



Defence Committee

Oral evidence: Defence Growth Partnerships, HC 482

Tuesday 11 November 2014

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Written evidence from witnesses:

- [Paul Everitt, Chief Executive, ADS](#)
- [Department of Business, Innovation and Skills and Ministry of Defence](#)

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Members present: Rory Stewart (Chair); Richard Benyon; Mr Jeffrey M. Donaldson; Mr James Gray; Mr Dai Havard; Sir Bob Russell; Ms Gisela Stuart; John Woodcock

Questions 1–52

Witness[es]: **Sir Brian Burridge**, DGP, Technology and Enterprise, **Allan Cook**, DGP, Skills Team, **Paul Everitt**, Chief Executive, ADS and **Mike Maiden**, Chairman, Northern Defence Industries Ltd gave evidence.

Q1 Chair: I welcome our panel to the first evidence session for our inquiry into the Defence Growth Partnership. We are very lucky to have with us today Mike Maiden, who is the chairman of Northern Defence Industries; Sir Brian Burridge, who is the chair of the DGP technology and enterprise team; Paul Everitt, who is the chief executive of ADS Group Ltd; and Allan Cook, who is the chair of the DGP skills team. At 3.30 pm, we will have two Ministers and Steve Wadey, who is the DGP industry co-chair.

I will begin with a few relatively straightforward questions, before handing over to colleagues. What is the rationale for the DGP? Are we doing it for exports? How easy is it for the UK industry to export equipment that does not have the assurance of being used by UK armed forces? I ask witnesses to give relatively short replies, because we have a lot of people.

Paul Everitt: Perhaps I could kick off and try to give some context, certainly regarding our involvement with the DGP, which is part of the Government's broader growth strategy and in particular draws on the model around industrial strategies—that is identifying areas of our economy where the UK is globally competitive and where there are global growth opportunities. The work of the DGP is focused in three core areas. One is about increasing the UK market share through a focus on exports and international markets. The second is fostering innovation and collaboration across the sector in order to develop and generate the products and services that customers will require, now and into the future. The third is driving competitiveness across and throughout the whole value chain, from large companies through to SMEs, at various levels and in various parts of the country.

We see some important facets to that. One is that we should not underestimate the importance of an agenda that is genuinely understood and alignment around a common agenda both across industry and between industry and government. Experience in other sectors that have developed as part of the industrial strategy approach has demonstrated that that is not necessarily as easy to achieve. Other countries are looking very carefully at what the UK is doing, because it looks and feels very different, and as a consequence has helped to attract significant new investment into the UK. For us, the second area is that it is a long-term game: the defence sector is a long-cycle business, so things we do today are about what we may be able to achieve in the years to come, as well as what is available now. The final point is that any initiative of this type is about commitment and continuity, from both industry and government, both across a Parliament and particularly between electoral cycles.

Q2 Chair: May I use the Chair's prerogative and bring in Mike Maiden on this? He may have a slightly different perspective.

Mike Maiden: The Defence Growth Partnership is about helping both to sustain and to grow the industry that the British armed forces largely rely on for their equipment and support. It is also about leveraging the strength of that industry, from the prime contractors through to the SMEs, by ensuring that their customer base is able to generate the ability to invest in technology and skills, so that the industry can in turn continue to support the armed forces.

In answer to your question, Chair, about whether it is more difficult to export without equipment being in service with the UK customer, without doubt companies find it a lot easier to be able to say, "as used by" the Royal Navy, the Royal Air Force or the British Army. However, there are many companies within the defence value chain that operate at the system and sub-system level, which nevertheless are successful exporters and can continue to be so without that overt "used by the British armed forces" label. That is not to say that it is not still important for those medium-sized and small companies to be able to call on and use the support that the British Government can provide.

Sir Brian Burridge: Could I just add to your question on the market, Chairman? The policy backdrop is a recognition in the 2012 White Paper "National Security Through Technology" that exports would be the sustaining force for the UK's defence sector. The traditional markets in Europe, in the UK, are flat and so is the US—flat or declining. So clearly exporting will be in the sights of all the major industrial nations that have a defence capability. We are meeting aggressive competition in every market, particularly from the US. The lack of the "brand UK" ticket is significant, as Mike says, but it is just possible, done properly, that the Defence Solutions Centre, within the Defence Growth Partnership, will represent a brand UK by another name.

Q3 Chair: Before I go to Allan: Mike, is the DGP in your view the de facto defence industrial strategy for the country?

Mike Maiden: No, I don't think it is. I think it is a part of a strategy that will allow and promote the defence supply chain, the defence supply network, to be sustained and to grow but I don't think of itself it is the industrial strategy.

Q4 Chair: Why not?

Mike Maiden: Because there are facets of issues around R and T investment, which are being addressed but will not be solved by the DGP, and other skills issues, which will be addressed in the DGP but not solved by the DGP, that are broader than what the DGP is trying to do.

Q5 Chair: Such as?

Mike Maiden: For example, the policies that the MOD adopts on competition, on the support it gives to companies in the supply chain within the UK marketplace, the encouragement it gives to those smaller companies, which is where my organisation particularly operates, to engage with successfully and be competitive as part of the supply chains of larger companies. So I think the DGP is an important element. It is a very positive element, but I don't think it is the defence industrial policy.

Q6 Sir Bob Russell: Do you think the Ministry of Defence has a silo mentality when it comes to placing contracts? I can expand on that if you wish.

Mike Maiden: Yes please.

Sir Bob Russell: If a company has long-established links, in this case with the Royal Navy going back 70 years, and therefore it has a skills base to maintain contract on contract on contract, but then the next order goes to another company in another country, would that not indicate that the Ministry of Defence is only looking at that contract in isolation, rather than the unintended consequences for the maintenance and the servicing of existing machinery, plant and equipment?

Mike Maiden: Sir Bob, I think there will always be particular factors in particular domains of defence equipment that have their own particular requirements. So in shipbuilding there will be strategic issues that a Government will want to take into account in deciding where to place prime contracts. That will always be the case, but in terms of encouraging new entrants into the defence supply chain, I think the Government have taken some very positive steps through organisations such as the Centre for Defence Enterprise. The efforts they have made to increase the percentage of contracts that go to SMEs have all been very positive.

Q7 Sir Bob Russell: But this wouldn't happen in France, would it? The French Government would ensure that home industry was safeguarded and they would not allow a competition from another country to take an order.

Mike Maiden: But that does not serve the best interests of either the customer or the industry. One of the things that British industry benefits from is the requirement that is placed upon it to be competitive.

Allan Cook: I agree with Mike. I do not think the MOD takes a silo approach at all. What they have done and what they continue to do is to look across. Part of the responsibility of the Procurement Minister is to make absolutely certain that we are looking across that in terms of capability and the support required to maintain that capability. To answer your question, Chairman, about whether this is really the de facto for the defence industrial strategy, it is not—it was meant as a complementary factor that would help to develop that defence industrial strategy.

Q8 Mr Gray: There was enormous excitement when the thing was launched and everyone said, “Isn’t this marvellous?”, although they tended to use that kind of managerial speak that I suspect often covers up an absolute absence of real stuff. None the less, there was huge excitement. As you just explained, Sir Brian, it is very easy to understand: defence markets are flat in the UK and EU, so we need to find a better way to sell ourselves overseas, which means bolstering home industry. That is all very clear, but what would you like to see emerging in the next 12 to 24 months to prove that my cynical suspicion is completely incorrect?

Sir Brian Burridge: I would like to see two things, and possibly a third, if I could have three wishes. First would be the proof of concept through ability, using one technology stream as an example—there is some very advanced technology in complex ISR, or intelligence, surveillance and reconnaissance—proving that we can identify gestating technology upstream and pull it across the valley of death, which is the area that exists between something that has been well demonstrated theoretically, possibly in a university research department, and a prototype on the bench, which is the difficult area. Proving that we can do that and form alliances to fund that, manage the intellectual property and then push it to market, and defining that with a robust and easily recognisable technology-into-capability road map—all that is my first test, and it is quite a long-term thing.

Q9 Mr Gray: It is also post hoc—it is after the event, but do go on.

Sir Brian Burridge: Sure.

The second thing would be to see, in the shorter term, the coalescence of our capability in, say, aircraft mission systems—the brain in the aircraft—and providing variations on those that are attractive to export customers, particularly those who have a mature platform and want to upgrade its capability through the insertion of technology.

My third thing is the understanding of the impact of all this, of a growing defence sector, on the broader economy and the science ecosystem of our country. If we can do those three things, I will begin to have a different understanding of, and evidence for an understanding of, what operational sovereignty actually means.

Q10 Mr Gray: Putting aside the third, which I grant you is a broad coalition wider Government-type aim, surely the first two are things that any worthwhile industry would be doing itself with no assistance from any sort of organisation like the DGP or the Government?

Sir Brian Burridge: It might not.

Q11 Mr Gray: Let me ask the question more generally. The worry that I am seeking to have allayed is that this is yet another sort of bright PR exercise with a bit of a glossy leaflet attached that actually does not amount to a hill of beans when you start to analyse it. In that context, points one and two seem to me to be things that sophisticated industries, such as those we have in this country, should themselves be doing anyhow without the existence of a DGP.

Sir Brian Burridge: To compete effectively, we have to take the best possible solution to market. The mantra for causing businesses to form alliances to do that is “50% of something is better than 100% of nothing.” That would often be the outcome if you

compete on your own, because there are always niches and gaps, and you have to try to fill them. It is regularly the case in pretty much any complex endeavour that we will team up, but we have never done it systematically, which is the big difference in this case.

Q12 Mr Gray: Oil in the machinery.

Sir Brian Burridge: More than that: define the machinery so that it works very quickly and we don't have to start with a blank sheet of paper on every occasion.

Q13 Mr Gray: If that is your aim, is 30 million quid and a couple of blokes sitting in a room in Farnborough going to achieve that?

Sir Brian Burridge: It is a good start because it will prove the concept. As I say, if I can see two of my three things happening, then the next phase, or part of looking towards the next phase, will say "Okay, how do we move this up a gear?"

Paul Everitt: I think we should also recognise—

Q14 Chair: Paul, can I bring Allan in?

Allan Cook: I was going to put maybe a different reflection on what you and Brian said. I would just like to keep it very simple with regard to the DGP. We have got a thriving defence industry in the UK, which is made up of UK national companies and also international companies and is admired around the world. What the DGP is trying to do, James, is build on that. We recognise—as Paul and Brian have said—that the European markets are flat or declining and we need to bear that in mind, so we need to be able to export our capabilities and we have been successful at doing that, but we need to recognise that in today's environment, when fiscal budgets are stretched, we have to be a little bit more adventurous in terms of what we are doing. As Brian said, this is the first time within the DGP that we have had a group of organisations of companies within the defence industry in the UK get together and map out, over a two-year period, what we are trying to do. If you look at the time line that we have got here, it is very prescriptive about what we are trying to do. We have never had that before. Even in the defence industrial strategy that we had maybe three or four years ago, we did not have that. That is a real, major commitment, not smoke and mirrors.

Q15 Mr Gray: Hang on, if I am an investor or shareholder in a multi-billion pound multinational company, such as the companies we are talking about here, do I really want to find £30 million and a couple of blokes in a room in Farnborough doing what I believe those companies ought to be doing anyhow? Surely what you have described is precisely what any big industrialist does? That is the nature of their business and what they should be doing; getting together and discussing how to sell their stuff overseas. Why does DGP have to do that? What is it for?

Allan Cook: I think the key point there is the independence. That is what they are thinking about independently. What we are doing within the DGP is thinking collectively. There is a big difference between a multinational looking at it from an individual point of view, from a parochial point of view. There is huge difference there and the difference that we have got here is organisations getting together and saying "With Government, with MOD support, with the support of BIS, we can actually make this a lot more effective, a lot more efficient and a lot more successful than what we have got now."

Q16 Mr Gray: Is it new money? Both the Government and the industry money—is that new money or has it come from some other budget?

Paul Everitt: As far as I am aware, it is new money. It is resource that everyone is putting into this that was not there before.

Q17 Mr Gray: How does the £30 million break down? Is it half and half for Government and industry?

Paul Everitt: The £30 million is from Government and then it is being matched by resource from industry.

Q18 Mr Gray: So it is £60 million altogether.

Sir Brian Burridge: Just a correction: it is £15 million/£15 million.

Q19 Mr Gray: Okay, £15 million/£15 million. So industry is fine, because you have got plenty of dosh, but is the Government money new money?

Sir Brian Burridge: Obviously you would have to ask Government that, but our understanding is that yes, it is.

Paul Everitt: It was not allocated to this purpose, that's for sure.

Q20 Mr Gray: A final question on the two-year programme you have laid out in front of you—the implementation plan. When this Committee meets two years from now and you four are sitting there, what benchmarks will we be looking to have been achieved? How we will know if you have won or failed?

Sir Brian Burridge: A successful sale to a customer that we would not have otherwise made, of significance, and a reputation in the market that is the equivalent of “brand UK” as it is now in terms of use by the UK armed forces. In other words, if this has been gestated by the Defence Growth Partnership with the best of British industry, the best of British universities and the best of British SMEs, and if you are competitive, that is the first measure of success. The second is that we can prove to you as a Committee that we are succeeding in bringing technology across the valley of death faster and more effectively than ever before.

Paul Everitt: I would add that part of this process is about the flow of better information, not just to the larger companies but down through the supply chain, and a more targeted identification of market opportunities.

Q21 Mr Gray: That is what you are going to do, but we cannot judge you by that because we would not know. Brian's point was perfect, and I am sure that there will be a benefit to that information, but that is not a benchmark by which we can judge this.

Paul Everitt: We should be able to share with you, and you will be able to judge, whether the information available is more appropriate for people to make better decisions, particularly further down the supply chain. It should also be possible to identify a greater alignment of resources between industry, Government and other potential investors in some of the areas of technology that we are developing and identifying through the road-mapping process.

Chair: Apologies again to the witnesses, but time is quite limited.

Q22 Mr Havard: What has to be done before the Defence Solutions Centre can open? Has it already begun?

Chair: We will start with Mike, because he wanted to come in on the last question.

Mike Maiden: In two years' time, I would hope that we would be able to demonstrate through the Defence Solutions Centre mechanism not only that small and medium-sized companies have been able to contribute to the overall success of what the Centre is trying to do but that the Centre has generated real business opportunities for those small companies within industry in the UK and as part of the export activities that will flow from it.

Sir Brian Burridge: With the DSC, we are doing it at pace. It requires some premises, a chief executive officer, some senior staff who are independent—in other words, who are not industry secondees—and some industry secondees. We can then begin the creation of what is essentially the engine room of the Defence Growth Partnership. In the meantime, there are a number of teams—I am in one of them—that are pre-cooking business cases for particular streams of activity. In my case, that is technology, and in others' cases it is intelligence systems for aircraft or land vehicles. We will have those oven-ready by the end of this year to go into the Defence Solutions Centre for them to take forward. We watched very carefully how the Aerospace Technology Institute gestated, and we watched their initial fuel; we are trying to get ahead of the time line that they used by pre-cooking this so that it can be up and running, and doing something positive and identifiable by early spring.

Q23 Mr Havard: You have partly answered my next question. The “next steps” plan takes us up to mid-2015. That will be around May, when—guess what?—there is a general election. What happens next would be an interesting question. By that time, there will presumably be something that will have physical form. In the meantime, you are addressing what I understand it is supposed to do—the strategic planning enabling—but that is strategic planning for you and the industry to deliver something. It is not strategic planning to decide what you should deliver in the first place. Is that right?

Sir Brian Burridge: It is to deliver the capability that can drive the whole Defence Growth Partnership in terms of the Defence Solutions Centre and to deliver the capability of an enhanced UKTI DSO to be able to look over the strategic horizon which they do not currently have the capability to do. The market analysis and strategic shaping of that market is a significant capability and will then feed into the Defence Solutions Centre. The technology gearbox will match it with technology that is upstream and that we are bringing through.

Q24 Mr Havard: So you are going to be educating the marketers.

Sir Brian Burridge: Yes.

Q25 Mr Havard: Is that where the problem rests?

Sir Brian Burridge: Partially. A far eastern country with a 15-year-old fighter fleet might determine that they want to upgrade their radar and mission system. They do not

necessarily have the access to the type of intellectual property that is being generated inside businesses upstream, because essentially, at that stage, it is generally competitively sensitive.

Q26 Mr Havard: My question is about where R and D sits in all this, and how much this is going to assist with that or drive it—or whatever. Where we are at the moment—James said something about this earlier—is that this was bigged up as being a big idea, and now it is a smaller idea and a particular idea, but people have expectations of it. I hear lots of expectations. People tell me it is going to do this, that and the other, but is it really? At over 30 million quid, I do not think so. But are you going to inform the R and D process, and how are you going to do it at that scale?

Sir Brian Burridge: Let's just be clear about our terms and make sure we are talking about the same thing. R and D is one thing where it is attached to a project or programme already in the equipment programme, which is in the purview of the MOD. The area of S and T funding, which is the sort of thing that DSTL does with its £470 million budget, is where we have an interest, and it has an interest in what we are doing. In order to generate new technology at the S and T end, we will bring together funding from interested businesses.

Let's take complex intelligence, surveillance and reconnaissance as an example. Take the end-to-end capability, which we have not actually bothered doing before—we have not done it this way. That embraces sensors, the architectures on which they sit, the mission systems that bring them together, and the information management requirement. That will take you from an avionics house through to a computer company, like any of the major computer companies, and each of those willing to invest a small amount could result in a research call that would go out to the community, SMEs and universities, and generate the niche of technology increasing.

Q27 Mr Havard: But in a sense that is as much about establishing these road maps that you talk about. That is really what that is designed to do, presumably, rather than to be engaged in the R and D itself.

Sir Brian Burridge: No, because the map is real, but the technology is even more real. You can't take a technology road map to a customer; you take the capability.

Q28 Mr Havard: How are you going to put those road maps together? Who is going to be consulted? How public are the road maps going to be and what are we going to know about them?

Sir Brian Burridge: They will be entirely public. They will be put together by the team in the Defence Solutions Centre and will, actually, follow the lexicon that has been developed in the Aerospace Technology Institute. We will consult the MOD, and particularly the DSTL, to see whether they regard them as sensible and sane from a purely scientific and technological point of view, but also to say, "Where might you have an intersecting interest in any of this, because our aim is the export market?" Nevertheless, we need to give the MOD the opportunity to say, "Ah, well actually, if you took that bit of technology along that bit of the route, by about this time, that may be of interest to us," and that is the relationship that exists around S and T.

Q29 Mr Havard: It has been put to me is that this is very air-centric. There are four domains now: air, land, sea and cyber. Where are sea and land going to come into all this?

Sir Brian Burridge: It is a fair starting point, which recognises that last year we did £9.3 billion of exports from the UK defence sector and that 85% of that was in the air sector, although that will not last for ever. The DGP is much more about ensuring that we have competitive advantage and technology and capability that will compete in the maritime and land domains in particular. Maritime, of course, already has its own intelligent systems centre and that could, in all probability, be reproduced in the land domain, but it is just the nature of the way that capability works.

Air has always—certainly for the past 25 years—taken an integrated mission system approach, sitting on an advanced architecture, because it has had to. Ships are a little bit behind that and land vehicles are a long way behind, but they are changing.

Q30 Mr Havard: Paul is itching to say something.

Paul Everitt: Just two things. Going back to one of your earlier points, the Centre for Marine Intelligent Systems is an important example of the kind of work that the Defence Solution Centre will, hopefully, be doing, so this is bringing together the industrial, the MOD and local enterprise partnership funding to develop the technologies that are ready for the market that is out there. So it covers two points: first, it is a practical demonstration of where industry and the MOD can align resources to create new and better investment; and, secondly, it addresses the issue that it is not solely around air, as a broader perspective is being given.

I would like to address one of the points you made at the beginning about the upcoming election. From an ADS perspective, we are enthusiastic supporters of industrial strategies and the Defence Growth Partnership in particular. We have been assiduously discussing these and informing all political parties and some of the people in decision-making positions about them. I am certainly very encouraged that, to date, we have strong cross-party support for providing the continuity and commitment going forward that will give all the industrial strategies, but particularly the Defence Growth Partnership, the kind of longevity that will make a real difference to our economy.

Mr Havard: That was very diplomatic and very good—well done.

Q31 Richard Benyon: The implementation of the DSG envisages a strengthened role for UKTI DSO. From your perspectives, do you think that UKTI DSO, five years into its existence, is equipped to do that? I do not think that we are going to revisit the arguments about the loss of DESO, but do you think that this structure is fit to take on this new added role?

Paul Everitt: The considerations made were that DSO does a good job. When we came together collectively, both as industry and Government, to look at this, what we were trying to do was to identify how we can gain a competitive edge. Part of that was the recognition that we needed better market intelligence. It is not so much for the period of zero to five years, given that DSO is very good in identifying those opportunities and supporting businesses to access them. What we are interested in, if we are going to make this work long term, is the slightly longer-term understanding of what capability

requirements there may be five to 10 years out, so that we can feed that information to the initial investment cases that we are looking at. We believe that the sorts of market intelligence and relationships that individual companies often pursue, if combined, could give DSO the edge that will give us the ultimate competitive edge when we are trying to win business from enhanced competition elsewhere in the world.

Allan Cook: DSO evolved out of DESO, and we should be very clear that that is the envy of many nations that operate in our particular market place. To have an organisation such as DSO operating on behalf of the nation and industry is a huge advantage. The work that Richard Paniguan and his group do, under UKTI, is incredibly powerful when we are out selling our services, products and capabilities in the export market. What we recognised—by “we”, I mean industry, the associations and Government—was that, as we move into a more aggressive export market, not only for ourselves, but for America, France and so on, who are looking at the same sort of market, we need to do something more than what we are actually doing. It is not that DSO was not a success; in fact, it is indeed a success. We just wanted to build on that success. We wanted to increase the collaboration and co-operation between what industry does and what DSO does. This is about anything that we can do to work closer, and that is part of the reason for having the liaison group, which can work between the MOD, industry and UKTI to help us to get the maximum benefit. That is why industry is committed to putting secondees into that organisation so that we can actually improve their particular position. I think we should be clear that DSO has been incredibly powerful in terms of helping our industry to add to the UK’s GDP. It has been very successful.

Mike Maiden: I declare an interest as a former regional director in DSO, when it was DESO. I have two points. The development of DSO, and how it has evolved to become the organisation that it is today, is actually extremely positive, particularly for small companies. DSO’s ability to tap into the UKTI network internationally is extremely powerful and something that DESO did not have. It had the defence attaché network, but DSO is able to reach places that DESO could not. The DGP brings the opportunity to move DSO to the next stage of its evolution, contributing to what the DGP is trying to do. It has a really important, pivotal role to play.

Q32 Richard Benyon: What do you feel are the strategic markets? Where are the big opportunities? Do we have the footprint in organisations such as UKTI to—

Sir Brian Burridge: Let me start. It is kind of obvious, but the Middle East is still one. The far east is growing, but it is growing its own indigenous capability quickly, particularly in its science base. Brazil is another, along with some other countries in south America, but they are not as reliable. To a certain extent, the US is also still one. The US is interesting, because it is not generally known that a significant amount of our defence exports go directly to the US and that, between 2000 and 2010, about 50% of European defence exports went to the US, which is what kept the defence sector alive in Europe while domestic budgets were going down. But then sequestration happened, and the reality of that is that it is dropping off a cliff, which is why we are after new markets.

Q33 Richard Benyon: You have talked about the synergies and the liaison group, but is the defence industry actually contributing to how UKTI operates in this field? How will industry support it through the implementation of the Defence Support Group?

Allan Cook: The first and most important point is that, in addition to the work that we do in collaboration with the DSO now, part of the strengthening of the DSO is that secondees will be taken from industry into DSO and will be part of the organisation. The role of the liaison group will be to ensure that we actually get the best out of that additional strengthening of DSO. There is absolutely a commitment from industry. The strengthening of the position is welcomed by the MOD and UKTI, because there are certain things that we could be doing better within DSO that we are not doing now.

Q34 Richard Benyon: Is there any risk that some of those secondees could find themselves conflicted because they might have to assist a competitor to whomever they are seconded from?

Allan Cook: Like everything, it is a case of being sensible about what it is and how we actually collaborate. If there is a conflict of interest, somebody in that position will just step out of it and pass it on to somebody else within the organisation so that they are not conflicted.

Sir Brian Burridge: May I just add to that? We have a good track record in the UK on collaborative environments. For example, Niteworks, which is the MOD's evidence-based decision service, has been going for over 10 years and is regarded as suitably robust and neutral when people leave their badges at the door. The customer has been very happy with that to the extent that the Home Office has now created a similar collaborative environment. The catapults work on a collaborative basis down at the early end of technology-readiness levels, and are able to do that by creating IP without huge conflicts of interest between the players. In many ways we are an order of magnitude ahead of other nations in our ability to collaborate.

Q35 Mr Havard: I want to ask a little more about this idea of collaborating and competing at the same time, and about the IP. I co-chaired the Committee that considered the Intellectual Property Bill. It was interesting talking to lawyers involved in that area about IP and what it will mean for individuals and companies. We have got the old traditional arguments about the ITAR waiver with the United States of America, and now we have a treaty that has apparently resolved all the issues. We have centres of excellence being set up with the French under the treaties and various co-operations there. What is the situation with sharing and protecting intellectual property? You have said that there is good collaboration on the illustrations you have given, but there are both dangers and advantages here.

Sir Brian Burridge: There are three models, and this has to be properly and effectively managed. This problem has existed for more than 30 years, and a great deal of work has been done, particularly the Lambert study, which came up with the Lambert principles. If, for example, within a Government-funded entity, you create foreground IP, the general model is that that belongs to the Government and they will expose it to commercial companies that are answering a Government requirement, whichever environment we are in. If it is collaborative IP—this is where the Lambert principles are particularly good—when it comes from a university, the notion that we can ensure, and that we bother to ensure, that the university concerned retains the ownership of the intellectual property and licenses it to other companies that are acting in collaboration to exploit it is a fundamental issue. This has not worked systematically in the past, certainly not in our sector.

Within the DGP, because we are not starting from a blank sheet of paper, as I mentioned earlier, and in the Defence Solutions Centre, we will follow a well-known process—well-known to the players—that everybody signs up to, not unlike the non-disclosure agreements and the charter that Niteworks exists by. This, broadly speaking, is how the catapults work, and have worked successfully. If you are familiar with the high value manufacturing catapult, that is working at the limit of composite structures and so on, with really elegant intellectual property, and they have proved it works.

Lastly, if we as industrial players create foreground IP together, we co-own it. Much of it is about having a systematic approach. In the research that I have done over the past 30 years, I lament the fact that we have never actually got a cohesive body together in the sector to ensure this happens. Now we have.

Paul Everitt: The other point to make for clarification is that the nature of the DSC is about creating an environment where these things can happen. Inevitably, not everyone will be collaborating on everything all the time, so you are effectively identifying those partners that do want to work together to achieve a particular end. I do not believe it will be that complex.

Q36 Mr Havard: May I ask you a question, then, about access to this process? There has been criticism—you will also have heard it—about how SMEs are involved in this and the costs of their involvement. I have had everything said to me, such as “It is in restraint of trade. It is against European regulations that other people are not involved”—that is one end of the spectrum. There is an order to have the new SC21, which is the same as ISO 9001, and you have to pay £50,000 a year to maintain it if you want to play in this game, and small companies cannot do it and ADS is not really representing the whole of the industry. How are the people who might have bright ideas to get access into the process? What is their involvement? How will they be catered for?

Paul Everitt: Shall I start with how SMEs have engaged in this process? We estimate that as a group we have engaged with close to 500 individual companies over the period of the DGP, about 70% of which are SMEs. We have done a systematic questionnaire and survey, to which a whole bunch of people responded. We have done a series of briefing workshops up and down the country. We have done specific SME workshops, which were free of charge and open to anyone who wanted to turn up and express their views. SMEs participated in each of the workstreams, and we have a specific value stream working group, the overwhelming majority of whose participants are SMEs. In terms of where we have got to and the ability and opportunity of SMEs to have direct input, and engage in and be part of shaping the process, I am confident that we have captured people’s views.

As we move forward, anybody can participate. In terms of engagement with the enhanced DSO, there are no financial hurdles for them to overcome. Hopefully, they will receive good quality information to help them make better quality decisions. In terms of the DSC—Brian might be able to go into the specifics—as the opportunities are developed, that will be an open process that SMEs with the capability, technology and the appropriate enthusiasm will be able to engage with and be part of.

For example, the Centre for Maritime Intelligent Systems, which I mentioned, will shortly make an open call for research and technology proposals, which will mean funding flowing to SMEs. I think we have done a reasonably good job on this process. There will

always be critics, but an objective assessment will show that we have been pretty robust. Clearly, as we move forward, the test will be to ensure that SMEs benefit as these mechanism begin to work.

In response to the specifics, ADS has just under 900 members. I guess—I probably should have checked before I came—that 85% of them are SMEs. I am confident that as an organisation we are doing a good job of representing all our members’ interests.

Q37 Mr Havard: Do you have a particular view, Mike?

Mike Maiden: I was involved in contributing to the consultation process that Paul mentioned. We want to continue to do that as an organisation to enable our members to feed in as the DGP evolves and starts delivering results, and take out the benefits of it. It will be a continuing process, and we will work with ADS to do that. For our organisation, the litmus test will be whether the DGP has delivered business opportunity and the potential for growth at the SME level. If it does that, we will have done a tremendous service.

Q38 Mr Havard: Do you think some of the arguments about barriers are a bit exaggerated?

Sir Brian Burridge: Yes.

Mr Havard: Brian is going to tell me in a minute.

Sir Brian Burridge: We designed a factory—an ideas factory, if you like—with the help of SMEs, universities and the MOD in order to make it amenable to their usage. I had the MD of RJD Technologies—a technology-rich SME—sitting on my shoulder saying, “If you do that, it will look like this to us.” That is the level of interchange we had.

Secondly, on funding, we have a gestating AMSCI bid for funding for dual-use technologies, part of which is relevant to defence—it is Innovate UK money. Thirdly, research calls based on subjects that are aligned with the priorities of Innovate UK are another source of funding that SMEs will be able to take advantage of.

The NATEP, which is part of the aerospace growth partnership, has been very successful in bringing SMEs around the table, wrapping round the expertise of a prime, in terms of marketing, legal, IP, management, etc., and advancing technology across the valley of death. It is a real benchmark.

Chair: Thank you very much. I am now going to Gisela Stuart. Could you keep your answers brief, because we are coming to the end of the session?

Q39 Ms Stuart: Quickly to follow on IP, is the European patent directive helping you?

Sir Brian Burridge: Sorry, I did not catch your question.

Q40 Ms Stuart: The European patent development in terms of IP. Is that helping you or not?

Sir Brian Burridge: I would have to say yes.

Q41 Ms Stuart: But you are not sure yet?

Sir Brian Burridge: No, because we don't know until we see it in practice. If you had asked me three years ago, "Is the European defence and security directive helping you?" I would have said, "Possibly." I would still say, "Possibly." With European legislation, it takes ages to determine its impact.

Q42 Ms Stuart: So clearly, as a group, you are not putting into the development how the directive is affecting it.

Sir Brian Burridge: No.

Q43 Ms Stuart: Maybe you should look at that.

Sir Brian Burridge: Possibly.

Q44 Ms Stuart: Let me now take you to the road map that is being developed. In terms of the implementation of the DGP, in the process, you are working on the road map. Hasn't someone spent the past 10 years already writing that road map? Isn't that what the Defence Science and Technology Laboratory was meant to be doing? Why are you doing the same thing over again?

Sir Brian Burridge: They may well have done, but how do we know?

Q45 Ms Stuart: Take it from me, they have done. Are you looking at what they have done and building on it? To us, it seems as if you are reinventing the wheel.

Sir Brian Burridge: Not really. I think if you were to ask that question of the DSTL we would find that there is no systematic view, or rather no systematic approach, to doing a technology road map. Each one would look different from the other. There is no completely well understood way in which you describe various gates. There is no particularly well understood and common view about how you express these things. That is as far as I can go with the knowledge I have. Maybe they have a wealth of knowledge underneath that we do not see.

Allan Cook: There are two points there. As we said right at the beginning, what we are doing is unique. Of course we have discussed things with DSTL in terms of what we are doing. The road plan that we have outlined is a very aggressive one.

Q46 Ms Stuart: What is an aggressive road plan? I am not sure I understand what that is.

Allan Cook: As an industry, we may well have been accused of being a bit slow in moving forward. I don't think that is the case. What we have here is a collaborative plan that we are working on that is very aggressive in terms of the time scales that we are talking about.

Q47 Ms Stuart: Ambitious is another word.

Allan Cook: Ambitious.

Q48 Ms Stuart: If all the previous work suffered from the fact that it has no common understanding, and therefore you are not even looking at it, will yours have a common understanding of what all these things mean?

Paul Everitt: Yes.

Q49 Ms Stuart: It sounds like a wing and a prayer.

Paul Everitt: No, I think it is better than that. Looking at other sectors that have worked on industrial strategies and the technology road maps that have been developed through those processes, a similar approach, which is key to this, is to have a better understanding of the likely requirements in the marketplace. That, if you like, creates the stimulus for industry and Government to work that much closer together, to identify what the right kind of technology road maps are in the areas where the UK has competitive advantage. Those then provide a means and a mechanism for aligning resources and opportunities, and attracting the interest of potentially very significant international markets.

Sir Brian Burridge: Let me make one point here. The success of a technology road map is to have a single owner from beginning to end. The DSTL, the MOD, the DE&S do not have a single owner. There is no ability to track the investment in technology in DSTL to a final programme.

Q50 Ms Stuart: You have just pre-empted what I thought my final question would be.

Sir Brian Burridge: But we will have that.

Q51 Ms Stuart: When will you have that?

Sir Brian Burridge: That's what we are creating at the outset, because that is an absolute principle of the Defence Solutions Centre. That is why I am saying it is not focused on the MOD; it is focused on the export customer. We need to own the generation of that technology from beginning to end, initially collaboratively then in alliance and maybe then in an even smaller alliance.

Q52 Ms Stuart: So, in a year's time when we call you back you will be able to say, "Here it is."

Sir Brian Burridge: Yes, that is a fair challenge.

Paul Everitt: Maybe I'm wrong, but it won't be one road map. In the various areas of capability we are looking at there will be several. They will not all be delivered within a year. The idea is that we are working on a series of them to progressively move ourselves forward.

Chair: Thank you all very much indeed for your time. That was extremely informative.

Questions 53–96

Witnesses: **Rt Hon. Matthew Hancock MP**, DGP Co-Chair and Minister for Business and Enterprise, Department for Business, Innovation and Skills, **Philip Dunne MP**, Minister for Defence Equipment, Support and Technology, Ministry of Defence, and **Steve Wadey**, DGP Industry Co-Chair, gave evidence.

Q53 Chair: Now for the second set of witnesses on the Defence Growth Partnership. We have the right hon. Matthew Hancock, Minister of State for Business and Enterprise, Steve Wadey, who is the industry co-chair of the Defence Growth Partnership and Philip Dunne,

Minister for Defence Equipment, Support and Technology at the MOD. Before I hand over to my colleague Gisela, let me begin by asking the witnesses a question. We have heard a lot of very positive things about this. The industry has been very positive. The Government have been very positive about it. It seems to be an almost perfect programme. We have barely had any criticism of it at all. Can you give us a bit of context or the other side of the story? What are the limitations of the programme? What is it not trying to do?

Matthew Hancock: I think it is a bold question to ask the Ministers responsible, having heard good news: what are the problems? The big picture is that the goal of the Defence Growth Partnership is to bring together the needs of industry to respond to its customers both at home and abroad, to ensure that innovation occurs collaboratively where necessary and to make sure that the Government plays an active, engaged and positive role, not only as the customer, which is why the MOD are involved, but from an industrial standpoint, which is why BIS co-chairs the partnership. It is not there to dictate to industry what ought to happen next. This isn't some sort of over-engineered, top-down process; it is very much about making sure that we bring industry together and support them in serving their customers.

Q54 Chair: What are the risks associated with it? What could go wrong?

Matthew Hancock: There are a couple of different risks that we always keep our eye on. The most important is that this is a whole of industry approach. Whenever you have a body that is represented at the top by a large board, you have to be actively working to ensure that it covers the whole sector and not just those who are representatives on it. There is a lot of work that happens to make sure, for instance, that there is heavy small and medium-sized business engagement, especially through the supply chain. Some 70% of the companies engaged in the DGP are small. So you have to make sure that the coverage is reasonable, fair, and represents the whole sector. We also have to make sure that the Government plays its role appropriately of wanting to support industrial development and, in particular, the defence industry on the one hand, but also be the customer. There is a great deal of synergy here. If we have a more innovative, more dynamic defence sector it will help the MOD as a customer as well as helping UK plc as an economy. Getting the balance right there is important, but, again, that is why this is a whole of government approach rather than an MOD lead.

Chair: Just before I go to Gisela, Philip Dunne.

Mr Dunne: Thank you, Chairman. There is a big distinction to draw between the Defence Growth Partnership and some of the other growth partnerships that other industrial sectors are setting out or have set out, which is that, almost uniquely, the Government are the largest customer of this growth partnership in this country. That is why we have been very careful, since BIS conceived of this and we joined with them, to characterise the MOD's involvement as distinctive.

We are the customer. We are not going to tell the Defence Growth Partnership what it should be doing. We wish to inform some of its choices and directions of travel and science and technology road maps by an indication, through the customer advisory group, of where our thinking is going and where our requirements are going. That is important to bear in mind. It relates particularly to the question of why the Government is not putting money into this. We put an enormous amount of money into the defence supply chain in

this country through our own orders. It is inappropriate for us to do so through the mechanism of the Defence Growth Partnership.

Secondly, this is not a different way of procuring military equipment for the British armed forces. We have a very clear set of policy initiatives, laid out in the 2012 White Paper, to derive best value for the taxpayer through a principle of open competition, where possible, while retaining the freedom of action for certain capabilities to be built in this country. We are not trying to change the procurement principles underlying what we do at the Ministry of Defence.

The final point that I would like to make is that, as has been said by the previous witnesses, this is unique. We have in this country the broadest and deepest defence supply chain in Europe and the second broadest and deepest among the western world outside the United States. From the MOD perspective, we see supporting the DGP as the best way to ensure that we retain a viable, healthy and vibrant industry. Much of what we do through the DGP and with our defence engagement policies is to try to encourage the development of a broad, deep and innovative defence industry in this country. By working together in this collaborative way through the DGP we have done something unique. No other country in the world gets their defence industry, unless it is a state-directed defence industry, to sit around the table and work collaboratively to identify the best business opportunities for the future. We think that is a real positive for the UK as a whole. The UK defence industry will be better placed to thrive in the future as a result.

Q55 Ms Stuart: I think you are beginning to have me incredibly confused. I was trying to pursue the line of how you can tell whether what you are doing is working, and how you would define success. Mr Hancock says that the Government do not get involved.

Matthew Hancock: No, that is not quite what I said.

Ms Stuart: So, if Government do not tell industry what to do, what is Government's role? Mr Dunne has just told us that what is so unique about this is that Government are industry's greatest purchasing consumer. So why are Government not involved at all?

Matthew Hancock: I apologise for not being clear enough. It is not the DGP's role to structure the industry or tell the industry what to do. The DGP is the forum through which industry comes together in collaboration with Government, in order to promote the success of the industry, both in winning contracts competitively from MOD and in increasing exports overseas. If you give me a binary choice between whether the Government is involved and directs everything or the Government is not involved at all, the answer is absolutely that we are somewhere in between.

Q56 Ms Stuart: Minister, I have not given you a binary choice. I am trying to work out how to square the answers from you and Mr Dunne. Let me try and put this in a more constructive way. If this model works, what will be in place in 10 years' time that we do not have at the moment?

Matthew Hancock: What I was trying to say was that there have been periods in the past when the Government attitude has been that we will get the best value for money and the industry will fall into place behind that, and there have been periods in the past when there have been attempts at creating national champions through Government action. This is

absolutely a matter of bringing Government and industry together to work collaboratively where appropriate, but within the competitive need to secure contracts.

The goals include increasing our export presence, because over the past year exports have increased by about 10% from just under £9 billion to just under £10 billion, which is moving in the right direction; fostering more collaboration and innovation, because we want a more dynamic and innovative defence industry that can serve the needs of the domestic market, in particular the MOD, and be more effective overseas; and being more competitive through the whole supply chain and ensuring that the whole supply chain comes together. Those are three clear objectives, which we are making progress towards, but that will take time. Things move slowly in this industry; it is a very big industry and a lot of orders take many years to complete.

Q57 Ms Stuart: But you still have not told me what is going to be in place if this model works and there is a competing interest—is its purpose to increase the exports of our arms industry or for the MOD to be its largest customer? What will I see in 10 years' time that I do not see now?

Matthew Hancock: May I just reiterate the three core objectives?

Ms Stuart: It might be helpful to give the MOD the chance to say a little bit occasionally.

Matthew Hancock: Increased exports, greater collaboration and innovation, and more competitiveness over the supply chain are the three objectives.

Mr Dunne: I think if you look 10 years out, you are going to be looking at a defence industrial landscape that is very different from what it is today.

Sir Bob Russell: That is what I am worried about.

Mr Dunne: It will have more diverse competitors. Many of the customer nations of today are trying to develop indigenous capability for tomorrow. As a mark of the DGP's success—you may regard this as a modest objective—if in 10 years' time we continue to have the second largest defence industrial base in the world, it will have been a tremendous success. We will have an enterprise that is based increasingly on the technologies of tomorrow, not on those of decades gone by. We would look more to the intelligent systems—

Q58 Ms Stuart: That is kind of stating the obvious—we are not going to have an industry that will do more of what we did in the past. We will have more companies and be very competitive. Is that to export more or to be responsive to our own needs?

Mr Dunne: Of course, it will be a combination. As a customer, compared with the overall defence spend, although the UK is the third largest defence country in the western world, as other countries increase their spend on defence and their indigenous capability, our ability to maintain market share is going to come under pressure. Much of the market share today comes from building big platforms, which will increasingly become collaborative and not built by a single nation. The nature of the industry—perhaps Steve will have a perspective that will be worth the Committee hearing—is becoming increasingly international. To maintain our competitive position, both for the MOD to have state-of-the-art equipment and for the industry to compete internationally, it has to be

competitive internationally. Clearly, that is a truism, but it will not be able to win orders unless it can do so on a price point as well as a technology point. To do that, it needs to continually maintain its competitive tension and capabilities. If we did not do something like this, the risk would have been that we would have had an industry that was increasingly reliant on just the MOD and not on export orders, and that would make it increasingly uncompetitive over years to come.

Q59 Ms Stuart: Mr Wadey, could you incorporate in your answer why Government is needed? If the big thing is to bring them all together, why is Government there?

Steve Wadey: The best way to pick up on the Chair's opening remark of describing what it is not is probably describing what it is, and in doing so we need to remember why we are doing this. The global defence market is getting fiercer and more competitive day by day. We see that in every campaign that we are trying to win around the world. The response to that is that we have to improve our competitive advantage through export-led growth. Through the defence growth partnership, we have determined that the best way to do that is by building on our strengths. Therefore, we set out the three clear objectives that the Minister described. We have put in place—the Committee heard some of this in the previous session—a systematic plan of what I would call very practical measures that over time will make a difference to the overall UK competitive advantage, once we implement them and they are up and running.

It starts with the strengthened Defence and Security Organisation, because its primary purpose is to understand customer needs around the globe in the short, medium and long-term, and to prioritise them—not general markets but specific customer needs. That will feed systematically into the UK Defence Solutions Centre that we heard described. That will be an entity that, to my knowledge, exists nowhere else in domestic markets trying to penetrate global markets. It may, but it is probably underground.

In the UK we are going to establish something completely new, to feed from those customer needs into what you were describing as road maps. What are the systematic road maps at product, service and technology level that over time will position Britain with products and services it can sell that are competitive? The third element is then looking into the value chain and the skills and technologies that we need, and then pursuing them through practical growth opportunities. That is what the DGP is, and the ultimate measure of success for me is increasing the UK's global market share.

As the Minister mentioned, last year we had a tremendous result for the UK at £9.8 billion, but the global customer defence spending in the domains where we currently have strengths is around £80 billion per year. Therefore there is room for improvement. While we can do a lot in industry, ultimately we need to have that alignment, support and backing from the Government. On a long-term trajectory, I think this initiative will increase the strength that we already have. That is ultimately where the Defence Growth Partnership is heading.

Q60 Ms Stuart: My colleagues want to come in on that, but I have a very quick question. The next steps in 2014-15 will be measuring success. Will you be making those findings public?

Steve Wadey: If I may answer, we have already set out in the Defence Growth Partnership a very specific and detailed plan to get us through to September '15. That naturally aligns with the DSEI exhibition that will be held here in London. That is our main focal point, to complete the implementation phase that we mapped out in the document that was launched at Farnborough, and make all of the progress public. We aim to get to that point. Those are the very specific measures of success: the milestones and the delivery of those commitments. I think you heard earlier that one of those referred to a Centre for Maritime Intelligence Systems. We will open that in Portsmouth on Monday, so practical progress is being made on the measures that are described in the report.

Q61 Sir Bob Russell: Ministers, the defence of the realm trumps everything else. I hope you agree. I must say that my experience with two companies in my constituency is that the rhetoric we have heard today is not matched by the reality. I say to the Business Minister that I had an oral question on the Order Paper a month ago about business support for public procurement, and your Department refused to answer it. It was shuffled off to the Cabinet Office for a written answer. That is the reality of your Department's openness: it was not prepared to answer a question on the Floor of the House on how it does or does not support public procurement for British companies.

The Defence Minister will be aware of where I am coming from on this, because both Ministers have used the phrase "best value", one about best value for the taxpayer and the other about best value for money. That tells me that you are looking at this with a silo mentality. If a contract goes to a company with no track record—in this case, of servicing engines for royal naval ships—which has won the contract because it comes in at a lower price, that is not necessarily best value for the taxpayer overall. If the skills base is eroded at a company which is already servicing and maintaining several royal naval ships' engines and has done for a period of 70 years, so that it no longer has that capacity, where is the best value for the taxpayer when that company is no longer in a position to maintain existing ships in the Royal Navy?

Matthew Hancock: I agree with you pretty strongly. On the question of public procurement, this is something on which the Cabinet Office technically leads because it is a whole of Government issue. Having said that, however, we in BIS obviously take a very strong interest. In fact, today I met Cabinet Office Ministers to drive forward this agenda. The Small Business, Enterprise and Employment Bill, which BIS is currently taking through the House, will extend the reach of public sector procurement in terms of improving the timeliness of payment and the ability of small businesses to compete. This is something in which we in BIS take a great interest, but every issue has to have a lead Department, and the Cabinet Office is technically the lead Department. I don't think that has any impact on our enthusiasm for improving this within the Department or across Government.

It is important that value for money takes the widest considerations into account. Under EU procurement rules, value for money can either be defined as the lowest price or the best value for money, including taking wider economic consequences into account. Of course, getting the balance right is very important. There are times when you could go for a more expensive option that has some wider benefits, but those wider benefits might not be worth the greater expense. Getting value for taxpayers' money—after all, this is all

taxpayers' money that we are talking about—is an important balance, and the rules reflect that.

Q62 Sir Bob Russell: But not if the ships of the Royal Navy aren't properly maintained because a contract, then another contract and another contract, goes elsewhere. I am pretty sure that the French Government would find a way of dealing with it.

Mr Dunne: Let me respond to that. Obviously I visited a diesel engine manufacturer in your constituency, and I very much enjoyed doing so.

Sir Bob Russell: I may be referring to them.

Mr Dunne: You were lobbying strongly for their cause at that time. Just to take a step back from the specific, if I may, I think there is a slight distinction between capital equipment purchased ab initio and support arrangements—they are slightly different types of contract. We think that the buying power of the Ministry of Defence, although significant, is generally speaking not going to be sufficient to sustain a production line in this country if we are the only customer, because it is likely to be more expensive. There are some where freedom of action requires us to do that, and there is a member of the Committee who is very familiar with where that applies.

If I may take another example in the maritime space, a contract was let under this Government to procure the MARS tankers for the Royal Navy. We put out to tender under OJEU rules a requirement for tankers. That was an international contract, and we were in discussion with British-based manufacturers. As it happens, there isn't a production line for naval tankers in this country ready to tap into, so bids, in the event, didn't come forward from British shipbuilding companies, but the indicative values that they were talking about would have provided three tankers for the price of the four that we eventually contracted in South Korea, which has a production line that produces two tankers every week. Economies of scale apply in certain parts of the world for certain types of equipment, and we think it is appropriate for the Ministry of Defence to take advantage of that, particularly where it is essentially a commodity type of asset. Dare I say it, marine diesels are an international marketplace, and we need to be able to make sure that we have a fit industry in this country that will survive to ensure that it can compete on an international basis.

Sir Bob Russell: I would like to pursue that another day.

Q63 John Woodcock: Philip, you specifically said at the beginning of this evidence session that procurement was not part of the growth partnership.

Mr Dunne: What I said was that we are not changing our procurement policies as a result of the growth partnership. Through the Customer Advisory Group, we are providing information to the growth partnership on what our future requirements are looking like. We can then identify some of the strands of activity where we will be able to work alongside the growth partnership with our investment.

Q64 John Woodcock: So you will make the partnership aware but you would not make any modification to the MOD's procurement decisions to boost the skill base or sustain it. We

know that the DSO can sell kit abroad much more effectively if the UK Armed Forces are using it, but will that not form any part of your decision making?

Mr Dunne: I think that you are painting this in too black and white a way.

John Woodcock: It is either yes or no.

Mr Dunne: The one example we have at the moment is the maritime centre that Steve referred to. We have aligned £1 million of funding that was being channelled through DSTL alongside the initiative that Steve was launching in Portsmouth on Monday. We are directly contributing to a stream of research effort in an area where it already meets our requirement.

Matthew Hancock: I would look at this down the other end of the telescope. Our job is to support the industry to be as competitive as possible and win competitive contracts—whether overseas or domestic competitively-tendered, rather than reserved, contracts.

Q65 John Woodcock: I understand that, and the Committee will agree with that, but the question remains: will MOD procurement be part of reaching that competitiveness in those circumstances or not?

Mr Dunne: It is a grey issue. We are not going to change our procurement policies in order to meet an objective of DGP.

Q66 John Woodcock: What are your procurement policies now? Do they enable that or not?

Mr Dunne: It depends on each individual requirement.

Sir Bob Russell: We are back to the silo.

Mr Dunne: We determine whether the particular requirement has freedom of action requirements which mean that we wish to make it manufactured by UK eyes only, for national security reasons.

Q67 John Woodcock: Put those aside.

Mr Dunne: Putting those aside, it is then down to open competition. The DGP will provide intelligence, gathered in part through MOD defence engagement work and in part through UKTI DSO, on what other nations' requirements are likely to be. We will identify our requirements in a particular category area to the DGP team, and the industry will then decide, "Yes. This is a market big enough for us to wish to come up with some products which meet those requirements." We at the MOD will say, "Right. We had identified *x* amount of spend which we were going to put into either early-stage science and technology or research and development to take this product forward." We will align that with the work that you are doing. To some extent, that is MOD procurement, but that is not the driving purpose.

Q68 John Woodcock: That is a separate thing. If you say "open competition", you are saying, "No. It's separate."

Mr Dunne: When we move down to the tender phase of a contract, we will then put it to open competition. The companies within the DGP that have decided, “We have some capability. We want to invest in this category,” will decide how they are going to meet that tender—whether they do it individually or in competition with each other.

Q69 John Woodcock: Matthew Hancock, I remember from my time as an adviser at the Department for Business, Innovation and Skills that that can be quite frustrating for the Department.

Matthew Hancock: This process has not been frustrating for BIS at all, actually.

Q70 John Woodcock: That was not the question I asked. If the MOD has a rigid open competition policy at a time when it could denude the defence industry of skills and might cost jobs, that can be difficult.

Matthew Hancock: The question is which part of Government has an active role to play in that situation. For instance, if MOD do not need a capability for operational reasons and that has a knock-on consequence, we have the opportunity through BIS to act to secure the skills and ensure that other opportunities are brought to bear if there are redundancies. That is, appropriately, the role for BIS. The role for MOD is to ensure that they have the best possible equipment within their budgets. *[Interruption.]* Hang on. So it is not frustrating for BIS, because there are two different responsibilities of Government here and we quite clearly separate them between the two Departments, and then we have a group where we come together, so that if there are synergies between the different Departments and with industry, we can make the most of those.

Q71 John Woodcock: You are talking about a different example. Where the capability is no longer needed, you are stepping into the breach, except that if the capability is needed, but there is a marginal decision on a cost basis between buying in the UK and going abroad, Philip Dunne is saying that that would be open competition. Surely, it is your job and the job of the DGP to say, “Hang on a minute. Align your procurement so that it actually supports UK industry.”

Matthew Hancock: This process allows MOD to understand the wider industrial context for its decisions, but they are appropriately decisions for MOD.

Q72 John Woodcock: So you are lobbying them.

Steve Wadey: Could I take the Centre for Maritime Intelligence Systems almost as a worked example, very early in the life of the Defence Growth Partnership, of maybe how it is going to operate? The DGP is a new model. Collectively, in government and industry, we are trying new ways of working to position ourselves for competitive advantage.

The Centre for Maritime Intelligence Systems is the most mature project we are running within the DGP. It starts by understanding global customer needs. We went out and did specific market analysis of a number of customers around the globe in an area of the country’s strengths, which is intelligence systems. We have identified a multi-billion pound per year market in maritime intelligence systems, through to next generation maritime autonomous systems. By the way, I should say that there are civil as well military applications in this emergent market. We have been able to align industry, regional and, in this case, as Minister Dunne mentioned, DSDL research and investment.

So we have a total budget of around £4 million for the 12 months of this project to look at how the country is going to develop concepts and systems that will meet that emergent market.

We are doing this in a very open way. The Solent local enterprise partnership has already put out a technology call stimulating innovation in the SMEs. It will come together in Portsdown technology park. There will be a synthetic environment to explore what these different systems and services can provide. We will be able to showcase that to potential customers in the world. Ultimately, it could yield business cases for investments in new products and services that we think will give us an advantage to win.

Clearly if, in going through that business model, it yields a product or service that is also in the interest of the MOD, that will be the MOD's future decision-making judgment. Certainly, from an industrial point of view, it is a very strong mechanism of really being focused on customers around the world and how we align resources and innovation across the sector and with SMEs to achieve a new product and service. That is probably the best example of how the DGP will work that we can see. I mentioned that we are opening that in the technology park on Monday.

Matthew Hancock: You can come if you like. That is how open we are.

Q73 Richard Benyon: If I was going to ask about the support mechanisms for defence exports five or six years ago, I would go primarily to Philip Dunne. However, that was moved when DSO was knocked on the head and UKTI DSO was created. First, to Matthew Hancock, the DGP envisages an enhanced role for UKTI DSO. Is it equipped to take on that role? Is it resourced enough? Are you putting in enough? Is industry putting in enough? Will it achieve what we are led to believe it will be required to achieve from this payment?

Matthew Hancock: Yes, it is being strengthened. We have a good plan in place. The fit with UKTI is a very strong one, because of UKTI's presence around the world. This is being strengthened across the piece, both in terms of financial strength to be able to have the boots on the ground, if we can call them that, and the integration into the diplomatic network. For instance, we are making sure that ambassadorial staff are also integrated with UKTI, including UKTI DSO personnel.

Q74 Richard Benyon: And military attachés?

Matthew Hancock: Philip would be better to speak about military attachés.

Mr Dunne: We have a portfolio of military attachés around most of our customer countries. More specifically, DSO have their own specialists embedded within the consular activities or in the embassies in those countries. They work very closely with the military attachés.

If I could pick up on what you are saying, one of the main strengths of the solutions centre working with the enhanced DSO is that now there are people in post around the world who are talking to military requirement setters to send intelligence. In the past, DSO might have gathered intelligence that a particular country was interested in a particular type of equipment, but because of Government's reluctance to pick winners, it was quite difficult for them to disseminate that information if there was more than one potential UK supplier of that piece of equipment. Now, with the combination of the solutions centre and an

enhanced DSO, they will be thinking much more collectively, “UK industry can supply this need,” rather than, “We must be careful about whether we tell company X or Y because they could both compete for it.” We will have a forum through which all that interested defence intelligence will flow, and then industry will send it out through the DGP to those people who can meet the requirement. I think that will work much more efficiently. That fulcrum of intelligence gathering does not exist in other countries.

Q75 Richard Benyon: Is that resource, globally, being matched to a view about strategic markets and where the action is likely to be over the next foreseeable few years?

Matthew Hancock: Yes. We have specific country plans in markets where we think that there are big opportunities.

Q76 Richard Benyon: Take a small or medium-sized business in my constituency. They probably will not have read this document, although they might start to if they are trying in particular to enter a defence market. Are you disseminating this through the kind of organisations that might be supportive—the chambers, Business Link, or whatever its current form is, and other networked organisations that support industry—in order to signpost businesses to something that will really make a difference to how they get that contract at the end of the day?

Matthew Hancock: Yes. This is one reason why the UKTI home is the appropriate one. UKTI is well known and has high name recognition, especially among small and medium-sized businesses, as the Government support for export. Big companies find it easier to engage in this sort of support, so we have a particular focus on getting the approximately 10,000 medium-sized companies across the country—not only in defence—and smaller businesses into export. UKTI is the go-to point if you want Government help for export. Therefore, whatever search mechanism you use, including word of mouth, as well as a huge amount of effort online, UKTI is the one-stop shop for Government exports. If you are in the defence field, it can get you into DSO and all the different mechanisms, because most people, in the first instance, will not immediately go to a Government publication and read it.

Mr Dunne: Steve has been leading one work stream through the value chain—I think he ought to talk to it to explain exactly how that filters down, but I will say this before he does. Within the MOD we have a defence industrial engagement strategy to encourage prime contractors that are not domiciled in this country to get visibility of the defence supply chain. We work hand-in-glove with DSO in arranging events so that the UK supply chain can get access to the requirements of the prime contractors.

For example, earlier this month I spoke at an event at which Boeing spoke to 120-odd suppliers. They put out a call to say, “We are bringing our engineers to the UK across particular product areas and we would like you to come and show us your wares.” That was organised through DSO and UKTI. It was an extremely good event; it was very positive for the UK companies to be able to show their wares to Boeing in order to get into their global supply chains. Similar events have been held for Raytheon and will be for many other companies over the years to come. That is one mechanism where the MoD and DSO are working hand-in-glove in the domestic supply chain for companies such as yours.

Q77 Chair: May I encourage witnesses to provide slightly shorter answers to questions? We are running out of time.

Steve Wadey: Very quickly, I subscribe to the school of thought that UKTI DSO do an excellent job for the defence industry. When we did the original analysis and design of what the DGP needed to do in terms of Government support, three key things came out. First, we needed to have a joint view of short, medium and long-term customer needs. Secondly, we needed to prioritise those needs. Thirdly, we needed to increase the volume of resource, jointly, to try to prosecute them, ultimately, to a sale to a customer. I was very pleased in the DGP because we very quickly aligned, across Government and industry, that the best place to do that was in DSO and, therefore, the strengthened DSO entity was created, which you saw announced in July.

Picking up on the important point that Minister Dunne made, the value chain stream within the DGP has been specifically designed to make sure that the DGP isn't just about the big companies, which has been one of the ongoing criticisms or observations of it. The value chain activity has a number of streams looking at financial models, communication methods and engagement models to try to make sure that the voice of the SMEs that you were referring to is fed in, not just in terms of shaping route maps for potentially new capabilities that we can sell, but also their own direct route to market. That is something that we will be doing through a strengthened DSO.

Q78 Mr Havard: I have some questions about governance in this process. For example, will any independent non-executive director types be involved in it? We have had expressions of concern from some in the SME community that they may not be involved in quite the way they ought to be. Some have said everything from, "Well, these new ISO-type arrangements will cost us £50,000 a year," to, "There are barriers to getting access to the process," and, "Maybe there should be broader representation of SMEs." In particular, the trade unions have said to us, "We are not included at all. We are stakeholders and partners in this, can't we be involved in some more formal process, in terms of involvement and collaboration?" Will you say something about governance arrangements?

Steve Wadey: I will make a start. It is fair to ask about the governance of it. In essence, we have an overall DGP group, co-chaired by Mr Hancock and myself. Supporting that, we have a DGP steering committee that I chair with all the representatives across Government and industry, and then various work streams that are aligned to the plan that you have seen.

One of the things we have tried to do in the DGP is be completely open and transparent and to engage with all critical stakeholders. We have done the best we can and we believe that we have gone through representative engagement mechanisms. We are certainly trying to do more with the SME community and we have an individual around my top table who is specifically there to hold us to account, to make sure we are putting in the right mechanisms with the SME community. If that stakeholder group needs to evolve and we have missed a stakeholder, I am open to consider that through the normal transparent mechanisms. We are trying to engage and use all the best capabilities across the country ultimately to make the success that we are aiming for.

Q79 Mr Havard: That is very useful—thank you for that. I have a side question, which is about intellectual property, given that there are going to be multinational players in this and

some industries have feet in different camps. On guarding and making operational the capacity of intellectual property, what are the arrangements to protect and promote that in that environment?

Steve Wadey: Already, if you look at the 16 companies and others that are engaged, you have many multinational and national companies. I was interested in the debate earlier about IPR. The way I think about it is, we are really focused on the pre-competitive, collaborative space to get the best ideas for future products and services that we can sell in the world. There will be a point where we down-select the right group of companies and partners to work on that specific product, because you are right: there will be points at which not everybody can work together on everything to achieve a specific product and sell it. There will be a down-selection process, and as we stand up the UK Defence Solutions Centre, we need to work out exactly what that mechanism will be, so that nobody feels that their IPR is unfairly used or, conversely, that they are unfairly discounted from having the opportunity to engage.

Earlier, I referred to a business case process. One of the ultimate outputs of the work of the Defence Solutions Centre will be the generation of business cases to invest in particular products and services. It will be down to individual companies and partners to determine whether they want to be part of the business case that takes that idea forward. In the answer to that will be what you are looking for about IPR management.

Q80 John Woodcock: On the science and technology base, can you expand a little more on how you think the new set-up will improve this for UK plc?

Matthew Hancock: In the first instance, through some of the collaborative mechanisms that we have brought to bear, such as the Centre for Maritime Intelligent Systems, we can strengthen collaboration for the development of the science base. Secondly, one of the things that the DGP does is to raise the needs and concerns of industry directly with Government, at a ministerial level and at all levels, so that we can listen to concerns and feed them into other areas of Government policy, including our broader science policy, to ensure that those take account of that. That formalised dialogue helps drive Government policy in a way that supports industry.

That is true of industrial strategies across the piece. One thing across all sectors that industrial strategies effectively do is formalise dialogue with industry, so that we can better improve Government policy in all Departments to serve the needs of industry. I can think of a few examples where they have directly affected policy decisions because things have been brought to the table in the DGP.

Steve Wadey: That is correct. The one thing that I would add is that the DGP brings a new perspective. The industrial team here is looking at the global customer need, not just specifically at UK need. The fact that ultimately, when the DSC is operating, we can have a shared view of all those customer needs, albeit in that pre-competitive space that I described, from a short, medium and long-term perspective means that the companies that see that can then start to determine where they need to invest to meet not just UK need but global need. I think that ultimately, when we see the long-term measures of success fulfilled, it will make for a more vibrant industrial and science base in the country.

Mr Dunne: This marries up exactly with the strategic direction in which we are trying to encourage the British defence industry to head: towards a willingness to invest some of their shareholders' funds in innovation alongside the MOD. The maritime centre is a good example of how more money will be levered into science and technology. It will not just depend on MOD money; companies will do it themselves, as will the LEPs, as we have seen in the case of the Solent.

Chair: Thank you very much.

Matthew Hancock: I wanted to answer one question you asked about union involvement. Prospect, the union, are invited to the skills group, but they have only attended once. I would be very much open to encouraging union engagement.

Q81 Mr Havard: Thank you very much. That is helpful. There are lots of questions we would like to ask you. There are a lot of expectations of the Defence Solutions Centre. One is that at some point it will operationalise and come out with the work packages that you described, which is really important. In the decision making about which ones will be useful to us in terms of sovereign customers, if I can describe them that way—I have in mind the single service chiefs and the joint forces command—how will they relate in their decision making about the things that they wish to procure into the Defence Solutions Centre?

Mr Dunne: Each of the domains will have dedicated individuals, who will become the customer adviser for that particular product—whatever it happens to be that they are looking at. So, each domain will input directly their future requirements into the Defence Solutions Centre.

Q82 Mr Havard: And that is land, sea, air and cyber?

Mr Dunne: Yes.

Q83 Mr Havard: Through joint command?

Mr Dunne: Well, each command will identify individuals relevant to a particular requirement that they wish to push through into the Customer Advisory Group.

Q84 Mr Havard: This is a techie sort of question. Will this process be exempt in some way, or have a particular position in relation to export licences?

Matthew Hancock: No. The export licence regime, which I am responsible for as well, is a well-documented system, according to the criteria, which follows its own track.

Q85 Sir Bob Russell: I am still trying to come to terms with the fact that the MOD is advising a Defence Minister that British industry is no longer able to build diesel engines for ships of Her Majesty's Royal Navy. I think we need to return to that issue on another occasion.

The Government aspire to a 1% real-terms annual increase in the equipment budget from 2015—good news. But what is the impact on that aspiration of the announcement that the second carrier will be made operational?

Mr Dunne: I think that is a question for me. So, the Prime Minister announced around the NATO summit that the second carrier, which the previous Government had intended to build but not operate—

Q86 Sir Bob Russell: Were you aware he was going to make that announcement?

Mr Dunne: I was aware that he was going to make that announcement; I did not know exactly which day he would make it. However, we are delighted with that announcement. There are some operational impacts and we will take those through the strategic defence and security review next year, to determine exactly what the consequences for that are, but the immediate operational budget is something that will be found within the Royal Navy.

Q87 Sir Bob Russell: So, as an Essex MP, I need not have any worries that funds for the Army will be deflected because of this announcement?

Mr Dunne: As I have just said, the operational funding for the second carrier will come from the Royal Navy. Potentially, there will be other impacts on supporting platforms, and the competing demands that they may have as a consequence will be something for the strategic defence and security review.

Q88 Sir Bob Russell: So the Army is safe?

Mr Dunne: The funding of all the domains for the next SDSR period will be determined in the SDSR.

Q89 Sir Bob Russell: So, if the Royal Navy will have to pick up the tab on that, can you therefore say whether there will be any implications for the DGP, in terms of science and technology exploitation and skills development?

Mr Dunne: From the second carrier?

Sir Bob Russell: Yes, because if the additional 1%—

Mr Dunne: No. The 1% is for the equipment budget, roughly half of which is spent on new equipment and half on support. The second carrier is already budgeted out of the new equipment budget; it is in the equipment plan. The support for the second carrier will be an additional amount. As I have said, that will come out of the royal naval budget over the life and it will not be operational until 2023, I think, so it will impact the second half of the next 10-year plan.

Matthew Hancock: The skills budget, for instance, comes from a different part of the budget; it comes from a BIS budget. For instance, the apprentices within MOD are supported through BIS budgets; that is separate.

Q90 Sir Bob Russell: So there is some joined-up government in that respect?

Matthew Hancock: I will take that as a compliment.

Q91 Mr Havard: Sorry, I am being chivvied now; I should have completed my questioning, which is really related to allies. Given what we are doing here, and we will have the meetings with the French next week—and there are lots of them, I know, because I scrutinise the treaties on that—how does this fit with our relations with allies, particularly the French, given

the stuff about unmanned aerial vehicles, future combat air system, the new concept phase and so on, and different ways of doing business here?

Mr Dunne: I think all our principal allies from a military perspective are also our principal competitors from a defence-industrial perspective. So, what I think this will do is to put us in a stronger competitive position vis-à-vis the defence industries in other countries, principal of which are our main allies, the United States and France.

Mr Havard: Okay. We will look forward to seeing you next week when we tangle with that.

Q92 Chair: In the final minutes, I will give you a chance to reflect and give us a sense of this. Minister of State, you have described this as being something that is related to other forms of industrial policy, but it looks a little bit different. You are not putting a £30 million joint share into setting up special centres in other areas of industry, as far as I am aware—

Matthew Hancock: We are in some areas.

Q93 Chair: Can you tell us what they are?

Matthew Hancock: Yes: advanced automotive, for instance. There is also one in heavy manufacturing that is based at Ansty Park. So these collaborative sites where companies can develop technology where they could not afford some of the equipment on their own are an increasingly used technique in industrial strategy.

I would also say this. The balance in industrial strategy is to ensure that we do not have an old-style “picking winners” approach, but that we do get the benefits that can accrue from supporting industry. You have got to pull off that trick without having single, individual floats.

Q94 Chair: Is there any particular difference between this model and, for example, what you are doing in the automotive industry?

Matthew Hancock: I see them as very similar. In the defence industry this is our mechanism for implementing our broader industrial strategy.

Q95 Chair: It is pretty much the same question to Minister Dunne and Steve Wadey. Is there anything distinctive about this, compared with other forms of industrial strategy or the way that other countries approach this? Is there anything that we should be focused on in particular?

Mr Dunne: In relation to other countries, I think that it is unique. I am not aware of any other country with a well developed industrial base that has such an integrated approach. There are certain countries, such as the United Arab Emirates, where the defence industry is being consolidated into a single entity to have coherence across the existing pattern of behaviour, but among the more established ones I think that this is unique. And, as I have said to Mr Havard, I think that this will give us a competitive advantage when looking to meet requirements in export markets.

Q96 Chair: Steve Wadey, in answering that final question, if, for example, your budget was tripled, what more could you do?

Steve Wadey: It is a good question. I do not think that we can go faster than we are. We are in a very complex sector with a very complex set of stakeholders and we have systematically designed a programme to put in place the building blocks that ultimately will deliver growth. I think just throwing resource at what we have been doing would not speed things up.

Personally—you might say that I would say this—I think that we have set out a very ambitious programme and we have achieved a huge amount in the 18 months since we started. I think the question will now be—you can hold us to account on this—in the years to come, do we maintain the same momentum that we have had, deliver the specific business cases and create the future products and services that ultimately yield that economic value that we are striving for? But, to date, I do not think that we could have gone faster than we have.

Chair: Thank you very much, Matthew Hancock, Philip Dunne and Steve Wadey.