



## Defence Committee

### Oral evidence: Defence industrial policy: procurement and prosperity, HC 163.

Tuesday 23 June 2020

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Members present: Mr Tobias Ellwood (Chair); Stuart Anderson; Sarah Atherton; Martin Docherty-Hughes; Richard Drax; Mr Mark Francois; Mr Kevan Jones; Mrs Emma Lewell-Buck; Gavin Robinson; John Spellar; Derek Twigg.

Questions 56 - 116

#### Witnesses

I: Nigel Whitehead CBE FREng, Director, External Relations, BAE Systems plc; Peter Ruddock CB CBE FRAeS, Chief Executive, Lockheed Martin UK; Avril Jolliffe, Director, Strategic Business Development, Thales.

II: Paul Everitt, Chief Executive, ADS; Andrew Kinniburgh, Director General, NDI; Michael Formosa, Managing Partner, Renaissance Strategic Advisors.

Written evidence from witnesses:

- [Lockheed Martin UK \(2017-19\) & \(2019-21\)](#)
- [ADS \(2017-2019\) & \(2019-2021\)](#)
- [Thales \(2017-19\)](#)
- [BAE \(2017-19\)](#)
- [MAKEUK/NDI \(2017-19\)](#)



## Examination of witnesses

Witnesses: Nigel Whitehead, Peter Ruddock and Avril Jolliffe.

**Chair:** Welcome to this Defence Committee hearing. This is our second evidence session in which we will be examining the challenges of doing business with the MoD from the industry perspective. It will also explore implications of Covid-19 for the defence industry and the attractiveness of the UK defence market for investment.

I am very pleased to welcome six panellists. Our session will be divided into two. The first panel includes Nigel Whitehead, who is the director of external relations at BAE Systems, Peter Ruddock, chief executive of Lockheed Martin UK, and Avril Jolliffe, director of strategic business development from Thales. Our second panel is Paul Everitt, chief executive of ADS, Andrew Kinniburgh, director general, NDI and Michael Formosa, managing partner at Renaissance Strategic Advisors. Ladies and gentlemen, you are more than welcome this afternoon. Thank you very much indeed for your time. We will move to the first panel straightaway.

Q56 **John Spellar:** What would you say are the key features of an effective defence industrial policy and strategy. Quite frankly, as far as you can see, does the UK have one?

**Nigel Whitehead:** Thank you for the invitation this afternoon and the opportunity to contribute. The features are that we need a clear, unambiguous articulation of the future equipment plan and a statement about the industrial footprint and involvement that the MoD would expect of its defence industry. Through that, there needs to be visibility of the major programmes, to individual equipment levels, whether it is sensors, radars, power plant and so on, and a statement of what is intended. Industry then has an opportunity to respond to that, in terms of organising its skills, resources and technologies, sorting out its time to market and setting up for export.

As part of it, you would hope for an articulation of the willingness to collaborate and work with industry to discuss the set-up of a long-term pipeline in each area. The terms of trade should be articulated, with a view to attracting investment and securing the returns for the businesses that get involved. Along the way, the Government's support for export should be established, therefore establishing the case for industry to be involved.

Do we have one? In parts, there are elements that exist today, but clearly, as it stands today, there are some bits missing in that jigsaw. Where we do have a strategy, we are greatly enthused by it. The example I would give is the combat air strategy, articulated in the middle of 2018. That makes it very clear what the path is for the development of combat air capability in the UK. That has already attracted significant



investment from industry, so it works. We know where the employees are who work on the programmes and they are actually resident in some 500 constituencies all across the country. We are already energised, activated and working as a result of that clear articulation.

As we move into the integrated review and the defence and security industrial strategy, we hope for that certainty around the key programmes across land, sea, air and data security. We hope for an articulation about global Britain as a provider of defence and security capability. We hope for an articulation of the sovereign capability, the visibility of those long-term plans, a procurement system that is perhaps simpler, agile and collaborative in its nature with industry, and of course a platform on which we can contribute to that lofty objective of having 2.4% of the country's GDP spent on technology and R&D.

**Avril Jolliffe:** Thank you very much for inviting me today. I very much support much of what Nigel has just said. As a technology company, we believe the industrial strategy's overarching imperative needs to be focused on how we support platform lethality, survivability, availability and affordability. There is a real need right now to reflect on some of those technologies that are going to be required for defence over the next 30 years and many of those additional technologies that we see already in our day-to-day lives. We are very much focused on what the future operational advantage might need to be. We believe it will be focused at the sub-system and system level, as opposed to platforms.

We think that any new industrial strategy needs to drive investment in those key areas, like cyber, space, electronic warfare, AI, robotics and autonomy. The operations that we will be facing in the future are likely to be in grey-zone warfare or indeed even on a critical national infrastructure. Alignment around the recently published Defence Technology Framework would be a huge step forward. That would really play into some of these transversal technologies.

Thales is a company that is slightly more civil than defence, so we very much see that the market dynamics in some of the civil technologies, such as AI and cyber, are moving much faster than defence. Any strategy needs to focus on how they can be pulled forward into defence and be exploited, and in particular how we can find cost-effective ways of building on civil technologies that are already available.

**Peter Riddock:** I will add three quick points. From my perspective, and I think from a lot of the industry's perspective, an effective policy would be supported across Government. There are three things that need to be clearly articulated. The first would be to identify which aspects of capability need to be developed onshore and, importantly, why. Opportunities for international co-operation need to be identified. Finally, we need to define prosperity and how it will be considered as part of procurement.

Q57 **John Spellar:** Mention has been made of the fact that you are both civil



and military, and so is your supply chain. At the moment, with the collapse of much of the engineering and technological industries, is there any scope for the Government to bring forward orders and projects in order to drive products and therefore the supply chain?

**Nigel Whitehead:** It is a very clear yes to that. The defence industry in the UK is essentially centred around many of the regions. There are active programmes in land, sea and air. The industry stands ready to accelerate the activities on those programmes. You can see a fantastic revitalisation of the economy, the creation of skilled jobs, the investment in technology and the creation of great capability for the UK and its allies through that process. We are very enthusiastic about the role that the defence industry is going to play in this vital stage of getting the economy back on its feet.

Q58 **John Spellar:** Does your ultimate customer need to be accelerating that level of purchases in order to drive that process?

**Nigel Whitehead:** Yes. There is a simple dynamic that would make that work. We have to look at what can be funded. We have to look at the nature of how we would ramp up those programmes. We can see many opportunities to do that and would welcome that conversation.

**Avril Jolliffe:** I have a very quick point. Not only should the Department be looking at ways of accelerating some of the competitions it already has in train and compressing some of those timescales, which would be so exciting and helpful to us as an industry, but also starting to think about what sort of technology demonstrator programmes might be available for us to start building some UK IPR that we could take out into the export markets and also support the MoD in shaping some of its requirements going forward.

Q59 **Mr Jones:** Do you not think that there needs to be a bit of a change in mindset? You have, for example, very good contracts, such as the advanced munitions contract up at Sunderland, at Washington, with BAE Systems. The Government are looking at putting that out to competition now again, after a very successful 10 or 15-year programme. Are there not good examples like that where it will not actually take anything, in terms of spend from Government, to have an impact? They could roll over contracts or give some certainty to industry that those contracts could continue.

**Nigel Whitehead:** Yes. We are at a point where there is a “get real” moment, where we can act quickly. As a nation, we can make some decisions about what we ramp up. We can also send a signal to our foreign partners and collaboration partners, on programmes such as Tempest, that we are serious about these programmes. We can get on and make the decisions and have that immediate effect, so we would welcome that. When it comes to Tempest, the levelling-up agenda would also be heavily supportive of that because the majority of the activity is in the north.



Q60 **Chair:** There are three big companies here, Thales, BAE Systems and Lockheed Martin. What percentage of your work is actually directed at UK plc?

**Nigel Whitehead:** If I start with BAE Systems, about 40% of the company's activity happens in the UK, but 20% of its overall activity is selling to the UK Government. We do as much export work from the UK, around £4 billion a year, as we do selling into the UK Government, which is also £4 billion, so £8 billion worth of activity, and that is 40%.

Q61 **Chair:** Avril, what is the number for Thales? Do you have a rough idea?

**Avril Jolliffe:** In the UK, Thales does about £1.3 billion a year. I do not know the exact proportion between the UK and overseas but I am very happy to write and provide that.

**Peter Ruddock:** For Lockheed Martin, the amount spent in the UK is about £1.6 billion a year. Also, there is an awful lot exported from the UK to Lockheed Martin in the US. About 15% of our defence exports go to one company, which is Lockheed Martin. We currently have 1,750 companies in our supply chain, of which about 80% are small and medium-sized enterprises.

Q62 **Chair:** The reason why I posed that question is because of course you have your own work, your own procurement projects across the world. Selling to the UK can actually help you, with prosperity as well, in actually marketing the same products, for example Challenger 2, our main battle tank. We have not managed to sell that a lot around the world, whereas the Bradley, which I think BAE Systems makes as well—I stand corrected if that is not correct—actually has a bigger market. The question is whether we should be working closer to utilise the sales through the MoD, or what we procure in the MoD, to advance your own ability to sell these away from the UK.

**Nigel Whitehead:** There is a clear opportunity there to plan from the outset as to what should be exportable, to look at the requirements the UK has and to make sure those are adapted and adjusted to make sure we can make the best of the market opportunities. We then need to work in a team, in this case it would be team UK with our suppliers, to make the economic advantage possible for the UK, by thinking in just the way you have described.

**Chair:** Let us pursue that a bit further and look at the bond that exists, or the strength of the bond between industry and the MoD.

Q63 **Mr Jones:** I think doctoral theses have been written about the relationship between industry and the DE&S. Peter, can I put a question to you? What do you think needs to improve, in terms of that relationship? I accept that is, like I say, a subject that has been talked about not just now but over many years and various theories have been come up with. What could be done to improve it?



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**Peter Ruddock:** You are absolutely right about the amount of work that has been done in the past. This is a non-trivial challenge. It is not easy in any place in the world. I believe there are some places that get it better than we do, but they probably have a less complex situation to procure in. On the relationship with the Ministry of Defence, I would make three points.

First, the MoD needs to be more transparent and provide the detail of the forward equipment plan. They generally know this but they do not share it. In some other jurisdictions around the world, that happens and it really makes planning for industry a great deal more straightforward. In Japan, for example, once they commit to a programme, you can see the funding line and the commitment to it, and that happens elsewhere. It is very difficult for industry to justify investment, particularly if you are a global company, in the absence of that particular information.

The second point is that the MoD's scrutiny and approvals process lacks capacity and it does not engage sufficiently with industry. I would very much like to see that change. I believe in a very collaborative partnering approach. That would be a huge benefit. Also, although some of this happens, the MoD should involve industry more in developing concepts, doctrine and war-gaming, including at classified levels. That can be done relatively easily. That would really help to target R&D investment, develop new concepts and shorten the development time for those new capabilities.

When we turn to DE&S, the fact that the strategic supply and management programme was reinvigorated in 2019 was a huge positive. We were very fortunate to have Mr Nick Elliott as our main point of contact. He is outstanding. He has moved on to something else to help with Covid-19, but we had a fantastic relationship. He challenged appropriately, but we always had a very mature relationship. Also, we are very well served by the Crown Representative. In our case, it is Joanne Thompson. Again, that relationship has been incredibly positive throughout and especially during Covid-19.

Having said that though, there is still room for improvement overall. There is a need for greater understanding within both DE&S and the MoD of the actual cost of capability development. We should look at different approaches to contracting, which focus more on the outcome rather than the cost. We should assess the through-life value and capability against international benchmarks, as well as our own, rather than just looking at the upfront cost. If you just have technically acceptable, lowest possible price, we are not really serving our customer, and particularly those people who use the equipment in anger, to the best of our national ability.

Also, from time to time, in industry we are surprised by some of the strictures that come out. It could be anything from intellectual property to the amount of liability we face. More recently, we have seen that the



application of UK-eyes-only restrictions applies to procurements, even where it is quite clear that the UK lacks profound onshore expertise or capability and is actually looking for greater international collaboration. Those anomalies could be addressed.

**Q64 Mr Jones:** Nigel, there have been various reforms over many years in terms of DE&S. Have any of those changes worked? Following up on my question to Peter, what would make the biggest difference in terms of change?

**Nigel Whitehead:** We have seen a series of positive incremental steps to improve the relationship and performance of the enterprise. In that sense, there are the Levene and Currie reports and reforms, the formation of the DE&S entity and the professionalisation of that.

I would add to Peter's comments that the Defence Suppliers Forum as a formal mechanism to engage with the industry team has proven to be a very successful interface. Having been the industry co-chair of that for six years, before standing down in January, I recognise that the structure we have put around that, and indeed the joint vision that was created and signed—which is a page and a half, but a very clear articulation of what it is we are trying to achieve—galvanises us all to push for the things we have been talking about.

However, there are some ambiguities that still exist. Going back to this idea of the defence and security industry strategy, we need to address those and clearly articulate where we can fill some of the gaps between the tensions that exist today, for example between the value-for-money assessment and the prosperity assessment, and Peter's point about the through-life management versus the initial acquisition costs—those sorts of understandings. If we are able to develop those understandings in a way that gives industry a clear articulation, I think we would see further progress.

One thing that we should take away at this stage is a swifter acquisition process. We seem to take an inordinate amount of time to make decisions as an enterprise. Something that is slicker, clearer in how it operates and is done at pace would suit everybody.

**Q65 Mr Jones:** Is the reason for slowing down the pace not that often they are trying to fix the in-year budgets to fix the programmes, rather than actually looking overall? Do you think that, from a customer point of view, the MoD needs to be more realistic? It is something I think certainly needs to be looked at, in terms of the current pipeline of orders—that you decide not to do things or concentrate on areas. That uncertainty adds cost to the actual programmes but does not allow you to invest, as private sector, in the areas you need to if you have long-term stability.

**Nigel Whitehead:** All I would say is that industry likes certainty. Where we can see the budget and understand what we are trying to work within as a framework, you get a better response from us.



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Q66 **Mr Jones:** This is to all three of you. It is about the integrated review. Have you actually been involved in this or had any conversations with Government yet about it?

**Avril Jolliffe:** Not in terms of integrated review. We have on the DSIS, so we have been engaged in some of the individual technology framework questions, yes. We would like to be more engaged and we are standing by to support as best we can.

**Nigel Whitehead:** At BAE Systems, we are involved with many discussions across Government. We have had an active involvement in the defence and security industrial strategy conversation. We have made an input into that. Like Avril, we have not yet been involved in the broader discussion about the integrated review. In terms of the things I pointed to earlier, with relation to defence and security as part of the global Britain stance, we would like to be part of developing the discussion as to how that is achieved in practice.

**Peter Riddock:** We are in the same position at Lockheed Martin. We would welcome a formal engagement now the work has started. Like Thales and BAE Systems, we have been involved in the DSIS review.

**Mr Jones:** That is interesting. Increasingly, the integrated review is a bit like the unicorn. People say it exists but no one has actually seen it yet. We will wait to see what actually happens next.

Q67 **Chair:** Very well put. On the integrated review, we are speaking about procurement at the moment. What is your view of the competence of the MoD? I am not talking about individuals but the systemic competence and the capability of the MoD to make procurement decisions. I raise that because the Permanent Secretary, Stephen Lovegrove, said that he believed only 41% of those in the financial profession had the right qualifications in the MoD even to keep track of the costs of the procurement processes.

**Peter Riddock:** It is a challenging question. I would defer to the Permanent Secretary in terms of knowing his Department. I worked in the MoD for many years. As it has scaled down, the bandwidth has diminished. That is self-evident. You can have the brightest and the best, and indeed some of the people I have worked with in recent years have been as good as anybody who has preceded them, but they do not exist in large numbers. When you get something as challenging as an integrated review to look at, where you have to consider so many different factors, it is very challenging for a small team to bring that together and do it as an evidence-based activity, particularly with the distraction of Covid-19. Clearly, there has been the challenge of Brexit as well. I do not want to go down that particular path. It will often be the same people trying to do all three things and that is uniquely challenging.

I understand there is a financial side to this as well as a competency side. Growing the MoD substantially costs money and it means there will be





less money for the frontline. It is a very challenging balancing act. I would say that there is not sufficient capacity at the moment to undertake this to the level and with the rigour that is really required.

**Q68 Chair:** Do not get me wrong. I hope I speak for the entire Committee when I say that our default position is that we want the MoD to do well and to succeed, but it is the job of this Committee to scrutinise decision-making. When you have 13 studies over the last three decades that review, review and review procurement protocols because they are not working as well as they should do, something is culturally and systematically wrong. The integrated review was mentioned by Mr Jones. It states that it wants to define the Government's ambition for the UK's role in the world and long-term strategic aims for our national security and foreign policy, to set out the way we will be problem-solving and burden-sharing, not least with our allies, and determine the capabilities that we need for the next decade. The delay in the integrated review surely halts any serious procurement decision-making until we have actually worked out what we want to do. Would that be fair?

**Nigel Whitehead:** In general, when reviews are going on, there is a sense of paralysis, so bring it on. Let us get it done quickly. To the earlier point, the people that we work with across the MoD are outstanding, highly motivated and competent individuals. However, they are thinly stretched and anything we can do as a nation that resources that team is likely to accelerate the outcomes.

**Avril Jolliffe:** I would agree with both those points. To pick up on what Nigel has just said, we are in the middle of a fourth industrial revolution. The skills and capabilities to understand how, for example, digital technologies are going to fundamentally change the battlefield going forward do not exist in any one place, let alone in a Government Department.

One way we can support the MoD is perhaps frontloading a bit more some of the competitive and acquisition process so that companies that have global capability and competence can bring that to the table so that the MoD can then factor that into some of its thinking about some of its capabilities as it goes forward and certainly into integrated review, in terms of what that might look like in terms of our critical national infrastructure going forward, or what kinds of threats we may be facing on the battlefield. These are things that they have to reach out to a broader church on than perhaps they have normally in the past.

**Q69 Chair:** Let me just read out a list of concerns that have been expressed already in written evidence by the industry on the MoD's ability to competently make decisions. There are concerns of over-specification of the project, over-optimistic initial cost forecasting, poor contracting, political and ideological interference, inappropriate use of public-private partnerships, delays in changing specifications, inadequate examination of through-life costs, lack of adequate programme control, political reprogramming caused by budget cuts and Ministers not in the



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Department long enough to understand the brief. When you put these together, it makes quite a horrific list for the MoD to address. I say that, recognising that MoD is a unique market, given the limited number of potential customers and the relatively small quantities and high costs of the items themselves. Nevertheless, we need to do better to get this right, do we not?

**Peter Riddock:** That is a pretty frightening list. If you were the Permanent Secretary looking at that and having to consider how to address them, that would be a tremendous challenge. We need to balance that against those areas where the MoD and DE&S do extremely well. Where areas are well resourced and they have sufficient bandwidth, they do very well. On strategic systems, for example, there is the work we are doing up on the Clyde to support that. On F-35, we have excellent support. The C-130 programme is well run. I am delighted with the progress we are making on Warrior, for example. There are many good examples where teams are working in a very partnered and collaborative way to achieve great outcomes.

If you are asking a team, and it is often the case, to do something really challenging, and they have never done it before, through no fault of their own, that is really difficult. This can apply to industry as well to DE&S and the MoD. There will be a lot of first-time events and people will be learning on the job, which is always inefficient and costs money. We need to take the same approach we had perhaps post our disappointment in the Olympics in Atlanta in 1996, where we only won one gold medal. After that, we decided, "What are we really good at in the UK and what should we double down on?" The rest is history. We saw in 2012 and so on the result of that.

We cannot do everything as well as we would like to, quite honestly, and therefore we need to be more selective. We can help in industry by working collaboratively with the Ministry of Defence to deliver better outcomes. I would not want to throw all the rocks in their direction. This is a double-edged problem. We are all often doing things for the first time.

**Chair:** I do not doubt that at all. You raised some eyebrows here with the mention of Warrior. Warrior and Challenger are both assets that are over a couple of decades old. Other countries, France and Russia, have upgraded three or four times in that same span. I know Mark wants to dive into this, but I am going to ask him to resist for a moment.

Q70 **Gavin Robinson:** Good afternoon to you all. Avril, do you believe that open competition is an effective means of sustaining the UK defence industrial base? Obviously, you made reference to some additional areas for consideration, so maybe expand on that a little more.

**Avril Jolliffe:** Thales supports open competition. We think it is important for both industry and defence to have that. However, there is a continuing challenge, going back to the discussion we have just had,



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about how you balance competition with the requirements for sovereign capability and the associated industrial base that you need for that, also achieving best holistic value for money. Quite often, we see that competition does not actually drive innovation in technology and in business models. That is a critical thing to focus on. One example from us is the QEC design, which Thales won in open competition but delivered by a partnering alliance.

As I have just mentioned, the current competitive process can curtail some of that early dialogue with industry and our experts. The MoD is quite often overly prescriptive in its requirements but does not really factor in some of the wider socioeconomic factors. It quite often limits innovation by its contracting methods. We do not see any real consideration of exportability or resilience, which I suspect is increasingly important, given Covid-19. It stops the Department from harnessing some of the expertise and goodwill that we have in the UK industrial base.

We would like to see a much more sophisticated approach to competition so that the MoD can be as collaborative as Peter has just described. It needs to be able to recognise those areas of deep national expertise, use portfolios or frameworks perhaps to drive those through, and to have different types of mechanisms and business models to ensure value for money as opposed to just black-and-white competition.

I want to flag up how important exports are for us. They are part of the way that we sustain a really competitive and technologically advanced industrial base within the UK. We have seen a significant slowdown in exports over the past three months. I wanted to highlight that this could have a significant negative impact on the long-term sustainability of the UK's industrial base and hence even the MoD's access to technology that it requires for its own programmes.

**Q71 Gavin Robinson:** Your comment about portfolio agreements and so on is not lost on me, so thank you for highlighting it. It is an important point to make at this time. Nigel, do you believe the UK is an attractive defence marketplace?

**Nigel Whitehead:** First, it is something that we all take very seriously, as Brits working in this market. We identify with the role of the armed forces, so everybody is engaged, intense and genuinely wants to make it work. It is an honour to be in the market. The sense that we have to innovate to make it possible to provide the equipment that the armed forces needs is absolutely something that courses through all of our veins. It is our passport to operate in this market. In that sense, it is an important market for us to operate in and one we are engaged in.

We have a supportive Government. We have an education system that generates the raw material that industry needs. We have an R&D community in the UK that feeds the defence market appropriately. There is a culture in the UK that is associated with these sorts of programmes.



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We have a track record across UK industry of generating outstanding capability. The products we have created have allowed us to sell into the export market as a basis for exporting. This is a really important market for wealth generation for our shareholders and the nation overall.

However, there are some things we need to enhance if we are going to continue to have that track record. There are some things we are already focused on, which have been alluded to by my colleague, Peter, where there are impediments to attract industry's investment as it stands today. Some of the terms of business are not what they should be. I am enthused by the new engagement within the Defence Suppliers Forum to really crack these issues. Although we have had a bit of a hiatus in 2020, because everybody is rightly focusing on dealing with the Covid-19 issues and the impact that is having, as part of accelerating the possible economic contribution that defence and security can make to our national prosperity, we need to sort out those commercial issues.

The stated aims of increasing the number of competitors, sustaining capability, attracting investment, attracting non-defence players into the market and growing the SME community in the market can be achieved if we address those issues. There is every opportunity to make this an attractive market, but there is still work to be done to get to where we need to be to get that great effect.

**Q72 Gavin Robinson:** Peter, I do not want to curtail you in offering any reflections on those two exchanges. Could I also ask you to outline for us the associated benefits of moving to a multi-annual budget for MoD and what additional benefits you think that would bring to the defence sector?

**Peter Riddock:** The benefits would be very substantial, so absolutely yes, we should do that. We should do that as a matter of some urgency, preferably as part of the integrated review. Clearly, for us the annual budget cycle creates uncertainty for programmes. That is self-evident. Also, industry invests over a much longer timescale, so annual budgeting does not incentivise investment. The National Audit Office recently said, in its report on the equipment plan, that annual budgeting undermines the value of the equipment plan as a long-term activity. I would echo that point.

I know the MoD and the Treasury are looking at multi-year budgeting in the nuclear area. That should be explored in other capability areas too. I think we would all agree that the MoD should look more at establishing long-term portfolio arrangements. That would help, in terms of just refreshing a capability every 30 years. You are much more likely to do a spiral development where the contractor and the customer are equally invested in making sure you have the best possible product and it not just being a transaction where you provide something and then support it. It is about keeping it relevant and capable throughout the lifecycle.

**Q73 Mr Francois:** As a Committee, we obviously accept that Covid-19 may have delayed work on some programmes, but there were problems long



before the pandemic hit. The National Audit Office, in their recent extremely thorough report into equipment capability, looked at 32 of the largest procurement programmes in the MoD portfolio and concluded that only five were likely to be delivered on time. There is a long history of programmes running over time and over budget. In my experience, frankly, while that is ultimately the MoD's responsibility—they are managing the money—the contractors have been perfectly happy to trouser the extra money when the budgets have run over, in some cases very large amounts of money. In that context, Mr Ruddock, how do you justify your comment that you are “delighted” by the progress on the Warrior capability sustainment programme? It should have been in service by now and it is not, is it?

**Peter Ruddock:** You are correct about it not being in service at the due date. There are many reasons for that. I was not talking about the Warrior programme in its totality. That has been very carefully scrutinised and people understand the reasons why, so I am not trying to say this has been a programme that has been exemplary from cradle to grave. That is not what I am saying.

I am talking about the behaviours we have seen in the last year or so on both sides, often in difficult conditions, including during Covid. We had a short break while we worked out how to operate safely on the ranges at Bovington and so on, with at least two people in the turret. We have done that. The Secretary of State visited that, saw it for himself and was very impressed. I am not trying to draw a veil over what happened in the past. Yes, it is late.

I can say, though, that none of sitting as witnesses today relish cost overruns. We certainly do not trouser the money with any relish. Believe you me, the scrutiny we get from Ministers, senior military officers and officials is rigorous in the extreme. It is a very unpleasant experience.

Q74 **Mr Francois:** We have limited time, so I would like to come back at you. You mentioned Covid. The programme was actually commenced, according to the NAO, in June 2009. To date, it is approximately £250 million, taxpayers' money, over budget. That £250 million has to come from other programmes in the defence budget to subsidise your overrun. From the company that brought us the plane that ate the Pentagon, capable though it is, how do you justify to this Committee a cost overrun on your programme—you are the contractor—of £250 million?

**Peter Ruddock:** I do not think that anyone is going to sit here and say that is a good outcome. When you look back at the detail of the programme, I think people started with a level of enthusiasm for certain components that were Government-furnished equipment that simply were not as mature as people probably wanted them to be. They probably did not look at that with the level of diligence that was required. I can understand why people wanted a much more powerful weapon on it. That is provided to us as Government-furnished equipment. No one,



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on any side, is going to take pleasure from that delay, least of all for those people who need it in combat scenarios.

**Q75 Mr Francois:** On that point, the Committee visited the Army down on Salisbury Plain before the pandemic hit. We saw Warrior. We spoke to some senior NCOs that operate the equipment. I paraphrase because this is a public hearing. A colour sergeant said, "She is a great vehicle, Sir, but she is knackered". He actually used a different word, but you get the gist. They have been waiting years for a replacement that your company has singularly failed to provide. Let me ask you a straight question. In what year will the first armoured infantry battalion be equipped with the improved Warrior?

**Peter Riddock:** I cannot give you that certainty.

**Q76 Mr Francois:** Why not?

**Peter Riddock:** We are not on contract for production. Once we are on contract for production, I would be very happy to write to you and update you with that figure. Right now, we are in the development phase of the vehicle, which is going extraordinarily well. I have not heard that comment. I have heard many plaudits from many people in uniform about the capability of this new system, the lethality of it, the survivability of it and so on. What we are putting into the vehicle is new. You are right that they are the original hulls, but that is not something that we manufactured and we have not remanufactured those. I do not recognise the comment from the colour sergeant, but I recognise a lot of very positive comments about the teamwork.

**Q77 Mr Francois:** Okay, then recognise this comment from me. This programme has been running for 11 years. The vehicles are very tired. The soldiers are desperate for replacement because they endlessly break down on exercise. You are the chief executive of Lockheed Martin in the UK and you cannot even tell this Committee when the thing is going to come into service. To put it politely, Sir, you have been the chief exec for four and a half years. What do you do all day? Do not laugh. It is not funny. It is £250 million of taxpayers' money. It is not funny.

**Peter Riddock:** I am not saying that is funny.

**Mr Francois:** You are laughing.

**Peter Riddock:** No, I am simply smiling because of the way you phrased the question, not because of the severity of the situation.

**Q78 Mr Francois:** What is the answer? When does it come into service?

**Peter Riddock:** As I explained, we are not on contract to produce the vehicle at the present time. We hope to be on contract maybe late this year or early next, but that will depend on the deliberations of the MoD as part of the integrated review. We are ready to move forward with all haste. Everything I have seen in recent times has been very positive on



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this particular programme. I understand the history and I am not making light. I apologise if you thought I was.

**Chair:** I am going to draw a line under this. The point has been made powerfully by Mark Francois. There is a lack of accountability here in understanding who is actually in charge, because it gets knocked backwards and forwards. Warrior was mentioned. The same could be applied to Challenger 2 and the discussions over the turret. How long did that go on for, delaying the actual procurement of that business?

**Mr Jones:** I am no defender of Lockheed Martin or industry on this programme, but you also have to look at the way in which the Army has changed specifications—the MoD has not been an intelligent customer—and the MoD, on this and other programmes, has conveniently moved things to the left to save money in terms of trying to get in-year budgets. It is not all down to industry.

**Chair:** The point is made, and I made that earlier. One of my list of things was delay and changes in specifications, which is something the MoD needs to get right.

Q79 **Sarah Atherton:** I would like to look at a post-Covid defence procurement landscape. Avril, if I may come to you first, you spoke about Thales's civilian and military supply chains. What is your understanding of the risks to your supply chain?

**Avril Jolliffe:** Prior to Covid affecting us all, over the past couple of years, as we have started to look at what leaving the European Union might look like for us and our supply chain, we have done a lot of work with our suppliers to understand our supply chain and where the risks are. We have continued that work, working very closely with our suppliers, during Covid-19. In fact, although some of our suppliers did actually stop working, they are all now open. We have had a couple of suppliers come to us in financial distress and we have helped them out.

We have tried very hard to ensure that our supply base is supported within the United Kingdom and we are able to continue delivering our projects and programmes for the MoD. In fact, we managed to deliver a firing of the Martlet missile from the Wildcat during lockdown, using socially distanced methods. We have been able to take these things forward. We are very keen to support our supply chain. We are the single biggest sponsor of SC21, which is a programme to support SME suppliers in developing smart acquisition and supply chain productivity. We are very proud to be able to do that within the UK.

Q80 **Sarah Atherton:** Can you expand on how you have supported the supply chain? Have you front-loaded contracts? What have you actually done to support?

**Avril Jolliffe:** Our contracting staff have working with our supply chain, making sure whether they were up and running, making sure whether they were functioning, understanding where the pinch-points were and



trying to understand whether we could help them financially and take other measures to make sure they were supported through this process. I have to say the MoD has been very helpful. I am sure that some of my other colleagues would support that as well. We have had great dialogue with the MoD and that has helped us in turn to be able to support our suppliers through this difficult process. Overall, where we are right now is probably the best position we could be, given everything that has happened. Defence has been pretty resilient on the whole.

**Q81 Sarah Atherton:** Nigel, do the MoD and its procurement agents understand the risks to your supply chain?

**Nigel Whitehead:** The answer to that is increasingly yes, as we are gaining that understanding. We have a weekly meeting with the MoD and the Cabinet Office to take them through where we are up to. We are all gaining an understanding of the importance of having local supply chains. BAE Systems has some 6,000 suppliers in the UK. Half of them are SMEs. Of the 6,000, 520 of those are absolutely critical to what we are delivering this year. We have delivered a ship. We have delivered a submarine. We have the aircraft production lines up and running. It is only by dealing with this at a granular level that we have been able to keep the whole thing going. We focused on the production in our own factories.

Of the 520 that are critical this year, around 10 of them are in financial difficulty. BAE Systems is acting to help those companies to survive this difficult period. About 120 are saying that they are going to run into delivery difficulties and we are working with them on their delivery plans. BAE Systems gets about 75 containers of equipment through the docks each calendar month. With the question mark over what can travel and how long it has to be in quarantine, it has made us think about where we value that local supply. I think that things will change in the future. The MoD is working with us to gain that understanding.

Where we have made our own factories work, we have learned a few important things. One is that, if you already have a culture of health and safety, it is a good basis on which you can have the conversation with your employees about the steps you take to bring them back to work. If you have a good relationship with your trade unions, equally that creates the environment that allows things to happen. Within two weeks of the lockdown, we had had people back in the workplace, manufacturing. We have some 10,000 people today who are on the production lines and we have some 24,000 people working from home in a way we would never have envisaged at the beginning of the year.

**Q82 Sarah Atherton:** Does the MoD being your customer bring its own risks to your business?

**Nigel Whitehead:** I do not understand the nature of the question. Take me through that.





**Sarah Atherton:** The MoD is your customer. We spoke about collaboration, relationships, intellectual property, liability and UK-eyes-only. Do you have to factor in a certain amount of mitigation and risk when you work with the MoD?

**Nigel Whitehead:** We take those steps as conscious steps in our contract negotiation. We understand where the risk is and where it is best managed. In the proposition and the way it is requested, the nature of the deal that is struck takes that into consideration. It is something that both sides consider and we look at the risk and reward appropriately and determine how we do business.

Q83 **Sarah Atherton:** Peter, how robust is your supply chain? How have you measured that and what mitigating factors have you put in place for a post-Covid future?

**Peter Riddock:** There are some challenges in the supply chain. I am very pleased to say that the MoD has very good visibility of our supply chain and our interaction with suppliers. We have the strategic management programme, as I described at the beginning, which is really helping, with a strength in the commercial team. Also, we have taken steps, as other companies have done, to help our supply chain. As I said earlier on, about 80% of our supply chain of 1,750 are small or medium-sized. Recently, we have exceeded the Government's prompt payment expectations. We have also enhanced and brought forward our prompt payment practices. We have also offered our suppliers more flexible delivery options.

We have also looked at rotational workforces. If we have a team and they are not at full capacity because of challenges in the supply chain, we rotate those teams so we do not lose the skills. It also allows us to ramp back up. An example would be on F-35. There have been challenges on the F-35 supply chain because of Covid-19. We will be slightly low on our deliveries in this current year. We have been very public about that. We have prioritised the support to combat operations and to aircraft that are in service, so that will not be impacted. The three aircraft for the UK this year will be delivered. The maximum delay will be one month late. They were due to be delivered in early October, because they have to come across the Atlantic, they will need to travel together with a tanker. They will be delivered a little late.

Overall, the performance of our supply chain has been outstanding. There have been a couple of hiccups along the way but it really is a small handful out of 1,750. Great Britain has a great deal to be proud of in terms of the way it has supported defence throughout this crisis.

Q84 **Chair:** Thank you to all of you and your employees for bearing with this very difficult period under Covid-19. We are aware of the changes that all business across the country have had to endure. It has been tough. There is no doubt about it. It has been unprecedented. We are very grateful for your endeavours to continue to work in this difficult climate.



Hopefully, announcements today will make life a little bit easier.

As a distraction of Covid, we have perhaps seen a recalibration of our view of China. I wanted to ask about your exposure to supply chains. We have seen China acting in what I believe is a globally irresponsible way, in threatening tariffs on to Australia for some of Australia's actions and condemnations of China's own activity. My concern and my question to you is that you may be able to guarantee that your supply chain itself is not affected by China, but you have an awful lot of SMEs, smaller businesses, that may be getting raw materials or other products that come from China itself. I wrote to you about this and I hope you will be able to respond in due course. Could you give a quick overview on how exposed you are, for the equipment you make, to the raw materials that emanate from China?

**Nigel Whitehead:** To our knowledge, we have no dependency on China. We are alive to it. The searches we do and the independent search we commission exposes no particular issues there, but we are alive to it. We have been for many years. We do not buy from China and we do not sell to China.

Q85 **Chair:** As a prelude to the other two responding, it is whether there are rare metals, raw materials or other things that you may not be purchasing directly, but you lean on smaller businesses that do get those materials from China. Are you confident that is the case in the tertiary supply chains that you may be leaning on?

**Nigel Whitehead:** We are in receipt of your letter. We will give you a comprehensive response to that. I do not think we can be entirely confident, understanding your argument about the rare earths. From that point of view, it will cause us to redouble our efforts and examine that dependency.

**Avril Jolliffe:** Similarly, we will respond in full. We have a civil business and some of that business has huge global supply chains. In terms of our defence business, we are absolutely alive to the fact that cannot be contaminated. We will write and confirm that and give you outlines of our investigation.

**Peter Ruddock:** It is likewise for us. All I would add is that, when we qualify anyone in our supply chain on a critical platform or system, we do that with tremendous rigour, to make sure there are no elements in that. I am not talking about rare-earth elements, not that level of scrutiny. We will likewise respond to make sure that nothing gets into the system. Even if it did, we run such rigorous testing at all phases of our more advanced systems that we would discover that.

**Chair:** I am grateful for that. It is not trying to catch anybody out. It is simply to be more aware that this is where the character of conflict is going, causing economic harm by switching off vital supplies that we may require in order to keep our aircraft in the air, our ships at sea, or indeed our land vehicles working as well.



Q86 **Richard Drax:** Welcome to all three very distinguished guests. Thank you for coming this afternoon. What is your assessment of the level of overseas interest in acquiring UK defence companies? Is it on the increase?

**Nigel Whitehead:** Where there is outstanding capability, there will always be interest. The UK is bound to be a market where potential acquirers will fish. The UK has generated some very significant industrial capability. Indeed, Thales and Lockheed have acquired UK businesses to build up their significant footprint in the UK, so they will have views on that as well. I would be concerned because at the moment there are suppressed share prices. I would be concerned because there are significant shifts in exchange rates and there is a possibility that there are some bargains around. In that sense, I would be increasingly wary about potential fishing trips where foreign adversaries are potentially going to come in and snap up great bargains in the defence business in the UK.

**Peter Riddock:** Nigel has laid out the landscape very clearly. Right now, we are not seeing any increased activity or interest. That does not mean that is not happening behind closed doors, in boardrooms around the world. We keep a very close eye on this and we are not seeing evidence of that. I recognise from what Nigel has said that one would expect that perhaps to follow.

**Avril Jolliffe:** I would agree with both of my colleagues. We are certainly not seeing a significant increase in these levels of overseas customers or overseas countries trying to acquire UK technology. One thing I would flag up is that quite often, when we talk about defence technologies, we have a very clear view of what we mean by that. Actually, for us as a company, we are as interested in those adjacent technologies, where at the moment we see them very much as civil. For example, you could imagine a scenario in which the first nation that has a breakthrough in quantum could ringfence that and not allow the UK to have access to it. For me, it is not just talking about defence companies. It is about all of those core critical technologies that we need to understand and have a clear IP within the United Kingdom, so that we can protect it for our wider infrastructure and technology.

Q87 **Richard Drax:** You have answered the next question in part. I was going to ask you what types of companies are attracting such interest and from where. I think you have answered the first part, Avril. From where is this interest coming?

**Avril Jolliffe:** We are a global nation and we pride ourselves on acting in the global market. We therefore have nations from across the whole of the world interested in what the UK has. It is more of a question about why they would be interested in that technology, whether it is because we have something very exquisite and they can see a method of using that and using the UK as a leapfrog out into the wider world, or it is predatory and to take that IP for themselves. There is a difference and we have to delineate there.



**Peter Riddock:** I would make a general comment that there are areas of the UK that are genuinely world class. We see tremendous work being done in artificial intelligence, robotics and many other areas. I do not have any evidence that anyone is taking a particular interest in those, but they often sit, at least initially, outside of defence. Therefore, just at an academic level, there is a real opportunity to get involved and milk the intellectual property that has been developed but is not yet protected.

Q88 **Richard Drax:** We have heard that the Chinese are buying up companies in France. They have ordered a root-and-branch look at the whole of their supply chain. Is there any evidence they are doing that here?

**Nigel Whitehead:** We have an ongoing assessment to see if that is happening with any of our suppliers. We do not see that at this stage, but our antennae are up and we are watching everything.

Q89 **Richard Drax:** Finally, should the Government be doing more to stop foreign takeovers? Cobham springs to mind for starters.

**Nigel Whitehead:** There is a threat associated with this. What they wish to do in that sense and who they are happy to have owning the industry that provides them with the defence and security services is up to Government. As a member of the defence ecosystem and this community, I would like to see that the ownership is with our allies.

**Peter Riddock:** I would agree with that. I understand new measures have been put in place through the National Security and Investment Bill. There are three broader points there that the UK may wish to consider. Nigel has led me to this nicely, in terms of what technologies the UK and its allies need to develop jointly, to invest in over the longer term, if we want to find alternative sources of supply.

We talked a little bit about rare-earth elements. It is right to have an eagle eye on that, because that may well be the new form of warfare. Also, venture capital investments in early-stage companies can come from foreign sources. The Government may wish to consider that as part of their work.

Q90 **Martin Docherty-Hughes:** Avril, I will come to you in regards to procurement contracts. From your perspective, do they take into account factors such as local economies, skills retention and possible financial impact across the four nations of the UK?

**Avril Jolliffe:** In a quite black-and-white statement, we do not think that they do sufficiently at the moment. They also do not recognise the importance of the UK as a reference customer in the export market. Quite often, when we sell things to an overseas contractor it might look cost-effective but we have just handed a valuable UK reference in an export pipeline to an overseas company. Thales is really lucky. We have a wide footprint across the UK. We are in the south-west now, around Templecombe, Scotland, Wales and Northern Ireland, as we already mentioned. We really appreciate how important we are to these



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economies. We build ecosystems locally of SMEs. We have academic partners. We draw on our local communities for our apprentices, for example. We work with local government and LEPs to support wider generation.

It is sometimes quite hard to get the MoD to appreciate the value of these broader investments when they are placing contracts. Not all of our expansion in the UK is necessarily defence-related. We invest heavily in other areas, such as in civil aerospace, as part of the future of flight programme. We are founding members of the Digital Aviation Research and Technology Centre at Cranfield University. We have established NDEC in Wales, which focuses on operational technology and critical national infrastructure. In fact, we opened a space company here only five years ago. All these can generate technologies for military advantage and not just civil advantage. There does not seem to be any appreciation of those sorts of behaviours in companies and the willingness of companies to invest in the United Kingdom. That is never considered as part of an overall contractual or competition mechanism.

**Q91 Martin Docherty-Hughes:** I would say that is maybe damned by faint praise. That was a very diplomatic answer. Maybe we can take it slightly further by asking you again. Could the MoD enforce promises such as to maintain or increase the number of jobs? Given what you have just said, maybe they are not focusing on the right types of jobs. My example is if you look at Estonia, which the Committee visited in the last Parliament, there is huge investment in small and medium-sized entrepreneurship; you have, for example, the NATO Cooperative Cyber Defence Centre of Excellence. One would have thought somewhere like the UK, France or other, larger parts of the NATO alliance may have been home to that. Clearly the ecosystem in Estonia is far more astute, far more forward-thinking and far more capable.

**Avril Jolliffe:** We do not think that enforcement is necessarily the right approach. Obviously, if a company gives undertakings as part of the process by which it wins a contract, they should be followed up and those companies should be held to account. It comes down to how you define value and prosperity. It is not necessarily just about jobs, as you say. It is about them being the right jobs and highly skilled jobs. Value is also about having the IPR in the UK so that you can use it as a launchpad for wider prosperity.

There are other anchors as well, such as having centres of excellence that are, as you say, world-renowned. They do generate their own energy and their own clusters. We have seen this in Plymouth where we have taken an MoD programme on marine autonomy and we have built relationships with the city of Plymouth, local universities and local SMEs. It is really exciting what is happening down there in terms of growing a real engine for the UK taking a future lead in marine technology. That ecosystem has come out of a defence programme. You can do it, and it is really exciting for the UK.



**Q92 Martin Docherty-Hughes:** Finally, Chair, in terms of retaining skills that exist or for those that are looking to be innovative and entrepreneurial within the framework of defence, again I go back to the Estonians. They have this e-residency process where anyone across the world can become an e-resident of Estonia and provide customer and supply chain across the rest of the European Union. Do you think that stuff like that is a thing that young entrepreneurs are looking to access, takes them away from the UK market and gives them a cause for concern as to why they would want to become involved in the UK's defence ecosystem?

**Avril Jolliffe:** A number of things play into making the UK an attractive place. It is everything from the way in which the UK allows people to have tax credits against research and development to having access to highly skilled, highly competent people. It is about generating that ecosystem as well as having the people here.

**Chair:** That concludes the first panel session. Thank you very much indeed to Nigel Whitehead from BAE Systems, Peter Ruddock from Lockheed Martin and Avril Jolliffe from Thales. We really appreciate your time this afternoon, robust and engaging discussion though we have had. It is very much appreciated. You have helped us to better understand this very complex issue.

## Examination of witnesses

Witnesses: Paul Everitt, Andrew Kinniburgh and Michael Formosa.

**Chair:** Paul Everitt from ADS, Andrew Kinniburgh from NDI and Michael Formosa from Renaissance Strategic Advisors, welcome very much indeed. We will go straight into it because we are against the clock.

**Q93 Derek Twigg:** What challenges are experienced by your membership in engaging with the MoD?

**Paul Everitt:** I share some of the views that were shaped earlier on. The relationship with the MoD is not a singular entity. It develops over a period. I would say that, at the moment, partly based on the close working relationship that we have had during the Covid crisis, it is a very strong relationship. At times in the past, member companies have felt that it was a much more both confrontational and occasionally transactional relationship. If we are looking to where things work best, particularly for some of the smaller, more innovative companies who are part of the defence sector, what they are looking for is an easier and more consistent engagement with the MoD, DNS and frontline commands at an earlier point in the development of projects and programmes. This is so that they can contribute their expertise, better understand some of the challenges that the customer is trying to address, and hopefully inform the procurement process so that, when the procurement process starts properly, hopefully those smaller innovative companies will find a route for their project, product or innovation into the final product.

**Andrew Kinniburgh:** We would probably describe our communication with the MoD by saying that it can be very good, but it would be fair to



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say it is a bit patchy. We have quite often been asked to communicate with the MoD via ADS as the largest trade association in the UK, and we are good friends with ADS. That is not a problem, but we have a distinct and different membership to ADS. It is particularly SME sub-contract manufacturers; it is around 300 members. It is therefore very important for us to have a direct link into the MoD.

There are some areas of good practice. The problem for SMEs is that the MoD's communication is built around being big-beast-to-big-beast. If you have 10,000 employees it is much easier to communicate directly with the MoD than if you have a factory in Bournemouth with 10 people. That is a statement of the obvious, but it perhaps links back to a lack of depth of subject matter experts in the MoD, which is where the SME members of NDI really want to dig in. They really want to communicate with subject matter experts within the MoD. That is perhaps lacking a bit in more recent years. We have a number of members within our membership that we would term as world leaders in what they do and they actually have no programmes in the UK, or very few. The reason for that is that there is no conduit for them to link into the MoD to have those kind of detailed discussions.

**Michael Formosa:** I work with a consultancy and we do not have constituents.

Q94 **Derek Twigg:** I understand that. What about anything you have picked up, given you work with various companies?

**Michael Formosa:** I will cover it in some of my eventual answers. Right now, some of the challenges experienced by the local firms is basically in the competitive arrangement that is engendered by Government and by the MoD. Going for the best product at the cheapest price sometimes puts our companies at a disadvantage, especially when foreign competitors are working with the help of their own Government's support directly in things like R&D. That puts them on a better footing and in a position to beat our local UK firms. That is particularly challenging for some of the clients that we have when facing opportunities here in the local market.

Q95 **Stuart Anderson:** I just have a follow-on about speaking with the MoD and engaging with the MoD. I just watched the last session with Mark Francois and Peter Riddock speaking about the Warrior Programme quite passionately. Peter Riddock did not recognise the colour sergeant's comments. I have used Warrior for four-plus years. I have used them on operational tours. Go and find a soldier that uses it week in, week out who does not think it is knackered. It is not a one-off. This was very surprising for him. That shows a huge disconnect between what is happening on the ground, with these subject matter experts, the people that use it day in and day out, and actually what is happening at the top. Do you think that is concerning, Paul?



**Paul Everitt:** It comes down to how we operate. As I tried to phrase in my answer, we have gone through a period where there has been quite a confrontational relationship between industry and its primary customer. That has not necessarily been the best way of resolving problems. With complex programmes there are, as was shaped earlier on, always issues of one sort or another. Some sit with the industry; some sit with the way in which procurement operates. The customer ultimately is the loser if they are not resolved. It has to be said also that the defence sector, or the defence enterprise, MoD and industry, does come under quite a lot of financial scrutiny through the NAO and other mechanisms. Again, we do not always create the right environment for people coming forward and both acknowledging where there is a problem but, more importantly, having a joint approach to resolving whatever those problems are.

Q96 **Mr Francois:** Paul, just to contest slightly what you said, you said that if these programmes go wrong, the customer is ultimately the loser. I would argue that the taxpayer is ultimately the loser. Is it not the case that part of the reason why our procurement has been so bad for so many years is because there is actually too cosy a relationship between the MoD and DE&S and the contractors, and DE&S are not very good at managing the contracts and the contractors are very happy to pocket the overruns. It is not a very satisfactory situation.

**Paul Everitt:** I would certainly agree that it is not a satisfactory situation where things go wrong and we are not able to resolve them and public money is spent needlessly. Again, I can only contend that I have seen circumstances where the customer is very tough on some of these issues, but that does not necessarily make it easy to make progress. You need both parties to want to have a successful relationship.

In terms of some of the issues that are causing problems—I will not be specific on the Warrior one—I have certainly been privy to some situations where, in terms of what the contractor is asked to deliver, they are delivering according to the contract but it is still not delivering the successful outcome. There are plenty of lessons that we should and could have learned over a long period of time as you and the Chair mentioned earlier. We have seen a lot of reviews of the acquisition process. Most of those have come to very similar conclusions, in truth. It has always been and appears to be difficult for those to be embraced.

**Chair:** I am getting increasingly frustrated with the delay in the integrated review. It made sense initially but the world is changing fast and I am worried that procurement decisions, and indeed even the merger of DFID and the FCO, are things that really should have been part of the study of who we are, the role that we play on the international stage and so forth. I would like to turn to the integrated review and see how that fits in with procurement itself.

Q97 **John Spellar:** In that context, Chair, I will ask the panel whether we need a new defence industrial strategy. Is the current one serviceable? If so, why? What would you argue would be its key features?





**Michael Formosa:** There is a very clear and definite economic case for a defence industrial strategy. I would say that in the first instance this is an opportunity. We can determine the areas in which the UK decides to focus industrial, technological, R&D and skills priorities. We can ultimately use our demand for defence material to achieve economic aims. A defence industrial strategy will organise productive and developmental assets in the UK and foster better exports, which leads to capital inflow. A comprehensive strategy would also provide a clear framework to competitors, both indigenous and international, and force them to position competitively in light of our wider economic and development goals. In so doing, we will have fostered an even richer competitive environment, achieve better value for money, and also positive spill-over into key areas of the economy.

**Andrew Kinniburgh:** I agree with Mike that, if we are going to truly be a global competitor on the international defence equipment stage, we certainly need it to be underpinned by a UK defence industrial strategy. There is no question of that. The key thing from my perspective and from my members' perspectives is that sovereign capability in the UK equals freedom of action.

The key thing for the UK is that we need to decide what we want to retain as sovereign capability. Covid-19 has certainly thrown up lots of issues about freedom of action and the risks inherent in outsourcing both equipment and consumables. That is across defence as well as the civil market. The key thing really is a clear industrial strategy, a clear understanding of what the UK wants to retain and a commitment, actually, from not just the procurement people within the MoD but also from the military as well, because it needs to be underpinned by requirements and by demand for the MoD and the industrial strategy. There is no point saying we want to continue designing and building military helicopters if there is no pipeline of work continuously flowing through.

Q98 **John Spellar:** Looking at the pipeline of work coming through, surely one of the most important things with the huge pressures at the moment on our manufacturing industry is to ensure a flow of work, particularly to ensure a continuing flow of work through the supply chain. What should do the MoD and Government be doing where we have existing orders, to actually be pulling those through and forward, in order to generate that work, both on military-specific items but also on their general purchases?

**Andrew Kinniburgh:** It would be very sensible to accelerate some of these programmes. The absolute key thing as well underpinning the defence industrial strategy would be to boost our research and development spending and really push it forward. A number of our members yesterday, in preparing for this meeting, were mentioning the €1 billion spend by France on R&D in defence. We are simply not anywhere near that. If we could push that much harder and with much



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greater financial clout, that would also help to drive our manufacturers to innovate.

Q99 **John Spellar:** That is alright for the primes, but the tier 1, 2 and 3 sub-contractors need work.

**Andrew Kinniburgh:** They do. That probably brings us back to things like the Defence and Security Accelerator, which is a route for SMEs to enter the defence and security market. Probably they need to get better at reaching out to SMEs and encouraging new technologies and new incubator businesses and entrepreneurs into the sector.

**Paul Everitt:** I absolutely agree that we need a defence industrial strategy. I would also concur that there are plenty of opportunities for the Ministry of Defence to bring forward existing projects to provide key work, particularly for the high-end supply chains that are currently under a degree of pressure. Chair, to your point, the MoD is in a difficult situation. It has a commitment to its existing programme. Clearly, there are some additional costs coming through because of managing the Covid situation and because there is the integrated review. They are in a difficult position in how best to manage their budgets, so hopefully the Chancellor, when he stands up later in July, will be able to provide them with the certainty they need so that they can actually release the work that they have available.

Q100 **Mr Jones:** We are not even doing that because of no industrial strategy. We are buying off-the-shelf, whacked-out P-8 Apache from the United States. We are not taking the data package with it, so there is no capability for UK plc to get into long-term maintenance of those contracts. Without that, a lot of money that we could be spending on growing business in the UK is not happening. Until that changes, with a mindset that we are not just going to buy off-the-shelf, in this case from Boeing, without some clear commitments to jobs in the UK or long-term technology, that is just money out the door.

**Paul Everitt:** This cuts to the heart of an industrial strategy. The first prerequisite is to take a longer-term view and to be clearer about those things that we want to be good at. Aside from sovereign capability, there is a range of capabilities that we have in the UK that we should be fostering because they are useful and helpful going from a UK national security point of view and for our allies whilst also ensuring that they are creating opportunities for jobs in various parts of the country. We need to be setting that out quite early. Perversely, if you create an environment into which people need to invest in order to win competitions, then actually we create a more vibrant and more competitive industrial base for the Ministry of Defence to compete projects into.

Q101 **Richard Drax:** You have already answered my first question about the economic case for UK defence, Michael. I listened very carefully to your answer in which where you made very clear the economic case for our own industrial strategy. I am going to move on to the second part: how



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attractive is the UK defence market for investment? I am assuming that an increase in R&D might make it more so.

**Michael Formosa:** Indeed. Right now, to look at this very generally and then to move into the more specific, the UK is an attractive market. It is academic. There are positives and negatives, though. The UK is one of the largest economies in the world. We are one of the largest defence spenders. I believe UNCTAD rates us as probably number five as far as foreign direct investment is concerned. Economically and in terms of defence, we are comparable to France and Germany.

Let me set up a comparison. As far as France and Germany are concerned, good luck if you are a foreign producer trying to win competitions in those countries. We have a very strong track record of enabling and allowing international firms to indigenise and to build up capital investment. Of course, BAE is the national champion but both Thales and Leonardo are commonly considered indigenous. Airbus is in a solid position in space and satellites. Lockheed Martin is a clear part of our nuclear establishment. GD and Boeing are in various stages of indigenisation and they will be judged on the extent to which they are invested in the UK's value chain, academia and the S&T community.

We brought up international acquisition earlier. The UK has permitted the acquisitions of Gardner Aerospace, GKN, Cobham, Northern Aerospace and Bombardier. On the other hand, compare us to France where it is practically impossible to acquire key assets. The acquisition of Photonis, a tier 2 electro-optical company was blocked by the French Government, against Teledyne, the would-be American acquirer.

But there are drawbacks here, too. Indigenisation does not automatically mean incumbency. Look at the decision to procure AH-64E from Boeing under FMS as opposed to Leonardo. In fact, as I mentioned before, the UK's focus on acquiring the best products at the lowest price sometimes puts domestic industry at an unfair disadvantage, particularly when they are going against those foreign national champions that are enjoying so much support from their host Governments, particularly with non-recurring engineering costs.

Again, as you say, increasing R&D expenditure in this country would certainly make us a more attractive investment target. You have to compare that also to our experience with many of the companies that we consult as they look to do business in various markets including this one. Of course, the primary interest is revenue and making up for lost revenues at home. However, a very important secondary interest and objective is obtaining R&D funding as well. If we simply allow this type of foreign competition with their own Government subsidy to come into the market, local companies can't compete. When they lose, we run the risk of the skills base eroding in this country.

Moreover, there are some regulations that might limit foreign direct investment. For instance, single source regulations limit the amount of



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return a competitor can achieve, which is definitely something that is making foreign entrants think twice about substantive capital investment here and indigenisation.

Q102 **Richard Drax:** Paul, how would an effective defence industrial strategy contribute to resilience?

**Paul Everitt:** If we have an industrial strategy that helps to provide us with a financially stronger and more diverse UK supply base then that would make us more resilient. It would give us opportunities to adapt more quickly to the evolving threats that we see around the world but also to ensure that we can switch between a range of different businesses rather than being wholly reliant on singular businesses for particular activities, particularly down and into the supply chain.

Q103 **Stuart Anderson:** If we look at the UK's approach to defence procurement and also the UK's approach to defence industrial strategy, how does this compare to other nations and where can we learn? Which countries can we really take some valuable lessons from?

**Michael Formosa:** Again, I would compare us to the French and Germans. They have national champions that enjoy a greater degree of industrial support. The Governments fund R&D to a much greater extent. The national champion produces something best in class and maintains primacy. They are guided by national demand within the context of a wider industrial strategy.

Another area where they support industry is exports. France and Italy are good examples. They are incredibly assertive in G-to-G activity, contacts and facilitation. Israel is a fantastic example of that. We have some of the elements of that in the DSO and especially the DSC when it comes to that long-term strategic understanding that is so vital, particularly as these markets become so much more sophisticated and as collaboration becomes so much more important with other countries. The DSC is really scraping along. It has had annual budget rounds for a while; and now I think it is down to six-month budgeting rounds.

Instead, these organisations need to be empowered to become more specialised and, in the DSO's case, exceedingly proactive and tactical. The best example of the differences between the UK and a really good way of orchestrating industrial strategy and procurement is by comparing the UK and France on respective land force modernisation programmes. In the case of France, under Project Scorpion, we see a clear and holistic strategy that provides direct support for French industry and French exports. On the other hand, the UK is engineering over seven distinct procurements. Both national programmes are running on similar timeframes but already the French have secured something like over €2 billion in export sales before the vehicles are even in service.

On the other hand, we are importing significant portions of Ajax, Warrior, Challenger 2 life extension, and practically all of MIV from the EU to the



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tune of at least £10 billion. I am not saying that we should necessarily be doing 100% of the production in the UK, but having a clear strategy would enable us to determine those technology areas, both in terms of development as well as production, to prioritise.

I will go even further. The French are building factories for this that are Industry 4.0; it is the fourth industrial revolution that Avril was talking about. These factories are highlighting things like 3D printing, AI and quantum processing, et cetera. These are all elements of what would make the whole country's national development and productive capability advance, not just defence. That is a really key point here. We have this traditional impression of defence working off by itself in a silo. We need to come to realise how inextricably linked it is becoming to the main part of our economy by way of dual-use equipment in cyber software, AI and quantum computing and many others. Defence is truly more enmeshed with civil industry. The more it is forced to export, the more it is in a prime position to generate the kind of capital inflows that again benefit the entire country.

**Andrew Kinniburgh:** To add briefly to what Mike has said, it is the long-term strategy for France, Germany and across Scandinavia and other European countries. In our members' experience and my own experience, in places like Germany and France you could be doing business with them for 20 years and you will continually bump into the same people because they are proper experts. They are true experts. They stay within their particular specialism and they make a career out of it. That is perhaps something that the MoD is missing. It is very rare to have someone that stays in post or perhaps develops into a more senior position and stays within that particular specialism. The serving officers and NCOs and the two-year rolling career moves certainly exacerbate that problem as well, again with the subject matter experts.

Q104 **Chair:** That emphasises the point that Mark Francois was making earlier. The NCOs we spoke to on Salisbury Plain were experts, because they are experts in using the kit; an NCO does that his or her entire life. Unfortunately, we have people who are very talented individuals but they do not stay in the job long enough.

Before we move on to the next subject, I would like to look at the bigger picture. Michael, you have touched on is AI and quantum computing. We are of course in competition with China, and I fear that it might beat us to it. I am just looking at some of the stats of China's spending in defence. 20 years ago China's defence budget was the same as ours. Today, it is five times larger. It now outmatches Russia. I fear that what we are seeing with Huawei offering to the world an alternative, cheap, high-tech solution, competing with our own Western solutions, is something that we could see move into the defence and aerospace arena as well: making something procured by the state of China in order to woo greater subservience, greater control, greater leverage and greater influence over these countries as well. Would you agree with that?



**Paul Everitt:** There is no doubt that, as you have rightly pointed out, China is increasing its own capability. What the UK industry finds is it is also exporting those capabilities to a far wider range of countries than had previously been the case. The technological battle is clearly your focus but actually the threat from a wider variety of countries that now have access to higher capability themselves also increases the instability that we as a nation are faced with and therefore have to have the capability to deal with. I agree with you.

Q105 **Chair:** That is always nice to hear. Andrew, I would like to pursue that question a notch further. With that in mind, when we look at projects such as Tempest, which of course are great to see, with the next advance of sixth-generation aircraft, does it really make sense for us to be doing that in a conglomerate that is only partly with European partners? Should we not be working with Dassault in France, bearing in mind that ultimate competition is against the Chinese, and then selling potentially this to those other countries that Paul alluded to?

**Andrew Kinniburgh:** I would agree with you completely. Collaboration is absolutely key. We are not just competing against the Chinese; we are also competing against foreign military sales from the US. Clearly that comes with lots of benefits, both soft and pointier and more dangerous. Most certainly, collaboration is key to that. There is a recognition in the UK that we cannot do it alone. It is really important that we do that. Those elements that we talked about earlier on, of key sovereign capability as part of an aircraft build, are really important. We need to nurture those and guard them very carefully.

Q106 **Chair:** This leads into the final point I want to make. With those two questions now answered and agreed, why is it the case that we do not look more carefully at doing joined-up procurement projects? You three have different skin in the game compared with Lockheed Martin, Thales and BAE Systems, because you are looking at things from a slightly wider perspective. Is it not in your interest, and indeed are you not obliged, to tell the MoD, "Think bigger; red-team this"? They need to not just look for an answer from a particular aerospace developer but actually say, "This would make sense by bringing more people around the table to procure something that genuinely is competitive". Michael, do you want to respond to that one?

**Michael Formosa:** You are exactly right. We need capability. We can either make it or buy it. If we cannot make it ourselves because the level of demand that we have does not finance development and eventual early production, and we do not just simply want to buy it off the shelf, then we are going to have to collaborate. There is a lot that Government can do to foster the right kind of environments when it comes to collaboration.

Right now, the question that we have to ask around Tempest is whether working with the Swedes and the Italians is quite enough to give us enough demand and enough complementary capability to take the



project forward. Do we need to be a little more open-minded when it comes to collaboration and think outside our hemisphere and think about Japan, maybe, because of the amount of demand that would bring us? Government could definitely play a facilitation role in that and collaboration is going to be the way that our companies actually do business overseas and find secondary and even tertiary markets.

Q107 **Chair:** Thank you for that. I hope that common sense prevails. I understand that an announcement on Galileo is about to be made, on our involvement or not with that project. My personal view—there are different views on the Committee—is that it is absolutely ridiculous that for political reasons we may be choosing a different approach and not working with our European partners, bearing in mind the importance of pan-European security to us all. Paul, could briefly comment on this? I then want to move on to Emma, because this relates to the worry about us not doing this and being taken over by other companies, which I know Emma wants to talk about.

**Paul Everitt:** I would make the case that Tempest has been successful. It embraces the points that you have made. We are engaging with those who are willing to engage with the project and we are pushing it forward collaboratively between the MoD and industry. Clearly, some of the issues around European collaboration are very big in politics. This is a bigger challenge than it might be, certainly, but unless we stake a claim here, we will not be in a position to build the collaborations further down the track that might be open to us.

**Chair:** It is just interesting that John Spellar and I participated in the French version of this, with the French Members of Parliament and they asked us why France and Britain were not working together to create a sixth-generation aircraft. We will draw a line under that.

Q108 **Mrs Lewell-Buck:** I will direct my question to you, Andrew. Regarding overseas interest in acquiring UK defence companies, do you have a view on that and do you feel that that is on the increase?

**Andrew Kinniburgh:** We are not seeing huge increases in overseas acquisitions. Nigel Whitehead in the previous panel suggested that there were some bargains to be had. I would agree with that. We need to be careful about that. Certainly, the UK Government needs a mechanism to hold overseas buyers to account and potentially to block them. We have benefited hugely in this country from foreign direct investment and companies like Thales and Lockheed Martin that have invested heavily.

The risk for the UK is that, in times of trouble or of economic downturn, with an overseas-owned UK company, given the intellectual property and the really high-value, intellectually heavy engineering, the temptation is to bring that back to the home nation. When it is owned by an overseas prime, there is a danger that IP may draw back from the UK and back to the mother country.



**Michael Formosa:** I rattled off a number of international inward acquisitions earlier. I would add to that the fact that a lot of our work deals with the banking community and the private equity community. Everyone is aware of the possibility that because of Covid and because of fiscal strain, there is a possibility that portions of our value chain, which have over the past 25 years been made increasingly efficient, might become stressed and distressed. We should therefore have targets, if not for acquisition then certainly for greater amounts of investment because PE definitely recognises the longer-term value of these firms. Despite the kind of activity that we have been seeing more recently, there is a possibility that activity could increase out of sheer need on the part of the target.

Q109 **Mrs Lewell-Buck:** That fits in nicely with the next question that I was going to follow up with. As you know, the Government are planning new measures to restrict this but these measures are not yet in place. Security experts told the Foreign Affairs Committee that the UK is late to putting these restrictive measures in place and that we have been too quick to sell companies on. I wonder if you agree with that assessment, what more we should be doing and whether the Government should be showing more urgency in this area.

**Andrew Kinniburgh:** I would perhaps point to an example outwith the defence industry in the case of British Steel, where there simply was not a UK investor to take that business on. In that case, a Chinese investor came in and has kept that business going as a going concern. We may all have our own views on the long-term impact of that but we would certainly be very concerned in NDI and Make UK if it became a very restricted practice and we almost followed the French model whereby you simply could not buy a UK defence company.

Certainly there should be controls in place. I am sorry to keep banging on about it but perhaps it is about bringing it back to the subject matter experts and having the ability to drill right down into the supply chain and spot the really important key companies.

I spoke to one of our members during the lockdown period. They employ 12 people. They are based in Woking but they make an additive that goes into the paint that paints the flight deck for the carriers. One of the carriers was about to leave the UK to go across to the US to start some more testing of flights. That carrier could not have left without that 12-person company in Woking making the additive that goes in the paint that paints the flight deck. I understand that it is difficult for the MoD but it is those kinds of examples of little bits of the supply chain that are really key to the whole puzzle being solved.

Q110 **Mrs Lewell-Buck:** Andrew, you mentioned that you think that controls should be in place. Are there any key controls that you think should be in place? What would those controls look like? What would that be?





**Andrew Kinniburgh:** The ultimate control would be prevention of acquisition or some sort of golden share perhaps held by the MoD or by the Government in some way, but I know that that is not a fashionable thing to say at the moment. Perhaps that might be the key. Perhaps we are looking more along the nuclear side where there is a golden share held by the Government or the MoD. That may be a way to mitigate that risk.

**Michael Formosa:** It would be very easy to become overly reactionary and general in our approach to controls. Basically, at risk of oversimplifying, it depends on the would-be acquirer and the target asset. The decision needs to be made on a case-by-case basis as long as that process is being undertaken, again under the auspices of a wider strategy where we have pre-emptively pinpointed these areas and these players and can actually do a much better job in evaluation. We should not be saying in a blanket way that we should be blocking foreign purchases or acquisitions.

Q111 **Sarah Atherton:** Good afternoon. Paul, we spoke last Friday about the UK aerospace future, so I think I know your approach to this. In a very recent article, ADS was reported as saying that the defence and space industry is well placed to be a catalyst for economic recovery and sustaining important R&D capabilities. What are these R&D capabilities?

**Paul Everitt:** There are probably better people to describe the specifics but, from a general perspective, what we want to see is higher investment in R&D, creating more capability that could be drawn into MoD projects and programmes, which in turn can be exported to allies around the world.

The MoD currently spends around 1.2% of its budget on R&D. In the UK economy at large, we spend 1.7%, and there is a target, economy-wide, of about 2.4%. We would see that there is a very significant opportunity for the MoD itself to increase its investment into R&D and particularly perhaps collaborative R&D, in order to create those future capabilities. Part of the challenge that we face is that if we are not creating UK capability then we only go and find it elsewhere. There is a piece about trying to understand both what we are currently good at, which we should be investing more in to ensure that we are sustaining that lead, but we should also be able to ask ourselves the question as to what are going to be the important areas in the future and how we strategically want to address them.

I work quite closely in the aerospace sector, as you rightly said, and previously in the automotive sector. It is possible to look at the world and say, "There are things that other countries will always have a lead on, so maybe we are best to be their best customer". There are other technologies and areas of capability where we have an opportunity to be as good if not better than everyone else and we can make some strategic investments to do that.



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Part of the challenge, as was alluded to earlier, is that the MoD does some great work, such as DSTL and the Defence and Security Accelerator, but it tends to be apart from industry. There is not a regular sharing and collaboration with industry to understand where we are all investing our monies. The industry itself is a significant investor in R&D. Working a little bit more closely together, we can ensure that the right level of investment can be created, which is more impactful but also ensures that we have a pipeline to develop those initial capabilities so that they can reach a level of maturity.

One of the challenges, rightly, that the MoD and other customers are cautious around is that they do not want things that are very early-stage R&D. We would call it the technological readiness level. When things are stage 2 or 3, these are quite early stage. From a customer point of view, you would prefer them to be 6 and 7 on a scale of 1 to 10, but that means that there is sometimes a gap between early-stage development and something that could be incorporated into a product or service now. Unless we find a way of pulling through those early-stage developments, and that can be on collaborative programmes, we will always be behind some of our competitors.

Q112 **Sarah Atherton:** Could I elicit your opinion a little further? We have to be realistic about the economic consequences of Covid. What would be your priorities for defence R&D spending?

**Paul Everitt:** I would say it is the areas that we know we are strong in. There are a range of things that are air and future-combat-air-related. There are things around space and combat space that we can definitely be spending more on or researching and developing more.

There are then some fundamentals around both materials and indeed communications that we would want to be pursuing because they are part and parcel of the way in which we will be operating in the future. I am very happy, if it would be helpful, to provide a little bit more detail from an industry perspective on what some of the key priorities might be.

**Sarah Atherton:** That would be lovely, thank you.

**Andrew Kinniburgh:** I just wanted to illustrate Paul's point. I broadly agree with him. There is a new starter company in the UK that is beginning to look at the advanced jet and fast jet training market, which is an area that has huge potential in the UK and internationally. Several billion pounds is the conservative estimate for that market. It is going through a funding round at the moment, and one of the key things for their investors in the City is that the MoD is prepared to put some skin in the game as well. It is only £1 million—I say "only"; it is a lot of money—which would be enough to release that next stage of investment. It is that kind of thing that we need the MoD to be aware of and to not just focus on the big Tempest things but on some of the smaller ones as well. We have such a wonderful, eclectic mix of SMEs in the defence market in



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the UK. We cannot afford to miss some of those as well, which could lead to the next BAE Systems in five or 10 years' time.

**Michael Formosa:** We need to think less about where we have been strong and are strong and more about, proactively, where we need to be strong in 10, 20 or 30 years from now. That is where we need to start investing right now.

**Chair:** It is about greater situational awareness. That is an absolutely strong point to make.

Q113 **Mr Francois:** Paul, as the Chair said at the outset, there have been 13 major reviews into procurement over the last several decades. My colleague, Kevan Jones, reminded me earlier that in 1986 we wasted £1 billion on trying to create an AEW version of Nimrod that was never going to work. A report was produced in 1986, about learning from experience, in 1986 by Michael Heseltine and Peter Levene, now Lord Levene. It included a whole host of recommendations to change the system, and there have been a dozen reports since. Still, it is broken.

Is it not the truth that the industry is a bit schizophrenic about this? On the one hand you complain that the MoD keeps moving budgets around and delaying programmes, but one of the reasons it has to do that is because so often the programmes overrun and go over budget. I have not seen any major contractors offering to refund the cost overruns to the Department. It is partly its fault but it is also partly your fault, and it is an endless chicken and egg. The MoD always goes begging to the Treasury for more money like a kid using pester power in the sweet shop, because it is fundamentally incapable of managing the money that it has and the contractors are pretty complicity with it. What do you, as the head of ADS, commit on behalf of the industry to do to fix it? Everybody knows it is broken.

**Paul Everitt:** We can take a different view. We all understand the challenges and I absolutely share the concerns. I certainly, from an ADS point of view, am very happy to work with the MoD to find both better ways of doing things but also to hold people to account where things are not done well. As I say, the challenges are well understood. Too often the contractual arrangements are not focused on the outputs that everybody wants. There are very many successful examples where the contractual arrangements are for availability and they have worked very well in a range of cases. It is about taking the positive lessons and ensuring that they are more broadly applied.

Q114 **Mr Francois:** Sometimes the contracts may be bad but the contractors know that and they still sign them and they still take the money. Let us not be naïve about it. If you could change it, what is the one major thing that you would change?

**Paul Everitt:** Despite what you say, my experience when I work with companies at the most senior level is that they are proud to be working for the MoD and the armed forces, and they want to try to get the best



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outcomes. It is about fostering an environment where there is a relationship that allows problems, when they arise, to be dealt with promptly and in a fair and reasonable way. It is about ensuring that that culture is cherished but also fostered across both sets of organisations.

**Q115 Mr Francois:** I am not contesting that they are proud to serve the country and the armed forces. I know they are. I completely agree with you. The problem is there is not enough money to go around in the budget because of all the delays and the costs. We cannot go on like this. It is good to be proud but what is the industry going to do, off its own back, to fundamentally change it? Otherwise we are going to start losing major slabs of capability because we simply cannot afford all the delays and cost overruns anymore. I put it to you again: it is all very well to be proud; what are you going to do about it?

**Paul Everitt:** Again, what I see is many companies that are proactively working with the customer to address many of the issues that you have highlighted. There are better ways of contracting. The industry itself is happy and indeed promotes those to the customer. I could give some examples but it is not prevalent throughout everything that gets done. It is a process of trying to win that or ensure it happens in every occasion rather than only some of them.

**Andrew Kinniburgh:** Mr Francois, in many ways you are quite right, but for the industry to do that in isolation without the customer, the MoD and their intimate involvement is going to be extremely challenging. That is one of the key things for us.

From my perspective, it comes back to research and development spending. It then opens up greater numbers of options for the MoD and perhaps that is the key. At the fundamental level it is finding more options and more technology and different technology to solve the same problem, and then perhaps spending more money in the assessment phases, again to not zero in on a single contractor too early and to keep the options open, spend more money at the assessment and early phases of a project, and then go through the procurement process after that, once you have de-risked it and understood the full range of options in terms of suppliers.

**Q116 Chair:** It is important that we do ask these questions. There is a trend here: that we are seeing a necessity for a stronger bond between the industry and indeed the MoD. There needs to be more improved, meaningful industrial engagement. How can I put it politely? If the car you drive is a reflection of your engagement and influence in the MoD, are you driving a Mini or a Bentley?

**Paul Everitt:** I have a Ford Focus estate. It is practical and serves very well.

**Chair:** That is a very diplomatic reply.

**Michael Formosa:** I take cabs all over town.



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**Chair:** Everybody is avoiding the question. Andrew, I am looking for some clarity from you.

**Andrew Kinniburgh:** That is such a cop-out, Michael. I need to confess to driving a Swedish car. I am sorry about that—no loyalty to UK industry.

We are certainly not driving around in Bentleys. Defence is a really solid business and it goes back to, as a lot of the speakers have said, how proud they are to be part of the UK defence landscape. It is certainly not a Bentley but it is perhaps more than a Mini, because the quality and the demands of the MoD, in a positive way, are very high and that means we are then a very effective exporter, if the MoD does select us. We are somewhere in the middle.

**Chair:** That is very kind and it is a nice note to end on. We are all extremely proud of all those who wear the uniform and have worn the uniform and what they do to keep our nation safe. We ask these questions simply because there have been 13 reports and we are now writing another report. Where is that going to go? It will be the 14th here. We need to see the changes that can actually do justice to the hard work that those in uniform do on our behalf. We also have to bear in mind that, as we will make the argument for an increase to the 2%, do not forget that, with the global recession, NATO commitment of 2% will mean less because GDP is likely to go down. It is important that the MoD has its own books in order.

That concludes our session on procurement. I would like to thank Paul Everitt, Andrew Kinniburgh and Michael Formosa for another very helpful engaging session. We very much appreciate your time this afternoon. Thank you to my Committee as well and also to the staff who are working here.