HOUSE OF COMMONS

Defence Committee

Oral evidence: Defence Acquisition and Procurement, HC 698

Tuesday 8 November 2016

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Watch the meeting

Members present: Dr Julian Lewis (Chair); Douglas Chapman; Mr James Gray; Mrs Madeleine Moon; Jim Shannon; Ruth Smeeth; Mr John Spellar; Bob Stewart; Phil Wilson.

Questions 1-122

Witnesses

I: Bob Keen, Head of Government Relations, BAE Systems, and Paul Everitt, Chief Executive, ADS Group.

II: David Pitchforth, Vice President and Managing Director, Boeing Defence UK Ltd, and Nick Whitney, Director, Global Sales and Marketing, Boeing Defence UK Ltd.

III: Tony Burke, Assistant General Secretary for Manufacturing, Unite, Jonathan Green, Head of Research, Prospect, and Phil Rudd, Spokesman, Trades Union Delegates Conference, BAE Systems.

Written evidence from witnesses:

- ADS Group (ACQ0015)
- Trades Union Delegates Conference at BAE Systems (ACQ0007)
- Unite the Union (ACQ0006)

Examination of witnesses

Witnesses: Bob Keen and Paul Everitt.

Q1 **Chair:** Good morning everybody. We are taking refuge from the US election campaign on voting day to have the first oral evidence session of the Committee's inquiry into defence acquisition and procurement. We have three panels that we will be interrogating today, and I would like the two members of the first panel to introduce themselves for the record and say a word or two about their organisations.

Paul Everitt: My name is Paul Everitt. I am the chief executive of ADS, which is the UK's national trade association for aerospace, defence, space and security.

Bob Keen: I am Bob Keen, the head of Government relations for BAE Systems—the UK's principal defence and security company, responsible for the delivery of most of the significant programmes that the UK is currently engaged in.

Chair: For that reason, Bob, it will not come as a surprise to you that this session will be slightly longer than for the two other panels, given the central role that BAE Systems plays in that regard. The questioning will begin with James Gray.

Q2 **Mr Gray:** First, may I draw the Committee's attention to my entry in the Register of Members' Financial Interests? The all-party parliamentary group for the armed forces, of which I am the chairman—Madeleine Moon and Ruth Smeeth are also officers—is funded by the defence industry. The Armed Forces Parliamentary Scheme, of which I am chairman, is equally funded generously by eight or 10 of the defence majors. Mr Keen need not think that for that reason, I will somehow or other go easy on him in my questioning; I won't.

The SDSR 2015 lays out £178 billion for equipment. I don't quite follow the MoD's thinking with regard to how much of that should go on science and technology, on equipment and on support for the above two? What is that £178 billion for? How should it be used?

Paul Everitt: To go back to SDSR 2015, from an industry point of view, we had a good opportunity to input to that process. I think the outcomes were regarded as very good for the sector, and particularly the financial framework that was established—meeting the 2% NATO target, real-terms increases in the defence budget on a year-by-year basis and the ability to recycle any efficiency gains back into the programme. In terms of its structure, I think people were very pleased with the outcome, and it seemed a good set-up. In terms of the detailed breakdown, our understanding is that there is a target for science and technology investment, which is 1.2% of annual expenditure. In terms of the split between equipment and services, I think it is about 50/50.

Q3 **Mr Gray:** But you are content with it—whatever the arithmetic is, you are content with the way it has been broken down.

Paul Everitt: Clearly, it is for Government to identify the priorities, but the process and the outcome certainly were ones that the industry felt were reasonable.

Bob Keen: Just to reinforce that, since the SDSR and over the past couple of months, we have had significant commitments from the Government in respect of both the Dreadnought programme and, on Friday, the Type 26 programme. Both those major programmes are now committed. From our perspective—that is a parochial BAE Systems perspective—and more generally in the UK supply chain, both those programmes are very welcome.

Q4 **Mr Gray:** But what risks are associated with it? It is an awful lot of money. Is it not dependent on quite a large number of things that we simply cannot at this stage foretell?

Bob Keen: That has always been the case with the defence programme. Generally, to reinforce Paul's point, we welcome the degree of transparency we now have about the equipment plan and the programme going forward, but there are always risks associated with a programme of that size and complexity. Of course, within it, as I have already mentioned, are the successor and Type 26 programmes. It contains a number of programmes that are at the leading edge of complexity and technology.

Q5 **Mr Gray:** I was thinking not so much of the risks from your side as those from the Government's side. Three spring to my mind. One is that the Government are required to make pretty big efficiency savings in order to afford the equipment plan—£5.8 billion, if I remember rightly. Secondly, Brexit perhaps has some level of risk, and thirdly, there is the currency risk. You are content with the equipment plan, but are you confident that the Government can actually deliver it?

Paul Everitt: I think there are some challenges; that is the reality. We always recognise the efficiency gains, and we are practicable over lifetime of the 10-year programme. The challenge is in the early years, and particularly on the visibility of what the efficiency gains might be—at the point of commitment, it is not always clear.

You mentioned a range of issues that are strategically important. Yes, there are currency fluctuations, but the other issue for us as an industry, in terms of the way things are developing, is domestic inflation. One can take the view that pre the Brexit vote, there was a relatively stable—indeed, benign—inflation scenario in the UK. Clearly, there is now significant uncertainty about how that will play out. Again, over the long term it is less of an issue, but in two to three years it is much more challenging.

Q6 **Mr Gray:** You don't sound worried. Let me give you one tiny example that would worry me if I were you. The estate rationalisation programme, a large part of which was announced yesterday, which will sell off hundreds of sites right through to 2029—2032 is the last one—is dependent on selling that land for housing. The MoD has written in a vast capital gain from selling all that land. Are you confident they will be able to do that?

Paul Everitt: I don't think I am in a position to give any real insight into it, apart from the fact that you highlight, which is that there are clear risks associated with it.

Q7 **Mr Gray:** BAE, you must write something into the risk factor.

Bob Keen: Dealing with a long-term, 10-year programme, inevitably there are going to be associated risks over that sort of period. From our perspective, the 10-year horizon we have at the moment isn't especially different from previous occasions. As Paul said, clearly there are risks associated with currency and driving efficiency savings into the programme but, in my experience of the MoD budget, that is pretty normal. Efficiency savings have been a feature of defence budgets for as long as I've been associated with defence, which is a long time.

Q8 **Chair:** I remember about 50 years ago reading my first book on defence procurement, which had the memorable title "£60 a Second on Defence", by a Labour MP called Raymond Fletcher. Ever since then, people have been saying that there are ways in which defence acquisition can be reformed. In recent times, we have had the Bernard Gray report and the Levene reforms. Can each of you tell us in what way those changes have changed the process of defence acquisition? Which of the recommendations have been effective, and which, if any, have been counterproductive?

Paul Everitt: The reforms that you refer to are both substantial and ongoing. There is no doubt—the subsequent reports that Lord Levene has provided give a strong indication of this—that the direction is absolutely right. The separation out of the responsibility to the front-line commands and a slightly more transactional or business-like relationship with DE&S creates the right kind of tensions for ensuring responsibility and a focus on delivery.

The reforms are still being implemented. From an industry point of view, we welcome the approach and support the recommendations and the focus that Lord Levene continues to place on driving implementation. The reality, however, is that if you look at the totality of reform that is currently under way in the broader defence enterprise, which includes the Levene changes, the DE&S transformation and—this is slightly separate but relevant—a stronger focus on targets for SMEs and the introduction of a Single Source Regulations Office, you are dealing with quite a substantive change. It is going to take considerable time for those changes to be fully implemented and for a steady state to be created.

From an industry point of view, we are seeing strong leadership at the top of the organisations and some clear benefits from the changes that have been made, but there is more work to do on ensuring that on a day-to-day basis the full benefits flow through into the relationship between industry and customer.

Q9 **Chair:** Are there any disadvantages that are potentially emerging?

Paul Everitt: It is difficult. You have to try and disaggregate consequences that are just a change programme and the cultural challenges evident in any large organisation where you are trying to undertake those significant changes. I do not think we feel there are fundamental problems. What we are looking for—certainly as you move down the scale of businesses—is a more systematic approach and a more systematic engagement between customer and industry.

Bob Keen: Can I make a couple of additional points from our perspective and based on a bit of experience? If I look at the change in relation to delegating responsibility to the commands, the Levene reforms have made clear, as Paul has said, that this is a journey that is going to take some time to fully embed.

The basic principles of delegating responsibilities so that the armed services are more clearly responsible for their own budgets and for making decisions about their capability seems to me a sound one. If I look at an example, we might come on to Typhoon later, but the announcement made a short period ago about support changes in the Typhoon programme, which makes significant savings in support that we are able, then, with the MoD to reflect in the capability enhancement programme for Typhoon, seems to me a good example of how bringing those things together is a good thing.

If I look at DE&S again—where there is a significant period of transformation—perhaps it is a parochial example, but we have worked on three major programmes with DE&S over the past few years: on carrier, on successor/Dreadnought and on Type 26. The extent to which lessons have been learned from previous experience is being reflected in those programmes in big handfuls: making sure there is a shared version of the truth; making sure we have got a realistic programme that is not simply aspirational; and making sure there are commercial incentives where appropriate. We have got the right mechanisms and people in place to deliver those programmes.

From my own experience and, as I say, it is a long one on both sides of the fence, they are significant changes. Does that mean the journey is finished? Absolutely not. What we would want to see at the end of this process is an MoD customer that is confident in making decisions and able to manage programmes jointly with industry.

Q10 **Mr Spellar:** From what Paul was saying, can we summarise it as the senior management pressing the accelerator, but the fuel not getting through to the engine?

Bob Keen: I think it is a mixed picture. One of the features of delegating responsibility—I am looking at the delegation of responsibility to the commands here—is if you delegate, you will get different levels of acceptance and activity. We have seen some of that in the programmes for which we have been responsible. Do I think that represents the system not buying into the changes announced? I don’t think—

Q11 **Mr Spellar:** Not buying into or not capable?

Bob Keen: I think the MoD would accept that there is a journey in developing the capabilities and skills of the teams they have managing programmes: from the commands perspective ensuring that the commands have the capability to manage their own finances, and in DE&S ensuring that they have the commercial skills to manage significant programmes.

We all know that there has been a major programme of change that is still not finished. There will always be inherent constraints as well. The freedoms that DE&S have been given are helpful, but there will always be a challenge of ensuring that the right people are in the right place within the public sector.

Paul Everitt: I would characterise it as more about the speed and consistency of delivery, rather than an unwillingness to get it done. That is true in any large organisation where you are trying to make significant change. In this environment, some of it is also about reducing the number of people, so there is a variety of pressures. I do not think there is any lack of willingness; it is just pace and consistency.

Q12 **Jim Shannon:** I have a couple of quick questions. The Levene reforms were to bring change and, it was hoped, make savings. Has there been any indication of what savings have been made following the Levene reforms and the new strategy that has come in? I am keen to know whether there have been savings or cost benefits.

My second question relates to the distribution of the defence industrial base, which also falls under this question. With great respect to the MoD, in Northern Ireland we have not seen the distribution of some of the benefits. For instance, we have a very strong shipbuilding base, which we have had for a long time.

Has any thought been put into how we can better use the industrial base that we have in Belfast harbour, and to ensure, when it comes to the savings that are made, that we also see the benefits as an entitled part of the United Kingdom of Great Britain and Northern Ireland? We want to be part of that and we need to see that coming our way.

Paul Everitt: I am not sure that I have seen any categorisation of what the savings have been and how they have been distributed to date. Sorry, I am not able to answer that.

Q13 **Jim Shannon:** Please come back to the Chairman with that. We would be happy to have the answer to that at a later stage. On the benefits to the rest of the United Kingdom, in particular to Northern Ireland and the shipbuilding process, there are no opportunities whatsoever that I can see. No disrespect to my colleague and friend from Scotland, but when it comes to building frigates and so on, everybody else gets the benefits but we get nothing in Northern Ireland when it comes to shipbuilding. That is just a small example of what we perhaps should be getting. It is about procurement as well. I ask again: where are the benefits for Northern Ireland?

Bob Keen: I can't speak specifically about benefits for Northern Ireland but, in relation to shipbuilding, we are all awaiting the national shipbuilding strategy, which we expect some time over the next few weeks. From what Ministers have said publicly, I think we would expect them to say something about the UK's capability more generally to deliver shipbuilding programmes in future. I don't think it will necessarily be confined to the capability that we have on the Clyde.

I would make the more general point, as far as shipbuilding is concerned, that we are coming off the most extraordinary programme of shipbuilding that we have had in this country to a lower level of shipbuilding, and there are natural constraints on the capacity that the UK industry has to spread work all across the country. That is not to say that there will not be some distribution, because we have a major supply chain that delivers the programme, but I think it is a natural constraint.

Q14 **Jim Shannon:** I am quite happy if you come back with the figures on the spread of the defence industrial base and how that reform, the Levene reform, has brought benefits to Northern Ireland. Give us a four-page copy of what the benefits are: I would love to see it.

Paul Everitt: Perhaps I could just say that, on a slightly broader basis, ADS has quite a lively and growing membership in Northern Ireland and we have been working very closely with the Northern Irish Government and First Minister on a partnership for growth which has seen significant increases in turnover, exports and employment in our sectors in Northern Ireland. That is not on the specific point, but there is a recognition of that and a lively supply base, and all our sectors have been taking advantage of that supply base.

Q15 **Chair:** How good is the industry at nurturing the defence industrial base? We tend to order very small quantities of very expensive equipment. Whenever there is the slightest gap in a cycle, such as between hunter-killer submarines and nuclear deterrent submarines, for example, there is always a great crisis about loss of skills. We do not seem to be very good at building a robust defence industrial base. How robust do you think it is to deliver the new equipment plan?

Paul Everitt: I think we do have a strong UK defence industry. There is significant capability and skills within it. Yes, there are always challenges when your domestic customer has a certain drumbeat of activity and, to a certain extent, that is why industry has been working very closely with Government, though the Defence Growth Partnership, to identify and exploit opportunities in export markets in a more coherent and methodical way.

We recognise that there are always challenges. We would always like things to be done slightly differently or slightly better. If we can have a more structured, systematic approach around things like innovation, research and development, and skills development, that will always help. However, we would be doing ourselves and the country a disservice to suggest that we do not have a strong defence industry. We have one of the strongest defence industries anywhere in the world and we have sufficient capability to do the things that we need to do. There is an issue around ensuring that the companies and individuals within it have confidence in what the future looks and feels like.

Bob Keen: To amplify that from a BAE Systems perspective, the example you quote has been a painful one for us and lessons have undoubtedly been learned as a result. Whether we are able to address them in every circumstance is another issue, but one of the key points about the Type 26 announcement on Friday is that it did represent an understanding that a regular drumbeat of shipbuilding activity is necessary to sustain the skills and capabilities we have, both within our yards and broadly within the supply chain. Equally, when one looks at the Dreadnought programme, where we have a very clear picture of the future, our ability to sustain skills over the longer term is clear. We acknowledge that there is less clarity in the defence aerospace sector, where there is a lot of activity going on, both in relation to Typhoon, where production continues, where the capability is being enhanced and where we will continue to support the aircraft, and to F-35, where we manufacture a significant part of every aircraft here in the UK.

You will have seen yesterday that the UK has been selected to be the hub for component repair of the aircraft and that is fantastic news as well. All of that is very significant and when you overlay the Anglo-French programme, we have some visibility for the future. What we do not have—in the way we have in submarines and ships—is a clear long-term programme around which the UK industry can coalesce, and we will be working with the MoD over the next few years to bring some definition to that.

Q16 **Chair:** Let me just try one specific example before we move on. I refer to the Type 26 announcement that steel is going to be cut at last in the summer of next year. The Secretary of State for Defence was asked at Defence questions yesterday whether he could say that the first ship would be ready to enter service at the same time as HMS Argyll—the first of the Type 23 frigates—was due to leave the service of the Royal Navy in 2023. The answer given by the Secretary of State for Defence was: "Yes I can confirm that it is our intention to replace the anti-submarine frigates within the Type 23 force with eight new Type 26 anti-submarine frigates." We knew that before asking the question.

These Type 23 frigates are due to be going out of service at the rate of one a year from 2023 onwards. Are you able to say, from the manufacturing side, that the replacement ships—the eight ships that have so far been lined up and designed and now are going to start to be built from next summer—will come into service at the rate of one a year? If they do not, either we are going to have to waste a huge amount of money extending the life of the Type 23s yet again, or we are going to have to drop below our total of 19 frigates and destroyers.

Mr Gray: On that, I thought that not only did the Minister not answer your question, he specifically went to lengths to avoid it. In other words, there was a presumption that there would not be a one-for-one replacement.

Bob Keen: I cannot answer your question and I do not think that it is for us to answer the questions about how the MoD intends to incrementally replace the Type 23s.

Q17 **Chair:** With respect, the part you can answer, Bob, is this: the MoD has announced that those ships are going out at the rate of one a year. They will be leaving service from 2023. Will you be able to deliver the replacement ships at the same rate as the ships that are due to leave?

Bob Keen: We have not got a contract yet. Over the next few months we are going to work to have a contract in place for the initial buy of ships, which will determine the precise drumbeat at which those ships will be built. From our perspective, the point I was making earlier is that we expect and, clearly after yesterday will have, a drumbeat that will enable us to sustain a capability to build ships for the long term. We can flex that according to the MoD's requirements for the drumbeat that they require to meet their operational needs, but actually it is for them to set out how they intend to do that. We will deliver according to the requirement that they have.

Q18 **Chair:** So if they say that they need one of these new Type 26 frigates coming in every 12 months, you will be able to deliver that?

Bob Keen: We have the ability to flex our capability to meet their requirements.

Q19 **Chair:** So is that a yes?

Bob Keen: I think it is a yes. We have got the capacity to do it, but we have not got a contract to deliver at the moment. It is premature for me to talk about the drumbeat that they would put in place.

Q20 **Mrs Moon:** Bob has probably answered my question, which was: how long does it take to build one of these? Is it possible to build one in a year?

Bob Keen: With the right resource, yes it is. To be more precise, we are talking about a drumbeat of activity. It does not necessarily mean that each ship will be built in a year. There will be a progressive programme. The first of class will clearly take longer than the remainder of the programme. We anticipate a progressive reduction in the drumbeat down to a steady state, to be determined by the MoD.

Q21 **Mrs Moon:** In other words, it could take longer to build the first one as you get the process in place but as you develop the skills—iron out the wrinkles in the process and so on—so it will quicken up. So, on that basis, in the beginning we could see Type 23s going out before Type 26s are ready but catching up towards the end?

Bob Keen: I wouldn't say that that follows from what I have just said. We will meet the MoD's requirement according to the out of service dates that they propose on the Type 23.

Q22 **Mrs Moon:** But, on the current out of service date of one a year, that would need to be altered, particularly for the beginning?

Chair: I think surely not, because the in service date for the first of these warships is six years ahead, it's 2023, so presumably you would be starting building these ships at different stages in that six year process. There ought to be no reason why the first one doesn't come in on time in 2023.

Bob Keen: Indeed. That is a slightly different question. The MoD will determine when it takes its ships out of service. We will craft a programme according to our own capacity and any constraints that are in place to deliver what they require.

Q23 **Chair:** At the risk of repetition, in answer to parliamentary questions, the MoD has already declared that the out of service dates for these vessels, starting in 2023, is one a year. So, our question is: is the defence industrial base strong enough, assuming that the first new vessel comes in in 2023, to ensure that the others come in at 12 monthly intervals?

Bob Keen: We can flex our capability to deliver the ship according to the requirement.

Chair: We got the flexing bit. Thank you.

Q24 **Douglas Chapman:** In terms of front-line commands, are they able to articulate their requirements effectively enough?

Paul Everitt: Our experience has been good, yes. It's a capability that they are developing so each of them is in a slightly difference place, but I haven't discovered—and certainly it has not been reported to us—any concerns about the ability of the front-line commands to articulate what they need.

Bob Keen: Our experience is the same. Coming back to what I said earlier, there is a progressive development of their capability, but we have no reason to have any fundamental concern that they cannot set the requirement.

Q25 **Douglas Chapman:** Can I just come back the Type 26? We do not want to turn this into a Type 26 show this morning but it is pretty up there in terms of where it is in the programme. I found out that John Reid, in 1998 SDR, was the first person to talk about having a new frigate. We are almost 20 years on from that announcement, and I do not think you would disagree that there are an insufficient number of frigates and the Royal Navy is at a historic low in terms of its number of ships. That gap, if you like, would suggest that things are not as well as they should be. The only thing that is really going to add to the number is if the general purpose frigates come on stream. Are you still confident that the funding for the general purpose frigates will be found?

Bob Keen: I think Ministers said yesterday that there would be at least five general purpose frigates. From our perspective, that is a commitment that we would expect them to deliver.

Q26 **Douglas Chapman:** But in terms of last Friday's announcement, that was really a promise about a promise.

Bob Keen: In relation to Type 26?

Douglas Chapman: The whole programme, because that is really crucial to the success or failure for Scotstoun and Govan.

Bob Keen: From our perspective, it was a major commitment. We now have a clear way forward to cut steel in the middle of next year, with a commitment to build eight ships on the Clyde. From our perspective, although we still have to put a contract in place for the initial manufacture of the ships, that is a much clearer position for us to have had than we had before. I would say that that is stronger than a promise about a promise; I think that's a commitment.

Q27 **Douglas Chapman:** I just want to have one final stab at this, because I think it's really important. Other Members have mentioned that the drumbeat is probably slower—it may be more of a slow march over the next 20 years in terms of the Type 26s. I was a guest of the German defence attaché last night on the Karlsruhe—I think that was the name of the ship—which is berthed alongside HMS Belfast at the moment. The Germans are currently decommissioning that ship. Last night was the last port visit. It is going back to Germany, to Wilhelmshaven, to be decommissioned, which will take six months to do. But there is already a commitment to a ship that will replace that German vessel. What do the Germans do well enough that we are not doing that they can replace ship for ship? We have had a huge gap between the final voyage of the Ark Royal, for example, and new aircraft carriers coming on stream. There are huge gaps in the order books. There are huge gaps in our capability. How do we start to overcome some of what seem to be endemic problems in how we order, commission, procure and get ships or equipment into a capable state?

Bob Keen: I am not sufficiently well informed about the German system to be able to make a comparison. What I would say from a position of looking forward is that we would hope that the combination of the Type 26 programme and the outcome of the national shipbuilding strategy will be a clear path forward so that we have a regular drumbeat of shipbuilding activity that enables the industry as a whole, not just—at the risk of repeating myself—the Clyde, to sustain the capability that the Royal Navy needs to deliver whatever operational requirement it might have. I suppose the central lesson of that is certainty and consistency and not the peaks and troughs that we have had on occasion in the past. I don't believe that there is a lack of consensus about that; it's just our collective ability to deliver it.

Q28 **Mrs Moon:** Paul, could you say something about how all this has affected SMEs in particular and whether the use of equipment procured under urgent operational requirements has actually helped SMEs? Is that process good enough?

Paul Everitt: If we take a step back, obviously the Government have made a number of commitments to increase the amount of business they do with SMEs, and certainly DE&S and the MoD have indicated, and in some cases implemented, a number of measures to try to make doing business with SMEs easier. Those are things that we welcome and I think the community welcomes. It is a work in progress. The strategic direction is good, and some individual developments are encouraging, but it is not delivered in a systematic and consistent way, in the way that we would like. Clearly, urgent operational requirements have met a specific set of purposes when we are in high-tempo operations, and they allow for, in particular, specific technology and capability developments that have some advantages for SMEs. But again, I do not think the SMEs themselves would see those things as a sustainable long-term approach to their business. They are things that they respond to when they arise, but more fundamentally, like all businesses, they are looking for coherence, consistency and a forward view of the work that they are looking to do.

Q29 **Mrs Moon:** So they are the changes that you would like to see?

Paul Everitt: I guess we take it from the starting point that what smaller companies would want to see is a more systematic approach to doing business with them. First of all, we would see that as being more of what we would term "pre-procurement engagement" in which the customer, whether they are front-line commands or DE&S, actually engage the community on the sorts of problems, in some cases, or services or equipment that they are looking to buy. Part of that is about ensuring that small businesses have good visibility and are also able to participate and provide some input before specifications and requirements are set, because part of the challenge for many small businesses is that the requirements are set in a particular way that makes it very difficult for them to access that business, either because the contract size is too great or because it is anticipated that the particular technology or service, or whatever it might be, is going to be delivered by a prime contractor rather than directly through an SME. Having that more open opportunity before decisions are made is really, really important because it helps to ensure that what actually get put into the marketplace are things that are better suited to that community.

Q30 **Mrs Moon:** So still a work in progress?

Paul Everitt: Yes, there is more to do. Again, I do not think there is any lack of enthusiasm. We have regular meetings with both DE&S and MoD on these topics. There is now a network of advocates both in the front-line commands and in DE&S that are the point of contact for SMEs, but I think it is about maturing the process and, in some cases, about people being a little braver in getting out in front of their procurement approach. Within MoD there tends to be a sense that it is difficult to talk to people about what they might want to buy before they get there. They always feel that they need to be constrained by their procurement rules and that it has to be done in a very orchestrated and quite tightly defined way, whereas I think the wider defence community would much prefer to engage on the problems or challenges that we are trying to resolve so that they can genuinely input some of the innovation and new approaches that might deliver not only better outcomes but more cost-effective ones, too.

Q31 **Mrs Moon:** Can I ask you about the reduction in size of DE&S? Is that going to reduce capacity to ensure the timely delivery of equipment? How is that going to impact? How do we mitigate against any problems that the reduction in size is going to produce?

Paul Everitt: There clearly are some challenges for the organisation. As you mentioned earlier, they are going through a significant transformation programme. From an industry point of view, I think the focus of that transformation—project management and programme management—is one that we are fully aligned with. Again, as Bob mentioned earlier, there is this idea of having one version of the truth so that everyone has a clearer understanding of both performance and delivery, which is very helpful.

It is just the process. Cultural change takes time, and in an environment where you are changing not just some of the cultures and behaviour but actually the number and type of people that you are delivering with, it can create some lags in the system. We all have to work with that and try to ensure that we get to a steady state where we have much-improved performance in a collective effort. Again, if you look at the regular reports that we are getting, whether that is through either Levene or the NAO, what we are seeing is steady progress.

Q32 **Ruth Smeeth:** Good morning. Is the new UK industrial strategy actually going to help stop the decline of British defence exports?

Bob Keen: If I knit the two together, the first thing I would say is that we get fantastic support from the Government in our export efforts. When you go back to the SDSR 2015, some of the changes that were made at that time to give the MoD a core responsibility to support exports and transfer responsibility for strategic exports—particularly, in our case, Typhoon—were really important decisions, and we have seen a real change in the way that the Government supports our exports. We need to continue that process.

I will probably ask Paul to say a few words about the DGP in a minute, but increasingly, for the health of the industry and against the background of the smaller UK programme, UK industry is going to have to be able to export. It cannot do that without full Government support. It takes a number of forms. It takes ministerial advocacy; it takes sharing training capability with potential overseas customers; and it means export credit support. All of that has to be a key part of the Government's approach to export support in the defence area.

What the DGP is bringing is a longer-term emphasis to that. It is identifying the sorts of markets, the sorts of capabilities that are likely to be attractive to customers in the longer term, and I think that meshing those two things together is the right approach. So, irrespective of the national industrial strategy, we are encouraged by the support we are getting and will be encouraging the Government to do more of that in the future.

Q33 **Ruth Smeeth:** If you're encouraged by the support you are getting, why have exports fallen by £2.1 billion in the last two years?

Bob Keen: If you have a look historically—obviously, I haven't got the figures directly in front of me—quite often those numbers are skewed by major deals in any one particular year. I suspect that if you look back to three years ago, it was the year that we sold Typhoon to Oman. Very often those big aircraft deals, with the associated weapons, skew the numbers in any one year.

Q34 **Ruth Smeeth:** In 2013 it was £9.8 billion; in 2014 it was £8.5 billion; in 2015 it was £7.7 billion. It just seems to be a downward trend. Given the additional support that you are saying is helping, I am concerned that it is not helping enough.

Bob Keen: Could the Government do more? Always—we want them to do more, of course. But if you were to factor in a major Typhoon sale in 2016 or 2017, say, it would make a huge difference to those numbers. The point I am making is that that headline number, important though it is, is not the only metric that we should be looking at.

Paul Everitt: We should also consider the fact that it is a really competitive market.

Q35 **Ruth Smeeth:** Hasn't it always been a very competitive market, though?

Paul Everitt: Probably, but more so if we go post-2008 or 2009, when in a number of major economies, particularly the US and France, much as in the UK, the domestic customer was constrained, so we must look to exploit our technology in international markets. The marketplace is not easy, so it is not necessarily a question that the Government has not been providing support or, indeed, that the quality of service and equipment is not up to scratch. It is just that it is a tough market in which we have to compete and we are not always going to win.

The focus from the Defence Growth Partnership has been about how we increase our exports, and part of that is recognising that these are not short-term relationships. You don't sign a major defence deal on the back of a few weeks' or months' work. By and large, these are relationships that are built over a very long period—over the course of years. There are always going to be some year-on-year jumps in those numbers and we should take the bad as we take the good. Sometimes they will look great, but that does not mean necessarily that next year is going to be any easier.

Q36 **Ruth Smeeth:** Have you got an indication—it depends on the financial year that we are talking about—on where we are for this year? Are we on plan—are we up, are we down?

Paul Everitt: Again, it is quite difficult, because we cannot monitor—there are no data that are published on defence contracts and whether they are signed.

Q37 **Ruth Smeeth:** Anecdotally?

Paul Everitt: We are out competing hard. There is no sense that things are not going well. Again, it will depend on whether there are major defence equipment sales, simply because those are the ones which have the large price tags associated with them.

Ruth Smeeth: I feel like I could keep this going, but I will get in trouble with the Chair.

Q38 **Phil Wilson:** Given that the large defence companies such as BAE Systems are essentially operating globally, in what ways do you think the current situation benefits or disadvantages companies like your own, or the rest of the industry?

Bob Keen: I think there are characteristics about a major defence company such as ours. We are in many respects an exception, in the sense that we design and build the UK's nuclear submarines; we design and build the UK's complex warships. We are in a different position. The advantage that that gives us, obviously, going back to what I was saying earlier on, is a clear visibility of our long-term plan for the industry in the sectors that we are responsible for. In the UK, I guess there are other companies that would be more dependent on competitive processes that have less visibility in that sense than we do.

Obviously, our scale gives us a particular advantage, and it means we can invest in things like apprenticeships. We will have 2,000 apprentices in BAE Systems come 2018. We are able to grow the business for the future on the back of our capabilities and strengths, and smaller companies do not have, necessarily, that luxury. So there are a number of ways in which we are different from major companies: our relationship with the Department, both in the commands and the DE&S, is obviously closer in some respects—more frictional, perhaps, in others—than some other companies. So it is a mixed bag, I think.

Paul Everitt: We were pleased that the SDSR not only indicated a refresh of the Government's defence industrial policy. As an industry, we are comfortable with the idea that it is a competitive system and we are competing for people's business, but I think in that competition there has been a concern that the MoD's very narrow interpretation of what value for money is has meant that there have not been as many opportunities for UK businesses as there might, and the wider economic and industrial implications of significant expenditure should have some role—not an overwhelming one, but some role.

Having said that, we are now in a position where there is an opportunity for that to be addressed and, within the broader Government push on industrial strategy, as an organisation we are very closely involved with the aerospace industrial strategy, which has a broader context than the

Defence Growth Partnership has been able to take, and we believe that that kind of approach offers very significant benefits for the UK. If we could replicate something more like that in the defence sector, there would be significant opportunities.

Q39 **Phil Wilson:** A couple of weeks ago, we had Lieutenant General Mark Poffley here giving evidence on procurement issues, and he said that because of the new defence industrial strategy, "Our dialogue with industry is becoming a far more profound and meaningful one than previously." Do you think that is true, from your perspective? Is it more profound and meaningful?

Paul Everitt: Yes.

Q40 **Phil Wilson:** Can I just ask one or two questions on Brexit? As the pound has devalued, UK exports have become relatively less expensive, but at the same time, imports are now more expensive. You might have to import bits for your aeroplanes and submarines and so on. If you were sitting down with Mrs May and talking about the negotiations—Nissan obviously has—what would you as an industry want from the negotiations?

Paul Everitt: There are perhaps two phases to this. In the very short term, and this is the dialogue that we are pushing towards the Chancellor, this is inevitably a period of great uncertainty. We don't know quite what the future relationship is going to be like. That is a very uncomfortable place for industry and it is having an impact on investment decisions. In some cases, that is merely to delay things. In the short term, over the course of the next two years, we think it is really important that the Government use both the autumn statement and the upcoming Budget to send a very strong signal about the UK business environment and their commitment to creating and sustaining a competitive business environment.

For us, that is about supporting research and development and skills, as well as some incentives to ensure that companies invest now in their own R and D, their own skills and new plant and equipment, so that we have the capability that we need in order to compete into the future. I think that is very much focused on sending a strong signal about our environment.

In terms of what we are looking for in the negotiations more broadly, there are parts of the EU regulatory environment that we find helpful and useful, such as things like the European Aviation Safety Agency. Both for our civil aerospace industry and for the military side, that is a resource that works for us and that we see no point in trying to replicate on a national basis. There are examples of where non-EU members are part of that particular facility.

Similarly, from a UK perspective we benefit from accessing the EU's research and development programmes. There are some specific defence elements to that, which Bob may wish to highlight, but retaining participation in those R and D activities is really important for us as an industry. Again, there are some good examples of non-EU members who are participating in European Union R and D activities, so there seems to be a way forward on that.

There is a challenge, which is less around tariff barriers than non-tariff barriers. Our concern is that if we were either outside of a customs union or unable to negotiate a very specific customs relationship with our EU partners, there would be very significant additional administrative costs of moving and shipping goods into and out of the UK. The impact of that would be additional costs in companies having to have buffer stocks—keeping stuff on shelves just in case. All of that would add to the UK cost base and potentially our overall competitiveness.

Finally, we would be saying that as a UK industry, we need access to the largest pool of skilled labour. If we look in our sector, we have an aerospace industry that is growing and an automotive sector that is growing. We have a successor programme under way. We have HS2 about to be under way and we have Hinkley Point under way. As a nation, we need high-quality engineering skills and we will not have the many years that we would need in order to train and develop our own. On Bob's point, as an industry we are training a huge number of people and have consistently done so over a long period of time, but we still need access to a pool of skilled people.

Bob Keen: Just two additional points from my perspective. First, to pick up on Paul's point on European research, the UK has been very closely involved in the shaping of the so-called preparatory action for the European defence research programme. We would hope that the UK would continue to be a part of that process as the UK leaves the EU.

Secondly, and this is a more general point, collaborating with our European partners has been an essential part of the success of the defence industry. We would encourage the Government—I do not think that they need that much encouraging, to be honest—that being able to develop capabilities with European partners, particularly in France, will continue to be an important part of our future position, irrespective of the UK's membership of the EU. That is a very important point for the defence industry.

Q41 **Phil Wilson:** Really, what you are saying about the customs union is that at least you would like the industry to be part of that—

Paul Everitt: That is our preferred option, yes.

Q42 **Phil Wilson:** Essentially, a lot of effort needs to be put into bilateral relations and trade agreements with other European countries as well.

Paul Everitt: I think we already have a series of well-established bilateral relations, both in Europe and around other parts of the world. In the current circumstances, it is very important that those are maintained and fostered.

Q43 **Phil Wilson:** The Royal Aeronautical Society mentioned the Galileo navigation satellite system, which I think we are involved in. They are concerned that if we were outside the EU, on occasion, the EU would be able to keep us out of the market in these kind of initiatives on security issues around WTO. Are you concerned about that, not just in respect of Galileo, but other—

Paul Everitt: The European Space Agency is not an EU institution, so we would not be impacted by the vote. However, the European Space Agency utilises the European Union's R and D funding to fund some of its major activities, so if we were not able to retain our participation in those R and D funding activities, we might lose out on potential opportunities. I think that there is a challenge around both the Galileo work and another programme called Copernicus, which are currently looking to make some significant decisions about contracting. The concern, certainly from a UK point of view, is that we have invested significantly in them. We would wish to continue to have a good opportunity to exploit our relationship, but also, longer term, we want to be able to use the capability that has been created.

Chair: We still have a little way to go before the next panel and I am keen to get everyone in. I have bids from Jim, Madeleine and Douglas before we move to the next section with John Spellar—

Mrs Moon: I will drop mine.

Chair: That is very helpful. May we now try, in the best Bercow tradition, to be a little more precise with our questions and answers? Jim, your point, please.

Q44 **Jim Shannon:** What is the capacity of the defence-based sector to expand in emergencies? Has it got that capability? Do you feel that it is in a position to do that? If you want to do that, of course that means the SMEs have to go to the banks to get the funds, so I am very keen to know: are you aware of any Government initiative to support SMEs when it comes to bank support?

Paul Everitt: As an industry, we have a long tradition of responding very quickly when there is a national challenge. I do not think anything has changed. In terms of SMEs and banks, we have been involved in a number of activities with the MoD to build a relationship and understanding between the SME community and the banking sector. We have had some good dialogue, and there is at least better understanding of the constraints under which some of the banks have to operate, because of "know your customer" rules and anti-bribery and corruption legislation. Not all SMEs are able to get the bank facilities that they would like, which is an ongoing challenge, but I think Government have been as helpful as they can be in brokering the relationship.

Q45 **Douglas Chapman:** Two quick questions, if I may. Bob, BAE Systems are partly responsible for the manufacture of part of the F-35. Do you have any concerns or fears about the position of the pound versus the dollar? How does that situation play out when you have a joint product to produce at the end of the day?

Paul, following on from what Phil was saying, there is increasing talk about a European defence force—Germany and France have both made statements about that in the past couple of weeks. In terms of their integration, if that goes ahead and a hard Brexit actually takes place, will that not leave UK companies on the wrong side of the door, as it were, when discussions are taking place about future procurement and contracts across Europe?

Bob Keen: On the F-35, the UK manufactures 10% of every aircraft. It is the biggest defence programme in history and it is hugely important to the UK manufacturing industry.

Currency is clearly an issue that has to be managed. As the process continues, individual companies will make sure that their commercial position is properly protected, but it is clearly an issue. I would say that, as we mentioned earlier, as imports become more expensive so exports become less expensive, which is a helpful position for us to be in.

To reinforce the point about yesterday's announcement, we will also have a role in supporting the F-35 on a global basis, initially, in its component repair. That is massively important for the UK industry as well.

Paul Everitt: I think defence and security are likely to be key issues for our European partners. In terms of procurement activity, from a UK perspective that still sits predominantly with NATO. As long as we are developing and fostering our bilateral relations then, from an industry point of view, I think there will be plenty of opportunities for us.

Q46 **Mr Spellar:** Irrespective of any of the EU issues, what do you see as the benefits of production by consortia along the lines of the four-nation collaborative programme for Typhoon? Also, what disadvantages can you see? Has that helped to build up the industrial base across the countries equally? What has been the situation in the UK in particular?

Bob Keen: We would say that collaboration with Europe has been key to sustaining industrial capabilities in the UK aerospace sector. From a national perspective, it enabled the nations to spread the cost of recurring and non-recurring activity—development and engineering activity—and it has made affordable activity that they could not afford in their own right. Collaboration, particularly Typhoon collaboration, has absolutely been at the core of the UK aerospace sector.

Now, a four-nation programme is of course bound to be more complicated than a national one. You have four nations to take into account—four different requirements and four sets of priorities. But we have grown up with this programme and are able to manage it and ensure that we deal with the issues pragmatically. The bottom line, I suppose, is that if you think about what we are currently doing to develop the capability of Typhoon—effectively transforming the capability from when it came into service—we are able to do that from a UK engineering base. That is hugely important to us.

As far as supporting the aircraft is concerned, the UK generally has leant forward in supporting military aircraft. We have done things in an innovative way. We drive the availability of the aircraft fleet and make sure that the RAF gets that availability in the best way.

The Typhoon programme sustains 16,000 jobs in the UK. It is a massively important programme and it is based on collaboration. We as the industry have to make sure that it works as efficiently as possible, so we manage out duplication in engineering, production and support, and we are able to do that. So yes, it is a more complex programme, but when you balance that with the advantages it has delivered over the years, it becomes a no-brainer.

Q47 **Mr Spellar:** Of course, it is easier if you have volume coming through. Why do you think demand has fallen off in the UK? What reasons have you been given? Have exports made up for that falling demand?

Bob Keen: The four-nation programme is coming to an end. The end production run for the four nations is lower than the original estimate, which is essentially based on affordability across the four nations. In the meantime, the UK is committed to the F-35 programme and that clearly has an impact, too.

Have exports taken up the slack? Our exports have been very important to us. The Typhoon has now been ordered by Austria, Saudi Arabia, Oman and Kuwait. That does take production out for some time yet, but as you might imagine, we are committed to seeking more exports and keeping that production line out there for as long as we possibly can.

Q48 **Mr Spellar:** Have your efforts to do that been helped or hindered by the controversy here, including in Parliament, over the Saudi-led coalition and their involvement in Yemen?

Bob Keen: It clearly hasn't been helped. Sustaining key relationships with allies is made more complicated by that sort of political controversy.

Q49 **Chair:** How dependent are we on Saudi Arabia as a market for BAES exports? Is it true that Saudi Arabia is as big a market for BAES as the UK is?

Bob Keen: I wouldn't quite put it in that way. Saudi Arabia is a hugely important customer for BAE Systems. We have almost 6,000 people working there, many of whom are Saudi nationals. It will, we hope, continue to be an important market for the future. The UK is where we generate our key intellectual property that we are able to take into the export market. That is why the UK will always be BAE Systems' most important market.

Q50 **Chair:** And if there were to be, for political reasons, an embargo—even a temporary one—on selling military equipment to Saudi Arabia, what would be the direct effect on BAE Systems?

Bob Keen: I wouldn't want to speculate on that but it would not make it easier.

Paul Everitt: The middle east and Saudi is one of the UK defence industry's largest export markets, so it would not just be a BAE issue.

Q51 **Chair:** Would the word "catastrophic" be too emotive?

Paul Everitt: Again, it is difficult to speculate. It would be about how and what damage those measures might have to the long-term relationship not just with Saudi, but with other customers in the region.

Q52 **Chair:** It has been said that what really matters these days when you are trying to negotiate these huge export deals are discussions at Government-to-Government level—for example, the French Government talking to the Indian Government rather than Thales speaking to India. How do the British Government measure up in terms of trying to negotiate big export deals for the defence industry?

Bob Keen: I think it measures up pretty well. I think we all had a bit of a jolt a couple of years ago when French industry won a number of programmes in quick succession, but as I was saying to Ms Smeeth earlier, the SDSR pointed up a number of changes to the approach that the UK adopts in defence exports, and I think they are bearing fruit.

I think we have a great deal of support. To your initial question, I would go as far as to say that it simply is not possible to do a major defence deal without fundamental Government support.

Q53 **Chair:** Of course, foreign deals of this sort are outwith the jurisdiction of the SSRO, aren't they?

Bob Keen: That is a different issue entirely.

Chair: But that is correct.

Bob Keen: That is correct, yes. The one final thing I should of course say—Paul has said this in giving evidence to other Committees and we have said it regularly—is we do operate under a Government-to-Government arrangement in Saudi Arabia. The UK has got rigorous export controls and we operate according to those rigorous export controls.

Chair: We have two more groups of questions and then you will mercifully be released.

Q54 **Mrs Moon:** Could you briefly say what the level of consultation you feel there has been between the Government, industry and research sectors in relation to the creation of the defence innovation initiative? Is that consultation good enough?

Paul Everitt: Again, innovation was highlighted in the SDSR. Industry was very closely engaged and involved in the process by which Government got there. In terms of the priority given to innovation, that was very much one of the things that we were very keen to see. Effectively we have three separate initiatives. One is the horizon-scanning activity, the second is a defence and security accelerator, which is to take nascent ideas and technology through more rapid development, and the third is the defence and security fund. Of those, we have had direct consultation on the defence and security accelerator. The broader initiative was launched at the beginning of September, and there have been a number of meetings in forums where views have been exchanged about exactly how it is all going to work and fit together.

I think there has been plenty of discussion. I think we are still in a position where we are waiting for Government to explain in more detail how these new elements fit into the existing landscape and, in particular, how businesses—particularly smaller ones—get through the front door.

Q55 **Mrs Moon:** You said earlier that Government had a narrow concept of value for money. I picked that up specifically because when I was in the States over the summer—we visited as part of a NATO delegation some of America's top universities, talking about defence and security issues—one of the things said was that there tended to be a lack of recognition that Europe's defence sector spent three times more than America's on research and innovation. As such, it could often come very quickly to the fore with new ideas and responses to new problems—much quicker than American industry. But, because of the protectionism around American defence companies, they often got contracts that, if you were going on the value for money concept, would go to European manufacturers. What is your response to that? Is that accurate?

Paul Everitt: The US is unquestionably a difficult market to win business in. There are restrictions and approaches. There are successful businesses, but they tend to have to be established in the US to get the full benefit from that. From the UK industry, there is no doubt that we work very closely with and invest significant amounts of resources in the relationship with UK universities to begin to develop the concepts and ideas that we then, hopefully, draw into our business. The scale of the funding in the US for their defence programmes, by the different order of magnitude, has some advantages in helping to draw through technology that is at early stages and development into products and services available to the front-line forces. Part of the challenge, which we would like to think would be addressed both through the innovation initiative and the broader review of defence industrial strategy, is perhaps a return to more expenditure focused on demonstrated projects and programmes to take nascent technology and develop it through to a product.

Q56 **Mrs Moon:** Is there enough in the defence innovation initiative to keep Britain at the forefront of new technologies? Are we on the right edge of the curve?

Paul Everitt: I think there is definitely the right will and the right focus. We are still in a process of the MoD formulating the exact way it is going to deploy this. I think we should also mention that the innovation is not just around new technology; it is also about how we can be more cost-effective or bring innovation to service delivery, as well as capability.

Q57 **Mrs Moon:** Where does the UK's comparative advantage lie in terms of innovation?

Paul Everitt: It is about both the speed and agility we have. We have long-standing strengths in the air sector, in autonomy and intelligence systems, all of which were flagged up in the Defence Growth Partnership as key areas for us to exploit internationally.

Q58 **Ruth Smeeth:** It would be a wasted opportunity for us not to talk about the SSRO while we have got you in front of us. Given the SSRO would like to see all contracts, not just those referred to it by either you or the MoD, what are your views on that?

Paul Everitt: From an industry point of view, going back to the Defence Reform Act 2014, we were very comfortable with the need to update the management and oversight of single-source procurement, given the previous regime had been around since the late 1960s. We are comfortable with the way in which that oversight is being managed.

We have a keen relationship with the SSRO. We would say that today, we feel their focus has been rather more on demonstrating, or at least announcing, their efforts in terms of securing value for money for the taxpayer and not quite enough on recognising their dual responsibility to deliver a fair return for industry as well.

Given that the organisation has been in existence for less than two years and that, certainly from our experience, there are still some growing pains regarding both the relationships and the focus across industry, the MoD and the SSRO in terms of their actual remit, we probably think it is a bit early for them to be expanding it just at this particular point in time.

Q59 **Ruth Smeeth:** Is one of the growing pains the fact that they only get to see parts of contracts rather than all of them?

Paul Everitt: Again, I think the regulation was set up to address single-source procurement to provide reassurance that the taxpayer was getting value for money where competition was not being pursued. Where competition is being pursued, there does not appear to be a remit for them to address.

Q60 **Ruth Smeeth:** But they are only seeing the parts of the contract that would either be contested by you or by the MoD. They are not seeing the contract in its entirety, necessarily. Some they are, but not all of them. Doesn't that make it slightly difficult for them to do their job?

Paul Everitt: Again, it comes down to what was envisaged when the SSRO was established and it was not necessarily as a regulator in all other senses. They were much more focused on a very narrow field of activity. I can understand from an organisational point of view why they would like to expand that scope of activity. From an industry point of view, I am not sure a case has been made to support it.

Q61 **Ruth Smeeth:** And what is the relationship? How would you characterise the relationship between the SSRO and industry?

Paul Everitt: It is an interesting and occasionally challenging one. We do not necessarily agree with everything they decide to do. As I mentioned, we would like to feel there was a stronger appreciation of how industry operates and in particular how it understands a fair return. We have some challenges at the moment on things like the methodology that underpins the baseline profit rate and in particular their recommendation to go to an approach that uses multiple baseline profit rates. We don’t support that. We don’t believe the methodology they developed is robust enough and we have some strategic concerns about it. We think that gets even worse when you try to develop numerous rates. Basically, it is about how strong the level of comparability is and the more you disaggregate, the less that comparability bears scrutiny, particularly in an environment where the baseline profit rate is a starting point for quite a complex series of negotiations that incorporate risk, performance and levels of investment. Given that it is highly likely that there would not be significant differences—a percentage point here, a percentage point there—those things are far outweighed by the negotiations that will take place between an industry and the customer about the performance, the investment and the risk that is being borne.

Q62 **Ruth Smeeth:** Should there be a better way, given that everything is negotiated?

Paul Everitt: Again, I think industry is comfortable with a baseline profit rate.

Q63 **Ruth Smeeth:** Bob, do you have anything to add?

Bob Keen: No, I think Paul has captured it.

Q64 **Ruth Smeeth:** One final question on the SSRO. Do you have any concerns about their approach to value for money? We touched on that earlier.

Paul Everitt: That is their role. They are focused on it. There is a set of rules and their job is to make sure those rules are properly implemented.

From an industry perspective, we have concerns about how they understand what a fair return is and in particular how they understand that any company will have a portfolio of contract or investment opportunities. How they choose which are the right ones for them to go through depends on a variety of different rates of return, profitability, cash flow issues and cost of capital, which is quite a complex mix. I wouldn’t say that that is necessarily well understood; I think they understand but don’t necessarily reflect it in some of their public pronouncements or in assessing the issues that we might raise on some of their consultation processes.

Q65 **Ruth Smeeth:** On that note, if we were going to start this process all over again and given the challenges that exist in the relationship, how would you change the way the SSRO works to make it more effective, and what powers would you give it to assist the relationship?

Paul Everitt: Again, we are very comfortable with the SSRO’s scope. It is still a relatively new organisation. It is a very significant change to the way business had previously been conducted, both for industry and for the

MoD, so we are still going through a settling down period. As an organisation, clearly the SSRO has had its own challenges as does any new organisation in equipping itself to take on its roles. To a certain extent it has been hindered in that, obviously, in having its chairman leave slightly more promptly than might have been anticipated and then the interim chairman resigning. They have had some challenges, but within that environment, we are rubbing along as well as we could.

Chair: Gentlemen, thank you very much indeed. That was a long session and we covered a lot of ground.

Examination of witnesses

Witnesses: David Pitchforth and Nick Whitney.

Q66 **Chair:** Gentlemen, thank you very much for your patience after that long session. Would you please introduce yourselves for the record and make any opening remarks you might wish to make?

David Pitchforth: Good afternoon. I am David Pitchforth. I represent Boeing Defense, Space and Security in the UK, and I am the managing director of Boeing Defence UK.

Nick Whitney: Good afternoon. I am Nick Whitney, the sales and marketing director for Boeing Defense, Space and Security for the UK and Europe.

Q67 **Jim Shannon:** We are told that the MoD is getting much better at engaging with the industry. What is your opinion? How would you measure the MoD's effectiveness with the industry? Is it effective? Are you happy with its engagement with you? How would you see it improve?

David Pitchforth: Are you talking specifically about Defence Equipment and Support?

Jim Shannon: Yes.

David Pitchforth: Our relationship with DE&S has always been very good. They are a very tough customer, and sometimes that drives friction. We try to work in a partnered way with DE&S, in that we resolve those things—the earlier panel talked about one version of the truth—and try to get to those joint reviews. If we do that, it is working well.

I think they face the same challenges that we face as they transform their business. They are building functions within DE&S, so it comes down to skills and suitably qualified and experienced people. That is the challenge that they—and, to be honest, the industry as well—have: how to build up and become an attractive employer that can attract and retain talent. That is the challenge we see them having, but on the whole, our relationship is good, and we see them getting that skill base and staffing up and becoming, as the original term was, "match fit" to interact with industry.

Q68 **Jim Shannon:** One thing that this Committee and I are keen to see is more women in the STEM industries in the sector. That is something we have each asked a number of questions about individually. Do you see anything that Government could do specifically to ensure that we have more women—more ladies—in the STEM industries? The Government always say that they are committed to it, but the reality is in the figures. How do we improve that?

Nick Whitney: The opportunity must be taken to get to both men and women early in their careers and schooling, and to promote the opportunities afforded by careers in broader engineering. That is something that you have to start a long time in advance, and the results will be some years away. You raise a very valid point. It is something that we have to do. It is not just something that industry does—we are doing it today by encouraging apprentices and encouraging youngsters and graduates into the business—but you have to have a long-term strategy. I am an ex-apprentice. I came into engineering by that route, from 16 years of age. We need to encourage more of that.

Q69 **Jim Shannon:** I am certainly impressed by Bombardier back home, which has a specific policy on this and is realising that in the figures, in relation to the number of women there. It is good to see that.

To go back to the defence industrial strategy, if there were a new one, where would you see it working? What would you like to see in a new defence industrial strategy?

David Pitchforth: Nick and I are sat here today representing Boeing Defence UK because of the previous defence industrial strategy. We are proud of how we have looked at that and adhered to it as we have grown the business in the UK. We would welcome a revised defence industrial strategy, particularly because that would provide clarity to industry. If you provide clarity and a long-term view, that fosters investment in skills and all elements of research and technology and the like. Clarity is important. Short-term, it could be specific; long-term, we think it should lay out the direction of travel, particularly around skills and how we inspire that next generation of physicists and engineers into aerospace and defence.

Q70 **Jim Shannon:** The previous panel indicated that the sector seems to be keen and able to respond to emergency situations, emergency orders, whatever the difficulties may be. From your point of view, does the Government provide the industry enough time for their future needs? Does it encourage the building of a capacity to identify needs?

Nick Whitney: It is difficult in some areas to anticipate demand. We have a number of defence long-term support contracts that do allow industry to have a long-term view, but the defence industry, in particular, has to be reactive to the demands from the Ministry of Defence and those demands are very much related to the threats. If you look at the threat scenarios today, looking back 10 years we would not have foreseen where we are today. That is why we have to build in the ability to move quickly. It is linked to the previous question about the defence industrial strategy: the more long-term view you can give industry, the better able we are to plan going forward and to respond to those urgent operational requirements that we have seen a lot of in the past.

Q71 **Jim Shannon:** How do you feel that Government could or should—indeed, they must—make it more attractive to invest in the sector? What do they need to do to make that happen?

Nick Whitney: The previous answers still apply: it is about a long-term future. What drives a business to invest is being able to see a reasonable long-term return. That would encourage investment. It is about that long-term strategy and being able to shape their requirements.

Q72 **Jim Shannon:** Have the Government grasped that?

Nick Whitney: Well, the fact that we are here talking about a defence industrial strategy says, yes, they are starting to.

Q73 **Jim Shannon:** They are taking the first step on it?

Nick Whitney: It would appear so, yes. I hope so.

Q74 **Mr Gray:** I have a philosophical question. To what degree does Boeing US view you as a subsidiary company that might or might not succeed? To what degree do you see yourselves as being almost a stand-alone British company?

David Pitchforth: There is only one focus country for the Boeing Company in Europe and that is the United Kingdom. This is not an experiment; this is part of a strategy. We are starting our second century as a company. Boeing just celebrated its first century. Going forward, we are expecting to be here in the United Kingdom and in Europe for the next century. Those are the plans we are putting in place. This is very much a transition which is set out in the strategy of Boeing becoming a truly global business. Therefore, there are a number of focus countries and regions around the world. In Europe, that is the United Kingdom.

Q75 **Mr Gray:** And is that strategy changed or influenced by Brexit, or is it the same as before?

David Pitchforth: No, we do not believe it changes. You have to adapt, obviously, you have to be fleet of foot, but we have a long-term strategy that goes on for a number of decades, and an intention to be a global company into the second half of this century. We were reflecting this morning that we are talking about potentially extending some of the aircraft types, particularly Chinook, into the 2060s. When we are in the 2060s and we look back at Brexit, I think it will be a distant memory.

Q76 **Mr Gray:** So you are fully confident of a continuing high-level investment by Boeing in the UK.

David Pitchforth: Yes, we are committed to that.

Q77 **Chair:** You have this British identity. America is notorious for being our closest ally, but for not reflecting that whenever it comes to our attempts to make defence exports from the UK to the USA. Do you feel that your unique relationship with a major US defence company eases or in any way assists the potential for building a defence export pattern from the UK to the USA?

David Pitchforth: To start internally, there are already some things that we have done in the United Kingdom, particularly around services. In the UK, the MoD and our armed forces are respected for their innovation, particularly when it comes to contracting and how services are provided, and for the amount of output that we achieve as a nation with the resources we put in.

Q78 **Chair:** Does that translate into UK defence companies, including yours, getting contracts in the United States?

David Pitchforth: We are looking at how we can export some of those service ideas and some of that support. In the future, we would look at how that could be exportable to the US and outside of the United Kingdom.

Q79 **Chair:** Has anything of this sort happened yet, or is this purely an aspiration?

David Pitchforth: There are some UK-generated software bits that we have done that have been useful, and there are some things around information technology and information services. It is starting. It is small but it will—

Nick Whitney: There are some defence acquisitions in Europe right now that we are tracking and will look to support. We will look at taking the models that have been developed in the UK into Europe. The UK Ministry of Defence leads the way in terms of how it supports its aircraft. That model can be utilised in Europe. We are now seeing the same financial challenges that the Ministry of Defence has. There is stuff going on. It is obviously customer specific, so we cannot give you those key areas.

Q80 **Chair:** I do not want to push this too hard, but I can see us being used as a springboard for Boeing to enter the European defence market through exporting to Europe. What I am trying to get at is whether we are likely to expect any greater success in making defence exports to the United States as a result of this umbilical link between Boeing Defence UK and the US Boeing Company.

David Pitchforth: If we look at their manufacturing technology, there are a number of items where the UK is absolutely at the fore; $180 billion of exports are leaving the UK every year. The UK is the biggest supplier to the United States of America. The Boeing Company is in Europe already. The UK is a very important, highly-respected supply chain for the Boeing Company—as I said, the biggest in Europe already.

Q81 **Chair:** Finally from me, have you had any involvement or engagement with an organisation called UK Defence Solutions Centre, which I gather is a partnership between the British Government and the British defence industry to promote high value defence exports? If you have had any dealings with that organisation, to what effect?

David Pitchforth: We work with and monitor the Aerospace Growth Partnership, the Defence Growth Partnership and the Aerospace Technology Institute. We have had no involvement in the solutions centre. We know about it and we go to some of those meetings. However, as a US-owned company growing a UK company, we ensure that we are invited to those things and look to when we can contribute fully. We are getting more into the Defence Growth Partnership now. I am ensuring that the Ministry of Defence in particular knows that we are ready to be involved in the next cycle.

Q82 **Douglas Chapman:** The Government have decided to purchase P-8s without competition. What do you think are the disadvantages and advantages of doing that, in terms of UK industry, jobs within the defence sector in the UK and our own UK security?

David Pitchforth: The P-8 is an aircraft and a capability that exists today. It is well known to the Royal Air Force, because post-Nimrod, the Air Force pushed Seedcorn into all the fleets around the world that do that kind of mission. The P-8 is well understood. I cannot really comment on the competition because this is a Government-to-Government relationship: it is the Ministry of Defence working with the Department of Defense. That gets to the US Navy, and then the US Navy is the customer to Boeing in the United States. That process is ongoing. It is a foreign military sale.

Nick Whitney: It is also worth pointing out that the UK supply base already contributes to the P-8 programme. There are 47 aircraft delivered. Eight have been ordered so far by the US and Australia. The UK's will be additional to that. There is already a component of the UK supply base supplying into the P-8 supply line. It is based on a 737 aircraft. There are elements of supply there as well. It gets work into the UK in that regard. In fact, a company I used to work for—Marshall in Cambridge—provides all the extended range fuel tanks, so there is UK supply in it already. That is delivering the £1.8 billion of UK supply base activity that David mentioned earlier.

David Pitchforth: We tend to get interested in the 30% of the through-life expenditure that is the equipment buy—the aircraft themselves. On average, the majority of the through-life expenditure is 70%, and that is through logistics, support, training and engineering service of that platform. After the FMS case, the intention is for that work to be done in the United Kingdom with the British workforce, wherever that makes value-for-money sense. We are looking across those other lines of development to make them UK-specific. In fact, for the infrastructure line of development, we made a commitment to make sure we were investing in the main operating base in Lossiemouth, in a joint facility between the Ministry of Defence and Boeing that would also have real estate and space for third-party revenue from other nations if that was appropriate.

Q83 **Douglas Chapman:** My supplementary question is about the plans to support Lossiemouth. Do you have any more detail you can give us on that? You just alluded to the creation of a hub for P-8s. Is that what you were talking about?

David Pitchforth: Yes, that's correct.

Q84 **Douglas Chapman:** Is that still critical to your thinking with regard to Lossiemouth?

David Pitchforth: Absolutely. At the moment, that programme is in planning phase. We are in the architect phase of designing the facility. That is being done in partnership with Air Command, DE&S and the Defence Infrastructure Organisation, to make sure that it is a joint team and that it meets all those requirements.

Q85 **Douglas Chapman:** Does that hub support a geographical area? Is it for the UK? Is it for Europe?

Nick Whitney: We are making plans to include other European countries. Indeed, the likelihood is that US Navy aircraft can also be supported there. So it is not just the UK.

Q86 **Phil Wilson:** You mentioned the P-8. The UK is obviously contributing something, as far as components are concerned, but I understand that it is only 3%—a very small part. Is the 97% from the US?

Nick Whitney: It is around those figures. It is £250 million-odd.

Q87 **Phil Wilson:** Will the P-8 be able to be refuelled by UK tankers or will we have to rely on allies?

Nick Whitney: The UK tankers are hose and drogue, and the P-8 requires a boom, so it won't be capable of being refuelled from a UK tanker. That will be done by coalition partners or a NATO country.

Q88 **Phil Wilson:** What is the likelihood of those tankers being made by the US?

Nick Whitney: Being made by—

Phil Wilson: Manufactured or—

Nick Whitney: Well, tankers would be available from the US today or from NATO, from European countries, today, but I think you have to be aware that with the extended-range tanks that the P-8 has, you have a 10-hour duration on that aircraft today. You are probably going to be into things like crew fatigue before you need to refuel the aircraft. If it needs refuelling, it needs a boom, but 10 hours' duration is a long mission time.

Q89 **Phil Wilson:** Okay, but UK tankers would not be able to refuel it.

Nick Whitney: No.

Q90 **Phil Wilson:** What about UK weapons? Will they be able to use UK weapons such as Storm Shadow and Sting Ray torpedoes?

David Pitchforth: The P-8 aircraft is designed for joint munitions, NATO munitions. The requirement that came from the Ministry of Defence to the DOD was for a standard US-specification aircraft. However, the aircraft is designed for futureproofing for electrical systems, data buses and mechanical connections, so it could take other weapons in the future, but it would need the research and development, the testing and the requirement to change from the MoD. At the moment, that is not part of the requirement.

Q91 **Phil Wilson:** So at the moment it can't take UK weapons, either—not unless it's modernised?

David Pitchforth: Not unless there is already a joint-specification weapon, no.

Q92 **Phil Wilson:** Was the industry consulted in relation to the decision to purchase the P-8?

Nick Whitney: The P-8 is an FMS—foreign military sale—contract, so it is Government to Government; the engagement would have been from the US navy to Boeing as a supplier of the aircraft. We were not involved in that decision-making process; it is very much a Government-to-Government activity.

Q93 **Phil Wilson:** Were there any alternatives to the P-8 that could have been taken off the shelf as well, or that could have been easily modernised without the expense of the P-8?

Nick Whitney: I think you probably need to direct that question at the Ministry of Defence or the procurement authority.

Q94 **Bob Stewart:** Nick, first, I think the P-8 was the weapon of choice of the Royal Air Force, actually, based on my brother, who commanded 202 Squadron, who lobbied me hard for that sort of thing. I am concerned by your comment that a duration of 10 hours is quite a long time. It isn't, actually, is it, if you consider the scenario of the Falklands? Those flights were refuelling several times; it was a much longer duration than that. If we had a problem like the Falkland Islands, which of course could happen again, we would need a duration of a damn sight more than 10 hours, with refuelling.

Nick Whitney: But that's a transit, Bob. Let's look at the typical mission scenarios. The aircraft will likely be operating out of Lossiemouth or wherever it is going to be based from. The US is operating this aircraft today. In fact, it has been operating out of Lossiemouth, doing the job that ours will be doing when they are delivered. A 10-hour duration is more than capable of getting you out to where you need to be, where you then patrol, and back.

Q95 **Bob Stewart:** So it's longer than 10 hours, or that's the total mission time?

Nick Whitney: Total mission time is 10 hours.

Q96 **Bob Stewart:** But with refuelling, it could be much longer.

Nick Whitney: Of course. You can extend it with refuelling.

Q97 **Bob Stewart:** Because there are two crews on board.

Nick Whitney: There can be two crews on board.

Q98 **Mrs Moon:** You have talked about two things. You have talked about maintenance and support coming to the UK sometime in the future. Do you have any idea of the timescale?

David Pitchforth: The foreign military sale has yet to be fully negotiated. We don't understand or know quite fully yet how long the duration of support that will be part of that foreign military sale will be. We understand it's a small number of years, so a couple of years. Then, one to two years after the aircraft are delivered, we expect to—we are making plans to make sure we have a UK workforce who can support the aircraft, both in Lossiemouth and elsewhere, depending on where other maintenance or modifications would need doing.

Q99 **Mrs Moon:** Who meets the cost of setting up the new maintenance support centre?

David Pitchforth: We are contributing to the infrastructure part of that, the building of the building. Obviously, the Boeing team would be our responsibility but it would be a combined team with civil servants, the Royal Air Force and other industry, because there will be lots of other suppliers involved, and Boeing. It will be in a purpose-built building in Lossiemouth.

Q100 **Mrs Moon:** Have you also calculated the increased cost to the British Government of buying the P-8 following the collapse in the value of the pound?

David Pitchforth: No, we haven't. I think you would have to ask the MoD that question. We are not aware of how they have accounted for their transactions. Those negotiations are still ongoing.

Q101 **Mrs Moon:** So, basically the UK has bought a platform—I am not disputing the proven capability—where, because of seed-corning, there was an inbuilt RAF bias. It is not going to be able to carry UK munitions or be refuelled by UK tankers and is increasing in cost while the pound is decreasing in value.

David Pitchforth: I understand your point about the cost but that $180 billion of exports that are leaving the UK today from the UK suppliers means there is also an opportunity for the UK as a nation because that also just got more competitive into the US as well.

I first went to live in the United States in 1993 and I have seen every exchange rate from near parity to two. This is a long-term strategy. You will have to ask the MoD but I know they have quite complex hedging and management of their funds. I am not aware of what that is but I do know that they spend a lot of time on it.

Q102 **Mrs Moon:** But we are not talking about a level playing field, are we? The US Government is very defensive and protective of its own defence industry. The UK Government could be seen as selling out ours, in preferring always to buy out.

David Pitchforth: In this case, there was $6.2 billion of investment by the US Government and Navy into this P-8 platform, of which the UK gets benefit. The non-recurring engineering, the risk reduction, the insertion of technology has been done beforehand. I agree that that does not involve the UK but that was done without UK involvement but the US has committed for the UK to have full access to all of that intellectual property.

Q103 **Chair:** Finally, gentlemen, this question is probably more a question for the British Government and the MoD than it is for you. From the point of view of a major defence supplier, do you think that the decisions that have been taken about acquiring the P-8 and the modification and acquisition of the Apache represent a shift in the attitude of the United Kingdom as to which defence capabilities it regards as sovereign, given that these are major defence systems that we now seem content to acquire from overseas, albeit that Boeing Defence UK is rightly not regarded as an overseas company, although one with strong overseas connections?

David Pitchforth: Your question is, I think, for the Government and the MoD, arguably about the strategy we were discussing earlier about which parts remain sovereign, so I will not comment. As far as why would we do this and is it good, we see the MoD looking for best value. In both these cases we are looking at a production line and other nations that are procuring the same product. When you do that, you get an economy of scale and you spread the non-recurring costs across a larger fleet of aircraft. You mentioned Apache, and there are seven nations involved in Apache. There are 400 aircraft on order, and we will probably get to 700 or 800 by the time the programme is finished. Those economies of scale mean that the cost is reduced considerably. Again, that cost is about 30% of the through-life costs. The important part is to focus on the services and logistics support that will go on for the next number of decades, most likely three or four decades, and our commitment is that that will be done in the UK.

Q104 **Chair:** Would you say there is also a regeneration capacity in case of an emergency? It has been impressed on the Committee previously that, with regard to the F-35, if ever—heaven forbid—we were involved in a major state-to-state conflict, the US assembly line could turn out a copy of the F-35 on an almost daily basis if all resources were subordinated to a national emergency. Would you say that there are advantages in these systems, too, and that the sheer scale and power of the US defence potential in wartime would make resupply and regeneration much more practical?

David Pitchforth: I think your point is well made, but normally with these things it is the supply chain that is behind the systems or the aircraft. On average there are 2,000 737s in the air at any one time around the globe. If you think about the 737 part of the P-8, there is a massive supply chain available to support that aircraft. If you think about a number of other nations and the ability to repair, maintain and overhaul in the situation that you describe, it is the supply chain and the availability of stock and skilled personnel that usually drives that. I would not say that it is just the factory; I would say that it is also the supply chain, stock and people that would deliver the effect that you are talking about.

Chair: A powerful point on which to finish. Thank you both very much. May we have our third and final panel, please?

Examination of witnesses

Witnesses: Tony Burke, Jonathan Green and Phil Rudd.

Q105 **Chair:** Gentlemen, thank you very much for your patience. I know it has been a very long session, but we won't stint on your part of it. It is a pleasure to welcome you here today. Will you please say a quick word of introduction about who each of you are and any other brief opening comment that you might want to make?

Jonathan Green: I am Jonathan Green, and I am head of research at Prospect. We are a union that represents members in engineering and managers in both the public and private sectors, so we cover both public and private.

Tony Burke: I am Tony Burke, assistant general secretary of Unite the union. I have overall responsibility for our manufacturing sectors, which include aerospace defence, shipbuilding, automotive, engineering and graphics, and science.

Phil Rudd: I am here as the spokesman for the BAE Systems TU delegates conference, which is a group of senior TU representatives from across all of BAE Systems in the UK.

Q106 **Mr Spellar:** I am John Spellar MP. I should declare an interest as a nearly 50-year member of Unite, or one of its component parts. In the post-Brexit environment, how can the MoD best protect UK jobs in the defence manufacturing sector, while ensuring long-term value for money?

Tony Burke: Do you want me to kick off, Mr Chairman? I think the question that Mr Spellar asks is very pertinent at this time, when Brexit is a key issue. But the reality is that, to have any form of successful Brexit, you have got to have an industrial strategy. That's what is needed, and defence has got to be part of that. To have a robust industrial strategy for defence, we have got to look at a number of key issues: what our sovereign capabilities currently are, and what kit we are going to need for the future. We should be planning for the long term to ensure that we have a stable manufacturing base, certainly in the defence and aerospace industries. There are arguments for not buying off the shelf if we have an industrial strategy, but I think—and our union is of the view—that we need to rebalance the economy and rebalance our defence spending. So, in a post-Brexit situation, an industrial strategy with just some of those components is, we believe, absolutely essential.

Jonathan Green: In terms of the post-Brexit situation, it gives an opportunity to reset. What the Government has started to do in terms of looking at an industrial strategy is welcome. We very much agree with what Unite is saying, in that we need a different industrial strategy. In the earlier panels, people spoke about the security and certainty that is offered by having some sort of framework to work out where we are going, what we are doing with industry, working out what are the sovereign capabilities that we need and how we develop that industrial base. In terms of defence, there are specific challenges around demographics in particular—about the age of people within the industry—so there is a real need to develop skills, and you can only do that if those jobs are available for people to do.

Q107 **Mr Spellar:** What sort of work have the unions done to get some sort of quantifiable view of the economic benefits—particularly for the regions, but also in terms of skilled, as opposed to unskilled, work—of manufacturing defence equipment in the UK?

Tony Burke: In terms of Unite, we have had an involvement for a long time in the aerospace industry and have been looking at how we continue to develop the industry. What have we been doing? We have been working on our documents relating to defence diversification, which is very important. We know all the time there is pressure on the industry to look at diversification and we have produced a plan on that. We have looked at what has happened in the past and what is likely to happen in the future. We have also produced a document, which we are very happy to supply, called "Defend Our Spend". That looks at spending on defence procurement in the UK, recognising the benefit that we would get in UK manufacturing from more defence spending on kit made in the UK.

Q108 **Mr Spellar:** Could you forward us a copy of that?

Tony Burke: We certainly can, yes.

Q109 **Mr Spellar:** Is it the ownership of the companies that matters to you, or is it their footprint in the UK that matters?

Jonathan Green: In terms of ownership, obviously we want a diverse industrial base. There wouldn't be any advantage in having single employers, so you would need a bit of diversity within the defence industry itself. In terms of skills, we have gone through a period since 2010, since the SDSR, where there have been significant job losses in a number of different sectors, where we have seen closures in terms of Portsmouth shipbuilding, for example; big reductions in terms of research and development and our research base, and also in terms of land vehicles losing capability in manufacturing. We need to begin to address some of those gaps that have started to appear in terms of the debate. In answer to your question, we have been lobbying on those kinds of issues.

Q110 **Mr Spellar:** Talking about job losses, one of the areas of concern is job losses arising from the reduced demand from the UK for Typhoon. Have export markets been able to compensate for that reduced demand from the UK?

Phil Rudd: As has been touched on earlier, a defence industrial strategy advantage of that would be to set out a long-term equipment plan, which would then put industry in the position where it can plan for the future. We know there is uncertainty over future orders for Typhoon, although there was obviously support going forward on modifications, but it was a very big programme. F-35 is mainly manufacture. As for the FCAS UAV co-operation with France, we get to see what that would reveal. When you start looking towards a sixth generation manned jet fighter, it seems as though the US are developing that capability, and it would seem very likely that the UK would want to as well. Like the Typhoon, it seems unlikely the UK would want to fund it, so it looks like it will very likely be collaboration with Europe. That is an example of where an industrial strategy would certainly be able to help. Where it would help would be to allow industry to work out where it needs to spend its research and development, where it needs to invest in training for the workforce and where it needs to recruit further on the workforce. All those aspects would be given to you by having an industrial strategy. Aerospace, certainly the sector that I think you picked up, would most benefit at this moment in time.

Q111 **Mr Spellar:** On the Typhoon exports, has there been an unfavourable impact on our export prospects to the middle east as a result of the recent controversy here over UK support for the Saudi-led coalition in Yemen?

Phil Rudd: That is a pretty difficult question for me to answer. Bob Keen on behalf of BAE probably answered it as well as one could, but, clearly, anything that is going to have an impact on our ability to win future exports will be a concern.

Q112 **Mr Spellar:** I understand the response we had from the company. I really wanted a view from the workforce and the unions.

Phil Rudd: Before people run to jump on bandwagons and start to make condemnations of particular countries, it is important to stand back and actually take into account all the factors. Saudi has been a very good customer to us. Also, Saudi is, I understand, a partner in terms of the campaign against terrorism. I think those have to be taken into account before one makes hasty judgments.

Tony Burke: It is a very difficult situation for the unions, of course, because we get much pressure from our own members who have a view about arms sales in any event of any description, so it is difficult for us at times to be able to almost tippy-toe around this. The reality is that those folks working and manufacturing the Typhoon and other defence equipment clearly have their own view as well. They are vociferous at lobbying—Phil’s one of them—on behalf of the industry inside our union. I believe that our position in Unite—I can only speak for Unite—is that we always fight for our members without any reservation or equivocation and without any hesitation to defend jobs. That is where we are. It is about defending the jobs of our members in the defence industry. That is what we say in “Defend Our Spend”. We will make sure you get copies of that. We defend employment.

Q113 **Mrs Moon:** I would like to ask about skills. We are forward planning. Are we doing enough to make sure that we have the skills base for a future defence force? In particular, can you say something about apprenticeships and whether or not they are being funded? Are we working towards a future capability, or are we always on the back foot, with apprenticeships being cut or brought in at the last-minute?

Phil Rudd: There are currently 1,000 apprentices at BAE Systems and 300 graduates are currently in training. I know that my colleagues across the BAE TU delegates conference take the bringing on of apprentices very seriously indeed. We have had a measure of success at Barrow, where an awful lot of people are being brought in ahead of the successor programme and to sustain the Astute programme. In terms of shipbuilding, we now have a fairly well planned future for a good number of years, which facilitates the company in bringing in more apprentices and graduates.

There is perhaps a bit of a question regarding aerospace, because if a business does not know what the long term is going to be—bearing in mind the fact that taking on resource is quite an expensive business—it becomes more difficult to know exactly who and how many you need.

Jonathan Green: I spoke about the demographic challenges earlier, and they are true for both the public and private sectors. One particular area I would like to highlight is the competition for skills. There is also competition for the existing workforce when you are looking at big infrastructure projects with a demand for engineers. That is particularly true when something like Hinkley Point is being built. There are particular challenges relating to the nuclear skills specialists in the south-west. The companies in that area would like to see the development of a nuclear skills academy programme that attracts the brightest and best engineers into those particular skills.

We are now starting to see apprenticeships and graduate programmes coming on stream. I do not have the numbers with me, but we have seen the development of those kinds of programmes, which is welcome. There is a bit of a hole in the industry in terms of people in their mid-40s—those kind of people—which was caused by the disruption of work. One of the benefits of the defence industrial strategy under the previous Labour Government was that it allowed some sort of planning. You could begin to bring people through and do the forward planning to get people into the industry. That means that you have a lot of young people in the industry and a lot of older people in the industry, but a bit of a hole in the middle.

Tony Burke: One of the points on which the unions have been campaigning is to get young people to look at manufacturing, aerospace and other sectors as a real alternative to going to university. Everybody wants the best for their kids and grandkids, and going to university seems like a good route, but a skilled apprenticeship—I am talking about the sort of apprenticeships that we proposed: the three or three-and-a-half-year gold standard apprenticeships—is important. In Unite, we have been trying to run a programme and doing some campaigning on getting more young women to come into the skilled jobs in manufacturing and aerospace, and we have been successful.

Let me be clear: some of the companies, including BAE and a number of others, have excellent records on making sure that they take people on. Their succession planning is good, and they have a good record of bringing people through to avoid the skills gaps that we have in some industries. I do not know whether you are aware, but the automotive industry is currently saying that some 5,000 to 7,000 skilled vacancies are available. I don't know what it is in the aerospace industry, but it would be a catastrophe for us if we didn't plug that gap and make sure that we do not have a skills gap, which is why we are trying to get more young people to choose aerospace and manufacturing as an alternative and to come in and do a proper apprenticeship that you can move forward on for the future.

Q114 **Mr Spellar:** Are you finding a change in their attitude now, with the amount of tuition fees and therefore the level of debt they might accumulate if they went to university rather than down the apprenticeship route?

Tony Burke: When we launched our "Defend Our Spend" campaign in Preston earlier this year, some of our apprentices spoke about this issue. One of them, a young woman apprentice who had completed her apprenticeship, said it was important that people recognise that she was able to complete her apprenticeship and get further education and further support from her company. She said: "I don't live at home with my mam. I own my own car. I don't owe anybody anything and I'm earning good money in a unionised business." It is important that people pass that message on, the fact that there are some great companies and an alternative to going to university. It is up to people, and obviously the parents, to decide what they want to do, but going into a skilled apprenticeship, where they can get one, is very important. Let's hope that the new apprenticeship levy will create the level of highly skilled apprentices that we are going to need.

Q115 **Ruth Smeeth:** Given everything we have talked about in terms of training and investment and also the defence strategy, what gaps are you concerned about? What issues are you genuinely concerned about? I should also make a declaration of interest: I have been a member of Unite for nearly 20 years.

Bob Stewart: Oh.

Ruth Smeeth: I was very, very young.

Tony Burke: He's your shop steward as well.

Bob Stewart: I think I might become a member.

Tony Burke: There's an application pack.

Chair: Do you do reduced rates for senior citizens?

Bob Stewart: Reduced rates for Tories as well?

Tony Burke: Community membership.

Ruth Smeeth: Before the chaos that ensued, my question was: what is missing? What are your concerns? I would suggest that there is not a steady drum beat even yet in our order book, so we are going to see gaps in capacity and in our capability. We saw what happened in Barrow when there were delays in Government contracts. What are the concerns? What keeps you awake at night? What is concerning you now?

Mrs Moon: And is there enough investment in technology, research and training?

Phil Rudd: Again, I am sorry to dwell on the aerospace sector, but it is the clearest example of where we are going to go in terms of a product that is going to provide employment for a lot of people. That may or may not be the UAV area; it certainly would be a sixth generation manned fighter. If you then look into an industrial strategy and at how that would help, if you knew what the equipment plan was over the long term, that would then allow industry to be able to plan ahead, but it is also important then to take into account the UK economic and employment aspects. We have just had a discussion about the P-8 and there could be the question: does it really matter that we might have this hole because we are going to go and—*[Interruption.]*

Tony Burke: I do apologise. I'm turning the damned thing off.

Bob Stewart: It's probably saying, "Keep that bloody Tory off"—

Chair: Back to serious matters.

Phil Rudd: There is a concern that the P-8 is perhaps the real starting point, if not the Apache as well. If we are going to go and buy as major a procurement as a P-8 maritime patroller from the US, if the US subsequently develops their own sixth generation manned fighter, is the Government going to say, "Well, okay. Why do we need to bother with developing one in the UK?" I think that there are an awful lot of reasons why you should develop one in the UK: sovereign capability, operation sovereignty, freedom of action and whether we would have to ask permission to use it in certain conflicts. Also, the P-8 cannot use UK weapons, so you could then be tied to having to use US weapons for a sixth generation manned fighter. Those are some of the concerns that then drive you back down to having a proper equipment plan and an industrial strategy. I am not sure whether that has answered your question, but come back to me if it has not.

Jonathan Green: I have already spoken about particular concerns in the south-west with the infrastructure projects. There are particular challenges in terms of the gaps there. On research—to answer your question, Madeleine—it is good that part of the equipment plan now has a designated amount of money devoted to research, but we would like to see more. That does not replace the research money that was there in the past—it is down something like 20% or 25%—so there are gaps in terms of research going forward, but the fact that we have a designated amount of money is important. It is public sector research that leads to the development of projects and that brings the work through. It is extremely important in helping to leverage research money in through private contractors—encouraging them to come on board as well—that that money is there and is coming through.

Q116 **Mrs Moon:** Can I ask a broader question? EEF produced a report yesterday on British manufacturing. It expressed concern that manufacturing is slipping into a recession and that the sector is shying away from investment in plant and machinery. Are you seeing that in the defence sector? By the way, I declare an interest: I am with the GMB.

Jonathan Green: There are other unions available.

Mrs Moon: I am quite happy with mine, thank you.

Tony Burke: The point is well made. I saw the same report from the EEF, and this is very worrying. It is across manufacturing. I met the EEF and they indicated that this was a survey of 309 engineering companies. What they are saying is that companies are now stalling on investment, and it is wide-ranging. Another development is that we have some big projects coming up where companies are saying to us, "We'd like to kick it off but at the moment, the uncertainty is there." I think that could affect not only defence but the supply chain as well. There is a lot of uncertainty in the supply chain. We have not had anybody coming to us saying, "We are not going to do it." The question is investment. They are going to hold on and keep the money in the bank until they know exactly where they are likely to be, which could have a knock-on effect down the line.

Q117 **Chair:** I have just a couple of concluding questions. I don't think I can declare an interest, unless there is a union of parliamentary mavericks. We live in hope.

Tony Burke: We can create one for you.

Chair: That would be very helpful; we are a dying breed. What I am wondering about is the ability of the unions to publicise and encourage. I particularly have in mind the very effective trade union-based campaign, "Keep our Future Afloat". Can you tell us a bit about that model and whether it might serve as a template that you could use, for example, in trying to promote the benefits of taking up an apprenticeship?

Tony Burke: That particular campaign really is successful; you see them at all the union conferences and various exhibitions industry-wide. I think if we are going to campaign on important issues such as aerospace and defence, it has to be done jointly across the industry. It can't just be done by Unite, the GMB, Prospect and the TUC. It has to be done with the support and help of the manufacturers and employers, and it has to be done jointly, because that is sometimes one of the only ways you can get a hearing. So yes, that is one of the key issues.

In Unite, we have been working on "Defend Our Spend". We have worked closely with employers in the industry—ADS and BAE Systems and others—to provide us with information. In terms of an overall manufacturing position, from my union's point of view, if we want to run a campaign, as we currently are in manufacturing, on a wide range of issues we work closely with the employers' organisations. The training organisations are very important to us. In engineering and aerospace, we work closely with Semta—in fact, they do seminars for us on key issues such as skills in the industry. So working together and collaborating is very important.

Jonathan Green: I just want to pick up on one of the things Tony said earlier about apprenticeships. Tony spoke about women coming into STEM roles. Prospect has been working with Babcock in particular, and BAE Systems as well, to promote the role of women in engineering. I think there is a cross-industry role for promoting those kind of things.

The second thing I would like to say is on how we promote the industry. I just want to use the phrase, "there should be a worker on the board". There is a strategic role for union voice in how we shape and map the industry. It is not just a conversation between Government and industry: the unions need to be involved in that conversation as well.

Q118 **Chair:** Would it be true to say—and I am looking at Phil here particularly—that in the defence field, there is probably a closer relationship between the union side and the management side than in many other industries? Why do you think that might be?

Phil Rudd: Having only ever worked in defence, it is difficult to comment outside of that. What I can say is that, within BAE Systems, we have worked up quite an excellent relationship in terms of the consultation structure throughout the business.

As I mentioned, I am here on behalf of the delegates conference, but we have an eight-person TU committee which sits with the employee relations team and regularly has other people coming to talk to us about aspects relating to the business which will affect it going forward. Twice a year, we have sessions with the chief executive and his senior colleagues to ask questions; in fact we had one just the other week.

I think we all fully understand that in the defence sector—where the customer is the Government and where the Government is clearly accountable to the people—we have that ability to speak to the likes of yourselves and constituency MPs to try to make sure that our best interests are represented with those who ultimately will or won't be giving us work.

Q119 **Chair:** Does any of you have any observations about the inevitable reorientation of naval shipbuilding workforces as we move from the carriers to the major frigate programme that is due to begin in the summer?

Phil Rudd: Clearly, the carriers were something quite spectacular. We probably won't see anything like that for another couple of generations. Something like that means a spike in workforce. Obviously, in the case of the carriers, it was Babock joined with BAE Systems on the manufacturing. On other aspects, Thales was also there, involved in the aircraft carrier alliance.

As you drop off from that, we have looked at the Type 26 programme and we are hoping that whatever it is called—Type 31—will follow. That means a smaller workforce but it is important, therefore, to ensure that that is properly resourced going forward. Because Babcock is not involved in the production of the Type 26—it will just be BAE Systems—I think some of the issues you might have had in terms of retention of labour in BAE are less of an issue than if it had been purely BAE doing the carriers.

We have also had the ability to flex people from the Clyde across to Barrow to work on the submarines and that has helped enormously. Those are the sort of advantages you get when you have a company the size of BAE Systems.

Jonathan Green: Clearly, the carrier project was a huge project in terms of workforce deployment so, as Phil says, that project ending will have an effect on frigate building and so on. There is uncertainty about what happens with the maintenance and servicing of ships going forward. We need a bit of certainty in terms of servicing, not just for the carriers but the other frigates as well. What happens to the servicing of the Type 26? Where is that going to be based? We do need a bit more certainty in terms of those kind of issues as well; maybe not in terms of shipbuilding because we will hear more regarding the shipbuilding strategy, but we have lost a major shipbuilding resource. I have already spoken about Portsmouth. Any opportunities for extending shipbuilding would be welcome, but it is not on the horizon at the moment.

Q120 **Chair:** And the final word to you, Tony.

Tony Burke: As long as they are produced and manufactured in the UK—that is the crucial thing we keep saying. It is simple and straightforward: the more we do here, the more money is going around and the more strategically covered we are in the unlikely events that could come forward.

Q121 **Chair:** One more, Phil?

Phil Rudd: Just to finish off on that point, I think one of the major things that needs to change—it will be accentuated by Brexit—is that, at the moment, the "National Security Through Technology" paper specifically states in terms of value for money that it "does not consider wider employment, industrial, or economic factors in its value-for-money assessments." Surely we can't continue with that.

We have heard about our significant amount of export success in this country. We have heard about the amount of contribution we put into the UK from defence. If we are going to start making decisions that mean that we continue to look purely at just the isolated MoD case—how much it costs the MoD in isolation to everything else—that cannot be good. We have got to look at how much money is brought into the UK economy from buying in the UK.

I think RUSI came out with a figure of 36%, so for every pound spent in the UK on defence, 36% comes back into the Exchequer. In the submission we made, we put in figures in relation to Hawk. I think Hawk says it absolutely, with the amount of money that comes back to the UK Treasury as a result of Hawk, through buying in the UK and then being able to export abroad. You will never export if you don't have a UK product in the first place. MoD patronage is essential in that regard.

We need to look at that definition of value for money. We need to have the Treasury, the Business Department and the MoD all working together for the UK.

Q122 **Chair:** Is that a common view of you all?

Tony Burke: Yes.

Chair: On that note of unanimity, thank you very much indeed. It has been a very long session, but a very interesting one. It has concluded now. Order.