, Jamie, you were specifically asked whether or not you asked that and what the answer was. What was the answer that you got from the Scottish Government?

Jamie Webster: I cannot distinctly remember what that answer was.

Chair: You cannot remember. Right, okay.

Jamie Webster: I cannot remember. However, regardless of whether I can remember—maybe my colleagues can remember. I cannot specifically remember.

Q6068 Chair: Can I just ask Tam? Can you remember what the answer to that was?

Tam Mitchell: The answer that was always coming was related to Ireland and the Minister said that there was relaxation and there was negotiation and there were timescales there. What I have been told, even this morning, was that the timescales were leading up to when the legislation was put in on 30 December 2005. The day after that, UK schemes were putting members in Ireland out of the scheme. That was the timescale. Jamie is right. We went there looking for clarification and I wanted facts. What I wanted to know is what happens right now, not what I think is going to happen on 18 September if Scotland becomes independent. I want to know so I can tell my members, if Scotland become independent today, tomorrow what happens to the pension scheme. I was given, “We going to get into negotiations with the EU. We are going to get into negotiations with the UK. We are going to get into negotiations”. I just wanted an answer, “Right now what happens?”

As far as I have read in reports, back in May I think it was, John Sweeney was expecting to have that flexibility from the EU. I think even within the UK pension industry people were surprised that the EU were quite rigid and said there was no change to the policy of the collective which involves cross-borders.

Duncan McPhee: On 30 April, Jamie, myself and other trustees of various of the assistance pension schemes were at a full-day pension seminar where various experts come in and give you updates on what is happening within the industry and potentially

what might happen in the future. I am just going to quote what one of the legal experts at that said to us regarding Scottish independence on funding, “Assuming Scotland is able to accede to the EU as a member state, a UK pension scheme with members based in Scotland and in England is likely to become a cross-border scheme. Under current legislation this imposes an immediate full funding requirement, i.e. without the use of a recovery plan.” That gives me great concern about the Scottish employees within that company having pension schemes and I am afraid, “It will be all right on the night”, and, “This might happen”, and, “This might not happen”, does not give me any comfort.

Q6069 Chair: Certainly, I can share with you some of the briefing that we had and this was from the Institute of Chartered Accountants Scotland, ICAS, where they say, which concurs with your view, “The pension schemes operating between Scotland and the remainder of the UK would immediately become cross-border and the EU solvency requirements would have major cost and cash flow implications for employers with cross-border, defined benefit and hybrid schemes as pension liabilities would have to be fully funded at all times and the funding would have to be rectified immediately rather than through a staged recovery plan and annual, not tri-annual, actuarial evaluations would be necessary.”

I understand that, yes, the Scottish Government have said they would hope to have discussions, but I think, like Tam, we were all surprised when the EU refused the proposal that there should be a degree of flexibility about the time involved in meeting the funding balance position. I think it is fair to say that is up in the air, is it not? This is uncertain, unknown and it has to be dependent upon discussions after separation where, as I understand it, Scotland, which will not at that stage be a member of the EU, will be dependent upon the UK arguing its case in a possible situation where Scotland is going to refuse to pay its share of the debt because there is a dispute about the currency.

It just seems to us potentially the waters are poisoned by this dispute about debt and currency and we are not necessarily going to have co-operation and collaboration going forward. Tam, you are the person from the delegation that was dealing mainly with pensions. Do you think that is a fair summation?

Tam Mitchell: Yes, I think it is. Anything involving finances, the one thing they do not like is uncertainty. The pension funds, the majority of them defined benefit schemes, will operate within markets and uncertainty does have major effects on them and obviously employers and their members are there to cash in pension funds, which does cause concern for my members. Yes, I think what you have said is on the ball.

Q6070 Chair: I appreciate very much that this is an anxiety. Some of you have maybe quite a while to go before you might be drawing your pensions, but others of you might be approaching pension age sooner than others so it is clearly of urgent importance. In fact, could I just say informally that this afternoon we have Joanne Segars, the Chief Executive of the National Association of Pension Funds, coming to see us and it might very well be that if you want to try and grab her beforehand you could have a wee word with her about what she thinks the position is as well as maybe staying to hear what she has to say. Tam, you wanted to come back?

Tam Mitchell: Just one last thing. We are not heavily involved in the defence sector in Rolls Royce, so currency and pensions is a big issue. I think currency is always the debate

that is out there in the big arena and obviously we will want some clarity on it. I know this may not be the way it is done formally, but why is it people do not know about this issue? This issue is not high on the politicians' agenda as far as I see. People who I work with know about because we inform them, but this is just not in manufacturing. This is right through the private sector. I have been at some public debate where I have asked the question of people who basically have been for yes or no and most of them are politicians. They do not seem to know about this issue and as soon I leave the room people start asking me, "What is this? I work for Development Scotland. I work for Lloyds. Does that mean I am going to be affected here?" I can only ask the question. Why is this not so high on the agenda? This is people's wages when they retire.

Chair: I will let Lindsay in in a second. I think the answer is that it is so difficult and complicated that people tend to shy away from it on the basis that most folk do not understand it. Certainly I do not feel that I completely understand it and I do not think my colleagues do either. I would be very surprised if any of the witnesses, apart from possibly the woman we have this afternoon, fully understand it. We will certainly explore these points with her, but I think you are absolutely right. It is like the question of the currency. I think it is something that is potentially so big that people have not got to grips with it, but we are very keen to make sure that they do.

Q6071 Lindsay Roy: Yes, can I just clarify? You had seven question areas in 45 minutes. That is about six minutes each. Do you feel you had a fair hearing?

Jim Moohan: Well, we had a fair hearing because the questions were submitted a month beforehand to give the Minister the time to answer as briefly and accurately as he could. Our delegation timed themselves to six minutes for each question so they could deliver the question and get the reply back because at times in the past—

Lindsay Roy: Sorry, could I interrupt. There seems to be something wrong with the microphone. Could you tilt it towards you a bit more? I am getting signals from the back. Sorry, do you want to carry on.

Jim Moohan: The seven questions that were put across by our delegation: six minutes, three minutes to make your presentation and three minutes for a reply. The reason we did that is because of the 45 minutes and also there is a tendency for people to be long-winded, so our team was very well disciplined yesterday. They got answers, as I said previously, in all of them but very unclear. Until we get the response we are none the wiser, apart from the verbal reply received yesterday from the Minister.

Q6072 Lindsay Roy: In effect, what you are saying is you got responses but there is a lack of clarity. You would have liked more time to follow things up.

Jim Moohan: Certainly 45 minutes is never a great time to talk about the manufacturing sector within Scotland and all the jobs within it and the billions of pounds that are covered by that sector. So 45 minutes is limited experience. These people at this table here are very well qualified in relation to the questions that they posed to the Minister, but on the day we were only given 45 minutes. We covered every question. We are waiting for the written response, which the sector should receive in due course.

Q6073 Lindsay Roy: When you say “in due course”, how quick might that be: a week?

Jim Moohan: Within this week, because the secretary has written a letter today based on yesterday’s conversation that the Minister confirms his “as soon as possible” reply to ourselves so we can advise the delegation and our members within the companies of the outcome of the questions that we posed on their behalf.

Q6074 Chair: I hope that has all been recorded because, unfortunately, the microphone broke at one point during that. You are from the GMB, aren’t you, Jim?

Jim Moohan: I am Chairman of the CSEU, yes.

Chair: It is in your GMB capacity that you broke the microphone is the point I was seeking to make. Kenny, you wanted to add to that.

Kenny Jordan: Thanks, Chair, I just want to totally clarify. Our disappointment was in receiving answers verbally, given that we gave the question well in advance. The Minister was able to come and quote passage after passage of websites or 100-page documents. However, they did not have those documents to issue to us. When we did send the questions well in advance we requested that there should be a written response and, as I say, that was way back in July. We are still waiting for that written response.

Q6075 Lindsay Roy: It was difficult for you to probe further because you did not have the written response. Would that be fair?

Kenny Jordan: It would have been helpful to have the written response.

Q6076 Chair: Hopefully you will get a written response from the Scottish Government and then, if you eventually get a meeting with the First Minister, you will pursue the points that you have had in writing about these points. It would certainly be outrageous if the First Minister was not prepared to meet you at some stage.

Kenny Jordan: My fear is that that meeting would not take place until October.

Q6077 Chair: Clearly we will flag up that that is obviously not acceptable since you are representing thousands of defence workers whose jobs are in the frontline in all of this. While the loss of your jobs might very well be considered a price worth paying by some, that is certainly not the view that we take. Could I move on to Thales now, Ronnie, and we will come back to some other questions later on.

Ronnie Taylor: I asked the Minister about investment and he went on and on about figures, which we could not scrutinise, but he did say, as has been said before, there was going to be a £2.5 billion spend in defence and also that they were going to re-industrialise Scotland and there was a 100-page document on the web, which I have printed out here. I have had a look at it and, to be honest with you, there is nothing in here that specifies exactly what is going to happen with defence. It seems to be a grass roots document. It is going to be from younger people and universities and it is all going to be Government

funded or there is going to be Government funding there. As I say, I do not see anything that is going to safeguard our jobs at the present moment.

I do have to say that we are a land-based company that gets 95 million orders direct from the UK and we do not believe that the Scottish market will manage to reach that. Therefore, there is no guarantee that the UK is going to continue placing those current orders. We do feel in a very vulnerable position being a land-based company, unlike the shipyards.

Q6078 Chair: In terms of the budget, I think the letter that Alistair Carmichael sent you was confirming your point that the Scottish Government plan for defence security, including intelligence and cyber security, was £2.5 billion. I think you said, Raymond, that 7% of the UK budget that we have at the moment is less than the proportion that the Scottish population share. Even if the UK budget was divided by population, that is less than that. I think 14% of the Scottish budget would go towards single-use military equipment, £350 million a year. Unless I am mistaken, from Thales' point of view, this would not be enough to sustain the sort of ordering pattern that you have had up to now because you are entirely dependent upon UK military orders. Even the export orders that you get depend upon there being or having been orders placed by the UK to give you the credibility to supply export markets. Is that right?

Ronnie Taylor: That is correct. That is the way that we have documented it before.

Q6079 Chair: In the discussions I have had with Victor Chavez and others from Thales, I have been reminded that there have been a variety of moves of various units of Thales around the country in the past. I think some of them have been transferred into Glasgow previously, haven't they, and could presumably just as easily be transferred out?

Ronnie Taylor: A few units of Thales down in England have been short and work has been transferred to Glasgow. We don't see any reason why work can't be transferred directly from Glasgow back down to England. As I say, Victor Chavez has said that in terms of our Glasgow-based business, independence would take its largest domestic customer and make it an export customer with all the inherent complexities and challenges that would involve. This could clearly have a negative impact on Thales and we see that our work would be moved.

Q6080 Chair: Can I clarify whether or not Keith Brown had anything in particular to say about Thales that gave you any reassurance?

Ronnie Taylor: Keith Brown said that he had spoken to Thales but there were no new specifics. He also said that of all five of the companies represented here, there was nobody that went out saying that "yes" was good for Scotland.

Chair: Keith Brown said—sorry, I am not quite clear.

Ronnie Taylor: He said he had very good discussions with all the companies represented here and in-depth conversations about how he saw the industry going forward. He said that it was not a case of everybody going out of there believing that a yes vote was good for the industry.

Q6081 Chair: So, even having had discussions with Keith Brown, the representatives of the companies went out of there unconvinced?

Ronnie Taylor: Yes, because of the fact that he said there is a lot of uncertainty because everything has to be negotiated.

Q6082 Chair: All right. Raymond, you wanted to add a point to that.

Raymond Duguid: I think what he said on that was he had met with ADS Scotland and had a very robust meeting with them, and at the end they did not leave as yes voters but they certainly left happier than when they came in. I think those were his comments. Is that right?

Kenny Jordan: Yes. Later when he was questioned about which companies he had dialogue with, he did mention that he had dialogue with ADS. However, he could not recall how many or the make up of the companies that were represented there. His comment was that he had a robust meeting with the employers and, as Raymond said, his comment was that they had left maybe not pro independence, however they left contented.

Q6083 Chair: So they left anti independence? That would seem to be the gist of it. When we describe things as robust, it means that generally there was a big fight. So they had a big fight and they left as “no” voters is the point that I would take from that. Sorry, Jim, it has been a long time getting to you but we have kept the best to last, if you want to move the microphone along. The Committee met Selex but maybe it is best if you tell us what your position is.

Jim Thomson: I will go forward first regarding the question that was pitched at the Minister. It kicked off that an independent Scottish state would be a third-party country. It would not be covered by existing UK-US ITAR agreements, the International Traffic in Arms Regulations. UK companies would not have the authority to transfer items of information that are subject to ITAR licence to their subsidiaries or other companies in an independent Scottish state or to a Scottish national without US approval, any more than they could transfer such material to organisations or individuals in foreign countries. So the Minister was asked, “After independence how would the Government ensure Scottish companies and Scottish nationals could continue to work with US-controlled technology currently restricted under ITAR and other regs?” The Minister replied that—you will not be surprised—that will be negotiated. I think it was a short answer and I felt that this guy does not know how deep the rabbit hole goes regarding ITAR and licensing, but that is what he said.

He then went on, which is Ronnie’s point, about the meetings they had held with Selex ES and Thales and he thought there was a feeling around that table that there were opportunities in an independent Scotland, but he was not really specific on what that was. He did mention, as the guys have said here, that there was a rather robust discussion and my feeling is there would be nobody coming out of that thinking that an independent Scotland is a good idea for Selex ES. I think far from it. I know that from the boss in there, Alastair Morrison, who, at an employee briefing in the canteen, had a slide. There were

people coming out of that who may be inclined to vote “yes” who thought it was scaremongering. So there are huge concerns there, there is no question about that.

Selex ES in effect is an integrated company. It does not stand alone as one unit in Edinburgh; it is integrated with the rest of the UK as a UK company. There is component transfer and employee transfer. Post-independence, we are foreign nationals; it is as simple as that. Keith Brown said, “We will negotiate all that away”. I wonder about the reception he will get in the United States post-independence given the position of the western defence strategy that I believe would be undermined in an independent Scotland. He might not get the reception he is hoping to get. What did I think of the answer? Thin, vague, uncertain. Three minutes, isn’t it, Ian? At the end of the day, it is three of four minutes.

Q6084 Pamela Nash: You said his answer was just that there would be negotiations. Did he give any indication yesterday, or indeed before the meeting yesterday, that he had approached the US or that anybody from the Scottish Government had already approached the US Government about ITAR?

Jim Thomson: No, as I remember that he did not.

Q6085 Pamela Nash: Are you aware at all of Selex, as a company, approaching the American Government about this?

Jim Thomson: I am not aware of that at present. I think there is a bit of crossed fingers going on, hoping that it is not going to happen. There is a lot of uncertainty. We, as a company, are developing new products. We are a UK company, however we are owned by Finmeccanica, an Italian defence giant, so when it comes to handing out the cash I think they are all waiting to see what happens on the 18th and then things will change. With regard to ITAR, that is a huge issue. Will we be working if independence comes to Scotland? Will we have a job? What happens? We are foreign nationals; we are not allowed to work on United States products because we would not be covered by an agreement as foreign nationals. What happens?

Q6086 Pamela Nash: There are also implications there just for the UK security policy framework as well as foreign nationals, to the UK not just the US. Can I ask your colleagues here, are any of you aware of your companies entering into discussions with the US about ITAR previous to this or have they had any discussions about the UK’s security policy framework?

Jim Moohan: I may be overlapping here, but one of the questions was dialogue with companies to touch on that very point, which we felt was imperative in relation to the major companies who are represented here today, and medium size and small companies, to ascertain their views and concerns about where they will be standing come the 19th. There is uncertainty just now, uncertainty with the shareholders of these companies as to what they will do come the 19th. As Jim said, will they maybe press a button and transfer part of their operation elsewhere? That dialogue yesterday, through the chair, was not answered properly. He indicated there was some dialogue, but if you do a survey of the companies in Scotland I am quite sure there would be a very low percentage of conversation and dialogue in relation to imports, exports, the currency, the uncertainty

over the workload short term, medium term and long term. That dialogue has been very limited, as Jim has just touched on, and I believe that is the same across the board.

Q6087 Pamela Nash: I am sure that the vast majority of people in Scotland do not have an in-depth knowledge of these regulations, or indeed the UK's own security policy framework. Can I ask you to make clear how important this is to your individual companies? My understanding is that there are 53 sites that are covered in List X as part of ITAR, and this would have major implications for your companies and your employees.

Jim Moohan: Major implications in a point of growth. We are now going through a period of companies standing still. There are major companies that are walking the fine line of: do they make a decision just now or do they wait until the 19th and then make a decision? We are quite confident just now that they are revisiting their positions within Scotland as to whether they sustain it long term, whether they keep the dialogue going with the UK, the Americans and beyond to assure them that everything within Scotland will remain sound going forward. As Jim said, there is a big cloud of uncertainty. Once again, the conversation has not been done in a proper and correct manner to give the public a response in relation to their fears and concerns and to ensure the sustainability of job security and growth going forward, which is one of our two questions that were in the paper itself.

Jamie Webster: My recollection of what was said yesterday by Keith Brown—and I am pretty clear about this—is that, what credibility it had or not, he hung his hat on the fact that there is a skill base here, a reputation and, dare I use this word, trust, and that that itself would carry a considerable weight. I don't know too much about it at that level but, knowing that the US are very cautious and protective about defence, that would probably be a very optimistic message passed by Keith Brown. Just in view of the fact that you build up a company reputation and a trust reputation and companies are built on that, do you think that America would be making it particularly easy? I am not quite so sure. Is that a fair interpretation, would you say, Jim?

Q6088 Chair: I think we are working on the basis that we ask questions rather than the panel asking each other questions.

Jamie Webster: I am sorry, Ian. The reason I am saying that is just in case I got it wrong and for no other reason. It is not a smart-arsed comment.

Chair: No, I understand that.

Henry Wilson: Just in response to the question that Pamela asked, I can give an example of how important some of the companies consider it. I got caught up in it last week directly because of the access that I have on our system and the role that I do on our system. When it was discovered that inadvertently I have access to ITAR documentation, I was given an hour and a half to complete an enhanced training course or my access on the system was going to be removed. That is how seriously our company takes it. The Minister made a comment yesterday that, having spoken to some of the companies, they said they don't tend to feel that ITAR is that big an issue. Certainly, from our company point of view, ITAR is a major issue and that was how seriously they took it. They were going to remove my access because I was able to access information on the system just as

part of my role. I would not even necessarily do it regularly. Having taken the enhanced ITAR training course, I was very surprised by some of the stuff in there that is covered by it and why it is so tightly covered. For argument's sake, if Jamie was an Italian, even though he is employed by our business, by virtue of the fact that he is Italian I can't discuss any of that stuff with him even though he is an employee sitting beside me in work.

Part of the stuff in the training course shows and gives indication about how seriously the US takes it and how difficult it is to get some of these licences. Some very major companies in this country and in the US have received significant fines because they inadvertently breached regulations without realising they had done it, and we are talking millions of dollars' worth of fines for breaches. It is not paltry figures we are talking about here. So it is a very serious issue as to what happens after independence, right down to the fact that with the asset sharing that would result as a part of any split, from our business point of view we can't set foot on the ships that would then come under our ownership until that licence is agreed because there is equipment and software on those ships covered by ITAR regulations. I do not believe the UK Government would even be able to hand that stuff over to us until such time as the Scottish Government was able to get a licence. There are a lot of questions to be answered there and I personally don't believe there was any particular clarity around that other than the "it will be all right on the night" type answer.

Chair: I must confess, I had not quite thought of you as Henry Wilson secret agent before.

Q6089 Pamela Nash: Is it fair to say that a best case scenario here is that even if Scotland did get a licence this would not be an easy route for Scottish companies to get licences from the US? The other issue that has been raised with us in written evidence is that there would be a dependence on whether the companies re-registered as Scottish companies or whether they were foreign companies operating in Scotland.

Tam Mitchell: What the Minister said is that Scotland would not be starting off from scratch because we are involved in ITAR under the UK system at present, so the companies involved have been using it for a long time. But he did say, if we did vote for independence, it would not be until 2016 so that gives them 18 months to negotiate with the US. When Jim asked about the Selex position, he did admit that Selex had brought this up to them as one of their major concerns, and he said, "I cannot give you a guarantee, however"—and then it was like a Beatles song—"I believe we can work it out". So it is all uncertain.

Gillian McKay: I wanted to share with you the notes that I have taken on this point. I have responsibility for Selex in Edinburgh and this was a big important issue for us. As Jim said earlier, what the Minister said was that discussions would be directly with the US. However, it could take 18 to 20 months to get it right. It can be achieved but there are no guarantees, but he can't understand why the US would not give us the licences when they have already given us licences as part of the UK.

Q6090 Chair: Am I right in thinking that the whole question of ITAR licences is not just a question of individuals or of companies but it is also a question of countries, and there has to be an issue of trust between the United States and the UK and a separate Scotland? The evidence that we have had informally from a number of companies is that they think that a

Scottish Government that is forcing the UK to remove nuclear weapons and potentially unilaterally disarm, whatever you think of that issue, makes it much less likely that the US would see Scotland as an ally and as supportive and therefore much less likely to be prepared to give them some slack on the question of ITAR.

Jim Thomson: I did make that point to the Minister as he went through his answer. What I said was that you are not going to get a warm reception in the United States, in my opinion. You are going to boot Trident off the Clyde. You are going to undermine the bulwark on the western defence strategy or however you see that, whether it is right or wrong. You think you are just going to walk in there and get these export licences, access to the American components.

Q6091 Chair: His answer was what? Sorry, unfortunately *Hansard* does not record shrugging and expressions of disgust. You have to say something.

Jim Thomson: I am not used to using the technology. No, he did not have much to say regarding that. He had nothing to say.

Q6092 Chair: There are some other more detailed questions that we want to pick up with some of you, but is there anything else from the meeting that you think we have not touched on so far. No? Okay.

Could I come back to some of the particular firms? We have seen some suggestions that the Clyde could get not only Scottish Government orders but also there is a great future for it in building ferries. Do you have a view on whether or not that is feasible as an alternative market?

Duncan McPhee: It is the old story, diversification into commercial, which if it was achievable we would support 100% obviously. At the moment we struggle to place ferries that are within the Scottish Government's control within Scotland because they are open to tender under European law. We struggle in that market because there are ferries being done in Poland, Germany and elsewhere, so I am not quite sure how the ferry one would come out. You could argue that there could be possibilities for more complex commercial ships like oil supply ships, but which company is actually going to do that? At the moment the major shipbuilders, BAE Systems, have made it clear, whether you like it or not, that they are a defence company and that is their business model, so they will not be diversifying. Unless the Scottish Government has another company lined up to bring in or, as I say, have a nationalised industry, if that is possible to do again, to do that type of work then I don't see how it is feasible because the major shipbuilder builds naval ships. I am a bit confused on that one.

I saw mention the other day that we can build cruise liners as well. Unfortunately, that is ludicrous because Europe itself is even struggling to do that type of ship now. The Far East is moving in and taking a lot of this kind of stuff. So, I am not quite sure how we could actually do that. Although I would love to see it, I don't see—I asked him, "What is the substance behind it? Can you cost it? How could we do it?" It wasn't there.

Jim Moohan: Commercial shipbuilding has been an old chestnut of mine. Just now there are two hybrid ferries being done at Fergusons. At the same time, they have diversified

into building bridges and matters like that. For the last 14 years there has been an absolute failure in relation to supporting even the CalMac ferries. To retain the commercial shipbuilding within Scotland, I am like Duncan, I have an aspiration—and I am saying this to all in the Scottish Affairs Committee and the UK—that I do believe that if we can, and we are doing just now, build a product such as the aircraft carrier and the Type 45 and 26 then we can, with that skill and knowledge, build sophisticated commercial ships of a limited nature. Maybe I will be crossing into a path that is not the discussion today, but it is important from a CSEU point of view that if we can do all within our means to press that button and press a green light in relation to that then we will do it, but just now commercial shipbuilding does not exist. Will it exist come the 19th? No, it will not because we don't have a vision and a strategy of putting that down as a marker.

BAE Systems have made it absolutely clear that—and if there is anybody that was going to break into commercial shipbuilding it would be BAE Systems—MoD is their market, that is their bread and butter, and they will retain that because they have the knowledge and experience and nobody can compete with them. So the commercial one is still up for grabs if anybody has the belief and confidence in pressing the button on it.

Q6093 Chair: My understanding is that nobody has been identified as a potential operator of a commercial shipbuilding facility on the Clyde, that no company has come forward. Of the two types of order, one would be state orders for things like ferries, but my understanding is that under EU rules they would have to be put out to competition. If there were private orders for commercial shipping of any sort they would not be under EU rules in the same way but you would not be able to compete on price with existing commercial yards. I was going to say originally they were eastern Europe but eastern Europe has now been put out of the market pretty much by the Far East. Is that a fair assessment?

Jim Moohan: It is a fair assessment. Four years ago—and I am talking from a UK perspective—when the Korean order was there for building the large tankers, BAE Systems or the UK Government could have built them at that time but there was no willingness. They looked at their profit margin, they looked at it being just a big hull, a tanker and there is no software, intelligence technology that would support them breaking into the market. Plus there is no belief, Chair; there is no confidence within the UK shipbuilding that they can break into the commercial market. I would love it. I keep on bashing at that chestnut. People may say it is a lost cause but if you are going to retain the skills and capacity and expand—because I do not believe we can consistently depend on MoD orders. We have to have a vision beyond the horizon into commercial shipbuilding. It is done in Europe and it is done worldwide; we can do it. Let's turn back the clock and do something. It takes orders; make it competitive and cost effective. The Type 26 is a £13 billion order; it is cost-effective and competitive. The aircraft carrier is making a saving of £400 million between the first and second carrier. That tells a story about the skills and knowledge.

Raymond Duguid: The Minister yesterday brought up the fact that Norway is building 100 ships. It took this Committee to point out to him that they are taking delivery of five warships that were built in Spain because they can't do it, it is not a specialisation they have. Orders were placed by Norwegian companies for the 100 ships they are getting but the hulls are getting built in the Far East. That was news to him, I think, or maybe it was not.

Q6094 Chair: We went and checked at one point about the number of ships being built in Norway. One of them was less than 10 yards long. They were talking vessels than ships. Of the orders that the Scottish Government itself placed for ferries, I think one of them, MV Loch Seaforth, was built in Germany and Finlaggan was built in Poland. Can I clarify whether or not you raised that with him and whether or not the Scottish Government has given any explanation as to why the orders that they can place have been placed abroad rather than in Scotland?

Duncan McPhee: The answer to that is that under European rules they have to be put out to tender, yet they are saying when it comes to the naval ships going forward that will not apply to the UK doing it. They will not have to open it up; they can just place it in Scotland. I think there is a big contradiction in that response. You are either opening it up or you are not opening it up. I don't think you can pick and choose like that.

Q6095 Chair: Presumably if there is a period when Scotland, as looks very likely, is outwith the EU, they would be able to place orders for ferries in Scottish yards without going out to competition because then, by definition, they would not be bound by EU regulations.

Duncan McPhee: If that point applies, then I will come back to the point I raised earlier on: who is actually going to build them? The major shipbuilder is a naval shipbuilder, BAE Systems. Unless BAE Systems change their whole business plan to get into commercial—and don't get me wrong, I agree with Jim on that, we have asked them on numerous occasions to try to diversify—their business plan is defence-related work and that is what they are sticking to. If they keep to that position, once again what company could be attracted in to do it, or is it going to be a nationalised industry with all the start-up costs that go with it, to provide that type of vessel?

Q6096 Chair: There are a number of other people here from BAE Systems. In terms of the points that have been discussed just now, is there anything any of you have to add to that? No? Okay.

One of the points that was also raised about BAE was the question of collaboration with Australia and the argument was: if BAE and the UK are collaborating with Australia why don't they collaborate with a separate Scotland? Can somebody clarify for us what the nature of the collaboration with Australia is?

Henry Wilson: The collaboration that they keep talking about with Australia is not the way it is communicated in the press. We are collaborating with Australia on the design of their new frigate, which is a design based on the Type 26, but we are only collaborating on the design. They are doing all of the engineering work, and the fabrication and everything else will be done in Australia. There is no actual physical benefit to us as a UK industry other than that we are collaborating on that and the company will obviously get paid for their contribution towards that design. It is our company in Australia that is involved in the project, so it is a company-to-company collaboration with agreement between the two Governments on the technology share. But it is not a collaboration, as it would be in the manner that they are communicating it, between the Scottish Government and the UK Government where they would be placing the contracts with us to design and build the

ships for the UK Government. That is the part that is missing in the communication when they are talking about that collaboration.

Chair: I see. That is very helpful. Duncan, do you want to add anything?

Duncan McPhee: Henry is correct; he has covered that one. We were astounded when the Australian one appeared because it is nothing new in the shipbuilding business. You can share designs and basically who holds the original one, which in the case will be the UK and BAE Systems, sells the design to other countries. It is not just Australia, they collaborate with Brazil and other countries as well. What is quite clear from the start is that they are doing the construction and so on in-house in their countries. We would love to do the construction here but the way the business is moving forward in the world is it triggers off from the design stage. So basically they have an input into that and they pay a price for that, which is good for the company and it is good for the UK economy because it is bringing in money but it is not being used, as Henry said, in quite the way that it has been portrayed in the press. It is as if you are sharing on the whole programme and you would build some ships in Australia and we build ships as well and it is crossing over it. It is really a design-based enterprise.

Q6097 Chair: When the Scottish Government says this about the UK and Australia, do they not understand that it is just a question of design collaboration? They give the impression that in some way there is going to be manufacturing taking place in Scotland. They use that as the argument, don't they, that in future the UK and a separate Scotland would work together and jointly procure in the way that the UK is doing with Australia? From what you are saying, that is a complete distortion of the actual position. Why are they saying that?

Duncan McPhee: In my opinion, it is a way of saying that the UK do collaborate with other countries so why wouldn't they collaborate with Scotland in the same way. If you take it on to the next stage, if they did it the same way as they have done with Australia they would share the design of the Type 26 but that is all they would be sharing, because the UK is certainly not sharing any construction with Australia. It is a bit light, to say the least.

Q6098 Lindsay Roy: I want to focus on the Scottish Government's White Paper that states that there are 15,000 people working on the Clyde. Is that a figure you recognise and, if so, how many of these are military personnel and how many are civilians?

Raymond Duguid: It is a figure I recognise because I read the "Scotland's Future" paper. I believe it is because they plan on basing the Scottish defence headquarters at Faslane. There is no breakdown on the 15,000 of whether it is military, civilian or what it is. At the moment on the Clyde they have a workforce that will be expanding due to the submarine fleet being moved up to Faslane in its totality. I know that Babcock briefed the shop stewards at Faslane two weeks ago and Derek Torrie came out with a view on how it impacts on his site and his members. It was a very negative view with regards to independence, that it was not good for them.

Q6099 Lindsay Roy: So, in effect, this is including Faslane. Do you have a breakdown between Faslane and the rest of the Clyde?

Raymond Duguid: No. It was a briefing that went to the Faslane stewards specifically from Babcock so you would need to contact Derek Torrie or get his view, which I think was circulated in the press.

Q6100 Lindsay Roy: Can you clarify that that would mean a significant reduction in the workforce in the Clyde?

Raymond Duguid: The view that came out from Babcock is that there would be a significant reduction of the workforce on the Clyde.

Q6101 Lindsay Roy: Any idea of numbers, Raymond?

Raymond Duguid: No. I was not at the meeting. I am not part of the Clyde, I am part of Rosyth. The view for Rosyth was it would be probable that Rosyth would be unable to bid for Royal Navy contracts, so that was a significant—

Lindsay Roy: The impact on Rosyth would be—?

Raymond Duguid: No Royal Navy refits.

Lindsay Roy: Therefore workforce?

Raymond Duguid: We are diversifying into commercial markets at Rosyth. We are doing subsea models for BP and Total. We do work for Bibby and things like that. So we are diversifying into the commercial and Babcock's view or hope is to get to 60:40 or 70:30 commercial versus MoD work going forward. In the plans they have in place if Scotland is part of the UK they are looking at 10% growth at Rosyth going forward, but if you take out the MoD side of that it is between 30% and 40% of 2,000 people, which is between 600 and 800 jobs. That MoD work gives a foundation to build skills and apprenticeships and things like that as well. The margins within commercial work make it harder to bring in the nice-to-haves and apprentices.

Q6102 Lindsay Roy: So, while applauding the diversification and the possibility of extending jobs, you are actually losing a skill base.

Raymond Duguid: Yes. I think people need to realise that as dirty a word as defence might be, a lot of technologies and research and development comes through defence, a lot of the skills get developed through defence. Defence manufacturing creates what we manage to do for commercial contracts. It helps us win those works. Rosyth is sitting at the moment with a massive advertising board sitting in the basin, a massive aircraft carrier. It allows people to see what is achievable, how good we are at engineering.

Q6103 Lindsay Roy: As you know, a lot of these youngsters who became apprentices, journeymen and tradesman came from the school I was head of and they express to me deep concerns about the future.

Raymond Duguid: I passed my 30-year anniversary yesterday; 13 August 1984 I started as an apprentice plumber on the dockyard. That is how good it is. What I would say is that

they also said yesterday that British shipbuilding and manufacturing has declined in the UK and only with an independent Scotland would shipbuilding grow again. Rosyth has gone from 1,110 people in 2006 to 2,000 people now in the core workforce, so we are growing, we are successful, and that is on the back of the carrier contracts, the Royal Navy contracts and the commercial work.

Q6104 Lindsay Roy: But without the naval contracts it would decline markedly?

Raymond Duguid: Without the carrier contracts, we would have been closed.

Lindsay Roy: You couldn't be clearer than that, Raymond.

Q6105 Chair: The figure of 15,000 that the Scottish Government has claimed would be in Faslane and Coulport, am I right in assuming that that would not be the same 15,000 as you have at the moment? My understanding is that most at Faslane and Coulport at the moment are either nuclear submarines or conventional submarines and the proposal is that the 15,000 that the Scottish Government has there would be mainly headquarters staff and the like. I appreciate that many of your Babcock staff will be retrainable but they are not necessarily going to be as retrainable as that. Is that correct?

Raymond Duguid: Submarines are very high tech and personnel intensive; because of the size and the space you need to have guys on shifts and everything else and there is 24-hour coverage because it is a naval base as well. So a lot of the skills of the people who look after the submarines and the mine sweepers at Faslane will not be required if the submarines leave. It is pure and simple. The health physics monitors will be not required because there will not be any reactor to monitor. The people at Coulport will not be required because there will be no missiles. So, it will be different people. I believe what they were told two weeks ago at the Clyde was that the people who will be safe will be the ones who are in charge of the hotel side of the business at Faslane that is looking after the navy personnel.

Jim Moohan: We did have reps from Faslane and Coulport at one or two of the meetings and the questions were posed to the Scottish Government about what would happen to Faslane and Coulport, Trident, post 18 September. The intention is to close it down, of course. So we then posed the question: what is the plan in place for 19 September for the 10,000 and the 5,000 who support the 10,000 at Faslane and Coulport, in that area, the small companies and all the employees within that sector, of West Dunbartonshire? It was put five times to, I think, Robin McAlpine, and eventually I put it to him myself, and there is a 10-year strategy going to be put in place. In effect, the 10,000 to 15,000 jobs that are covered by that area and that type of product will vanish. We have to wait 10 years until there is something put in place. Raymond touched on diversification. There are no diversification plans that will be put into effect come 19 September. That is a fact and that is the answer back from the Scottish Government. In effect, Faslane and Coulport will go and there is nothing to replace it apart from a 10-year objective that we know nothing about, there is nothing in black and white to ascertain what it means, when it means and what investment is going to be put in to ensure that happens. That is the answer.

Q6106 Graeme Morrice: Can I pick up on that point? Going back to the issue of Trident, we are aware that in the White Paper the SNP and Scottish Government has made it clear that post-independence it would remove Trident at the earliest possible opportunity. Of course there are no listed timelines in that, as far as I am aware, and I think, Jim, you were alluding to that. They have said that the plan would be to headquarter the Scottish navy on the Clyde and they specifically said that would compensate for the 15,000 jobs that are currently based there dealing with naval issues. Do you believe that? Do you think that is credible, their saying that there would be a like-for-like compensation?

Jim Moohan: I don't see how you could compensate unless you have the workload and unless you have diversification in place. Babcock's vision going forward—I give Babcocks credit and they have done it for the last 20 years—was if they were getting MoD and refit work, they needed to diversify. They have done it with subsea platforms and with subway trains from London. Babcocks has a vision to the way forward. Back to the question, there is nothing to compensate it because you can only transfer so many across and then what do you have left in place of what you are moving over. There is no vision, no strategy, and I repeat myself to you: they have a 10-year vision; there is no diversification; there is nothing in black and white; Faslane and Coulport will disappear. What is in place of it will just be the countryside, and that is the answer from the Scottish Government.

Q6107 Chair: Could I ask for clarification on this point about 10 years? Is it the suggestion that the removal of the nuclear missiles would take 10 years?

Jim Moohan: No, there wasn't anything put on that, but it was to replace the jobs. They said over a 10-year vision and strategy to put in diversification to compensate for the loss of Trident and Coulport and nothing come 19 September and nothing for the next several years, nothing that would say steps A, B, C and D are in place to compensate for it if it was removed within a month.

Q6108 Chair: I can't remember whether or not that was one of the specific points that you were raising with the Scottish Government, but if not then maybe you ought to clarify that. From the discussions that we have had with yourselves before and also from the dialogue that we have had with Government Ministers at the UK level, they are conscious, particularly, for the shipyards, about the need to have transitional periods, which is why the blocks for the aircraft carrier were transferred up from Portsmouth to Scotland, even though that meant a loss of jobs in Portsmouth, because they wanted to make sure that the Clyde was kept working. Similarly, the OPVs that were originally intended to go to Portsmouth have now been moved up to the Clyde in order to keep you in employment, in order to keep the workforce together before we go on to the Type 26 should Scotland remain within the union. I am surprised to hear that the Scottish Government does not seem to have this in a transitional programme timetable and it all seems to be the idea that the jobs will appear at the end, but of course the jobs that they are intended to replace will have gone before then and people will not have the possibility of retraining. If you are pursuing the Scottish Government for a meeting with the First Minister, can I suggest that you seek clarification on this important point as well?

Kenny Jordan: Can I maybe just clarify? Unfortunately, yesterday we had 45 minutes to spread the whole questioning of what is concerning us and to include Trident within that questioning would have been difficult. However, a question posed to the Scottish Government yesterday was to understand what their industrial policy was with regard to the likes of creating employment in areas like Faslane and Coulport in response to what could be taken away. It was not a pointed question of, “What are you going to do to replace when Trident is not there?” but the tenor of the question of what their industrial policy is for Scotland should have included that type of answer.

Q6109 Chair: Can I raise another point with you that has come up fairly recently? You will be aware that, as part of the discussion about currency, the Scottish Government has said that it might not accept any share of the national debt. It seems fairly obvious to us that in those circumstances the UK might not share some of the assets. Some of the assets are obviously the ships of the Royal Navy. You could potentially end up with a Scottish navy with no ships since it is dependent on getting a share of the Royal Navy ships. If it does not get those because it is not meeting its debts, then presumably, Raymond, there would be no need for maintenance and berthing facilities in Scotland since the navy would not have any ships to port or berth.

Raymond Duguid: The first thing is that if we didn’t have any ships that would match how many sailors we would have. We don’t have any because they are all sailors of the Royal Navy. There would be a decision on whether they wanted to transfer to Scotland or not. Having spoken to some at Rosyth and my two nephews who are in the navy—I said I would never mention my family—they are certainly not transferring to a Scottish navy. I had this discussion with Angus Robertson a good few years back and he has not spoken to me since, so hopefully it is not the same outcome this time. For Rosyth to survive as a refit yard we need two refits a year of something of the size of a frigate or a destroyer. Those ships are on a five-year cycle, so you need 10 in your navy and then you need minesweepers and other things to fill in the small gaps between refits, because you are not going to get one straight in and one straight out. So to sustain Rosyth on its own, a Scottish navy would need to be 10 frigates or 10 destroyers or a mixture of those two. In the White Paper they are suggesting two frigates, one command ship, four minesweepers, two offshore OPVs and six patrol vessels. They do not keep us going, far less Faslane.

They promised all the work to Faslane because of the Trident question, “We are going to remove Trident and we will leave Faslane with nothing”. It was not even just the Scottish navy they were getting. They were getting the headquarters of the Scottish defence, so the navy, army and air force are going to Faslane. If that is not all your eggs in one basket in a big target then I don’t know what is. They have promised all this work to Faslane, yet if you read the White Paper they are also going to look at opening up Rosyth as a naval base. We can’t berth the same ships. They can only berth in one place at a time. My view from the refitting side is that they are just offering everything to anybody and the reality is that there is not enough there to keep one of these yards functioning at its current level, far less the two.

Q6110 Chair: Have you sought clarification from them on this at all? I appreciate that you have not seen Angus Robertson since the last time you raised it with him. He might be in

hiding but presumably not everybody from the Scottish Government is in hiding. Could that not be one of the points that you do actually raise with them? That is obviously a very important question. Not only might the Scottish navy not have any ships, which is a different issue; the ships that they do get can't berth in two places at once and it needs to be clear to the people in Rosyth and in the west where the intended home port would be.

Raymond Duguid: I attempted to ask Angus this at a Scotsman Conference in Edinburgh and he attacked me for being a "better together" campaigner, so he did not answer.

Q6111 Chair: Attacking you for being better together is not necessarily a badge of dishonour, I would have thought, but it does not excuse him from answering the question that you have asked.

Raymond Duguid: I have asked the question and the answer you get back is it is in the "Scotland's Future" paper, which it clearly is not.

Q6112 Chair: Right, that is helpful. On the other issues that we want to raise with you, we have touched briefly on 346 but 346 is covered by the letter from Alistair Carmichael that says, "Companies based in an independent Scottish state would no longer be eligible for contracts that the UK Government chooses to place or compete domestically for national security reasons under an exemption from UK procurement law article 346". That seems quite unequivocal that in fact that they would not be able to place orders in a separate Scotland utilising 346. The assumption has always been that 346 means that you can apply in your own country, but by a leap of faith the Scottish Government was suggesting that 346 could justify you placing it anywhere you liked. Was that clarified with the Scottish Government or was that one of the things where they had legal advice that they were going to provide to you?

Raymond Duguid: I asked that question and I was told that they had advice, just as you said, that article 346 would not prevent the UK Government from placing these orders in Scotland without opening them up.

Q6113 Chair: Are they going to give you that legal advice?

Raymond Duguid: They did say with certain other things at the meeting that they would provide the evidence to us, that they would send it to us, yes.

Q6114 Chair: The UK Government does not necessarily share its legal advice with me but I understand that the legal advice that the UK Government has is that it would only allow them to place these orders in their own country. Even leaving aside the legal question, there is the question of the politics of it, whether or not they would want to do so. I think that is obviously a moot point and we will maybe leave that one at the moment.

The final point that I wanted to raise as an issue, possibly for you, Duncan, and people from BAE, is that it has been very strongly suggested to us that if the Scottish navy were wanting

to order ships for coastal defence and the like, then the Type 26 would not be the kind of ship that they wanted to order because the Type 26 is a blue water, ocean-going vessel, totally unsuitable for coastal defence. I think the example that was used to me was it is like using a Ferrari to go and get your message. It is grossly over-equipped, far too expensive for the sort of coastal defence role that the Scottish navy envisages, and therefore it is not sensible to order those ships. Is that your understanding of the position?

Duncan McPhee: That basically is my view on it as well. If Scotland, with an independent navy, is going to require coastal protection, protection of the oilfields and so on, then I think something like a Type 26 is probably too complex for that. I know they say they are ordering four, but apart from just the naval requirements, if you look at the budget it is £500 million out of I believe a £2.4 billion defence budget; 20% going on just one ship does not ring truly really. The OPVs that have just been ordered by the UK Government to be built on the Clyde would be the type of vessel that I would expect a country of Scotland's size to procure. I will be quite honest with you, if the SNP and Scottish Government had been more realistic on that and said, "That is the future naval requirement for Scotland" I think it would resonate a bit more with ourselves and the general public that that is the type and size of navy that you would expect for a country of 5 million, 5.5 million, certainly not, as you say, a Type 26 that will be going worldwide carrying out operations on behalf of the UK. It surprises me to say the least that that is the type of vessel an independent Scotland would be wanting.

Q6115 Chair: Does anybody else from BAE have a view on that matter at all?

Billy McKay: I agree with what Duncan is saying to a certain extent because I believe that the Scottish Government decided to build ships, OPVs, small vessels. My personal opinion going forward on that is about the detriment to the whole industry. The industry has declined over the years already and it will decline even more. A yard like Fergusons would end up diversifying in small things. Fergusons has turned out to be like an agency nowadays; they move their guys up to Rosyth or move their guys on to the Clyde when we have been busy with capacity. As we go forward, that is what would happen in the industry and in Scotland itself. You would have a very small workforce. We have had redundancies this year, next year and the year after. I believe that the numbers going forward on that will be even less again. You would end up with a membership of maybe 200 or 300 guys to build these ships when you would need massive numbers on them, and going forward where do the others come from? They don't come from the Scottish Government. The chance of getting an order for export is hard at this moment in time and I believe it would be even worse. I just see a decline in the whole industry altogether going forward.

Jamie Webster: The coastal thing about protecting their eggs is probably quite accurate. Nevertheless, I have to keep consistent in my unique public view that I express, which is somewhat controversial but I am not alone in that, that I believe that the ships will be built in the Clyde regardless of whether it is a yes or no vote. I have declared that publicly, obviously, and have reasons for doing so.

Q6116 Chair: Can you clarify what your reasons for doing so are?

Jamie Webster: Ian, I know you watch the media quite a lot and you have heard the case I have presented. It is not a yes or no one; it is a situation relating to what I perceive. The company do not have a plan B and I am sure all my colleagues will say that there is no plan B in terms of the building of the ships. Remember also that yesterday in the papers for Portsmouth it was indicated that the UK Government will not give an answer on the reopening of Portsmouth to build these ships. My viewpoint from a shipbuilder looking at the scenario is that those contracts will still be built on the Clyde regardless of whether it is a yes or no vote. What will happen, all very hypothetical—I have been left with egg on my face before but I have often been right—is that in the eventuality of a yes vote there will be dialogue between the UK Government and the Scottish Government. I have no doubt whatsoever, regardless of what denomination you are in relation to your political spectrum, that there will be an expectation of a defence pact involving many issues and the Clyde will still build the Type 26. I obviously can't move away from that stance because it is a personal opinion.

Q6117 Lindsay Roy: So it will be all right on the night?

Jamie Webster: You may have that view, you may think it is just a ratty comment made out of irrationality, but I base it on the fact that the company when asked about it—incidentally, you were also aware, Ian, because the national office is here, that two or three months ago at the chief executive forum I asked a question of Ian King and the question was, “Am I the only person in the UK who believes, in relation to the Type 26 contract, that in the eventuality of a yes vote there could be discussions between the two Governments and Type 26 could still be built there with cost saving?” His answer was, “Indeed, that may well be the case”. I am sure that can be verified by my colleagues sitting here. Further to that, my crazy analysis was also clarified by a couple of defence people in national newspapers saying that may be the view. So, although it may well be a minority view, I take the view in life that when I have an opinion and I analyse it, I stand it for closer inspection and I stand by that scenario. As your colleague said there, “It will be all right on the night” or “flying by the seat of your pants”; maybe so. I am usually quite a realistic guy.

Q6118 Chair: To be fair, you have always been pretty consistent in reflecting a particular perspective, although you do surprise me, I must confess, when you say that the company does not have a plan B. The discussions we have had with the company indicate that they do, that if they are told by the UK Government to build them in the rest of the UK they have made arrangements to do so. But, Jim, you wanted to come in and then Duncan indicated

Jim Moohan: Come the 19th if there is a yes vote, I am totally convinced that all the MPs from down south and the constituency MPs down south will be phoning Downing Street and demanding that the £13 billion order is revisited. There is a challenge as to whether the £13 billion order will go totally down south. I do believe, like Jamie, that maybe there will be a discussion, but be in no doubt the MPs will demand, based on history, that we do not give work to a foreign country. It is a question of viability: would the UK Government place four of those orders up here and take the rest down south? One thing is for sure, we will certainly not win that total order because the UK Government would collapse under the pressure from the politicians, the public and the constituency MPs. There is no doubt in my mind it will be revisited. In what fashion, I don't know.

Duncan McPhee: I don't agree with Jamie's view on that one, but he is right in saying that the company, for us as the manpower, does not have a plan B. They have set out their business plan for how they see the Type 26 getting constructed, but both the chief executive and the chairman have said that if there is a yes vote they fully expect the UK Government to begin negotiations with them on where that ship will be built. Jamie may be right but if he is right that means the UK Government would do one of the biggest somersaults ever and they would then be placing complex warship orders outside the UK. That would be a great plan B for us and I hope he is right, but it takes an awful lot of wishing and hoping for that to be the case. If that is the plan B, then that would be fine for the shipyards but it is one big gamble to take, in my opinion.

Q6119 Chair: I take the very simple view that if I was in the position of placing an order, would I place it in my own country, my own constituency, or would I place it somewhere else? To ask the question is to answer it.

One of the points that I wanted to pick up with you about Ferranti, as used to be—I am older than I look; I remember when it was Ferranti. When we were there we were meeting with management and they were discussing with us about the extent to which they had very close relationships with some of the universities in Scotland. It has been suggested to us that in the event of separation the research budgets in Scotland would be reduced quite substantially, because at the moment Scotland gets 50% more than a population share of research council monies. Have you had any of that discussion with your management? I think you mentioned earlier on in particular that you were involved with the development of new products and a lot of that is tied in with Herriot-Watt University, if I remember correctly, and Manchester University. How would you see that progressing?

Jim Thomson: Looking at it, I think there would be a reduced budget regarding that. I feel that for the company as a whole, and I have touched on this earlier, being an integrated company, post-independence—and I have thought about cash from the front, Finmeccanica, and how money is handed out to develop new products—there would be a decline. There are three major sites down in England: Basildon, Luton and Southampton. The Christchurch site has been moved on to the Southampton site. That is three major sites for the UK. We start to look isolated if there is an independence vote. The argument might be about whether it would be short term or medium term, but one thing I think we are agreed on, and my colleagues within Selex, is that there would be decline, maybe not in the short term but in the medium term there would be decline. I don't think the money would come in for development for that. We do not stand as an individual company, as I stated earlier. We stand as an integrated company; that is the business model. It is integrated with employees who go down south and come up north; it is very much UK. So I would have a fear for the future on that for funding. That would be my opinion.

Q6120 Chair: Colleagues, any other points that you want to pick up? I think we have covered everything. Normally at the end of these sessions we ask people whether or not there were any answers they had prepared to questions that we didn't ask, any points that you feel that we should have been asking you that we have not covered. I think we have managed to cover almost everything. Jamie, you wanted to raise a point.

Jamie Webster: Just a point I would like to make to go way back to the distant memories of the meeting yesterday. When we asked for written responses, because I asked some of the questions personally, in terms of a rapid response that was made explicitly clear to them and at the wind-up session yesterday I emphasised to Jim and Kenny that we pursue that with vigour and put a last attempt for them to respond. If I was confident it would come very quickly I would probably rest easier but I prefer to make it happen. In terms of that, I believe Jim and Kenny are getting in contact with the Minister's office to ask him not only did he commit to giving a written answer but that he does fully understand the importance of it, so that should be coming to us in days. When I see that, I want to analyse it closely and I am sure we all do.

Kenny Jordan: That is more of a question to ourselves. I did make communication with the Minister's office last night and expressed that very view, that we require those answers as soon as possible and hopefully by the end of the week. That was the message that was sent to the Minister's office.

Chair: Fine. Thank you very much for coming in. We will certainly pick up the question of the First Minister meeting you, because he did promise that when speaking to *The Scotsman*. Nobody is counting but it is the case that we have met you for two hours, which is approximately three times as long as Keith Brown was prepared to meet you and discuss things with you. Hopefully, we will have another meeting with the Scottish Government where again a lot of these things could be clarified. Thanks very much for coming along.