House of Commons

Defence Committee

Oral evidence: Mechanised Infantry Vehicle Procurement, HC 958

Tuesday 24 April 2018

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Watch the meeting

Members present: Dr Julian Lewis (Chair); Leo Docherty; Martin Docherty-Hughes; Mr Mark Francois; Graham P. Jones; Gavin Robinson; John Spellar.

Questions 1-120

Witnesses

I: Stefan Lischka, Managing Director, ARTEC, Peter Hardisty, Managing Director, Rheinmetall Defence UK, and Craig Priday, Managing Director, Pearson Engineering.

II: Guto Bebb MP, Minister for Defence Procurement, Ministry of Defence, Lieutenant General Paul Jaques CBE, Chief of Matériel (Land) and Quartermaster General, British Army, and Major General Christopher Tickell, Director General Capability, British Army.

Examination of witnesses

Witnesses: Stefan Lischka, Peter Hardisty and Craig Priday.

Q1 **Chair:** Good afternoon and welcome to this special session about the mechanised infantry vehicle procurement process. I welcome our three witnesses on this panel. We have quite a short period of time—just half an hour—so I hope we will all do our best to be reasonably succinct both in questions and answers. May I ask the three of you to briefly introduce yourselves and state your posts in the organisations concerned?

Peter Hardisty: Good afternoon. My name is Peter Hardisty, managing director of Rheinmetall Defence UK. I spent 20 years in the defence business, the last five with Rheinmetall in the UK and in Australia, prior to which I was a gunner officer in the British Army. The focus of my interests here in the UK are the Challenger 2 life extension project, the mechanised infantry vehicle and the UK truck fleet.

Stefan Lischka: My name is Stefan Lischka, managing director of ARTEC in Munich. ARTEC is a joint venture company for Boxer and is a joint venture of Krauss-Malfei Wegmann and Rheinmetall. I have been working in that position since 2008 and had the pleasure of being responsible three times for the start of production in Germany and the Netherlands supporting the German army in Afghanistan from the industry side, and two years ago I worked in Lithuania.

Craig Priday: Good afternoon, everyone. My name is Craig Priday, managing director of Pearson Engineering, which is a defence SME based in Newcastle upon Tyne. We are a tier 1 supplier to the Boxer UK programme. I have had 30 years' experience in manufacturing and heavy engineering. I am also chair of NDI, National Defence Industries, which is the trade body representing defence and security within the EEF.

Chair: Thank you very much. John Spellar will start.

Q2 **John Spellar:** To start off, why shouldn't we be worried that the acquisition of the MIV is not subject to a competitive process?

Stefan Lischka: First, I believe you should not be worried because the product itself is outstanding and is proven. It has been selected by several countries recently, but, more important, there is still competition ongoing.

There is still competition ongoing within our team, if I can be open and say it like that. To realise a strong UK footprint we have already engaged, in 2016, with tier 1 companies from the UK. For some parts the competition already gave a certain result, but for some parts it is still ongoing, so they are still competing. The next competition will start towards the sub-suppliers, providing all the parts and sub-assemblies, which will make roughly 90% of the volume of the vehicle. Last but not least, we are still in competition with the MoD to meet their price expectations. Otherwise, nothing has been signed yet, and all the prices that we achieve will be benchmarked by us, but also surely by MoD against the contracted prices from the other Boxer nations, because it is possible for them to check. So we are, in several respects, still in competition.

Q3 **John Spellar:** When you say you are in competition, I am not sure whether I caught that: is it between British suppliers or is it suppliers from across Europe, or from anywhere in that competition, to be the tier 1, 2 and 3 suppliers?

Stefan Lischka: For the tier 1 suppliers we focus on UK companies which have a facility here and the experience and capabilities to produce Boxer. Then it is up to them to invite their supply chain to provide bits for the parts and pieces; but we are also aware that it will not be possible to produce some components and products in the UK. They may have to go to other countries, like Germany and Hungary or wherever, as we are depending on some OEM parts, meaning we buy a lot of parts commercially off the shelf, and if the manufacturer of that product does not have a production line in the UK, or does not grant a licence to a UK company, we cannot procure it in the UK.

Q4 **John Spellar:** I understand that part, but do you give any indication to them that, where it is possible, they should give priority to British companies?

Stefan Lischka: Let us say the priority is, of course, knowing that a certain amount of work, jobs, and taxpayer money spent in the UK is assumed. Of course we would focus on the UK; but also, a certain price level has to be met. The quality level has to be met, as well as the technical capability to provide the product. We are confident as to 60%, currently, based on our analysis—this is our baseline. We will try to achieve more, but we will see at the end once we have the bits available.

Craig Priday: Maybe I can add to that, as a member of the tier 1 team, who are in a very real competition. ARTEC, from way back in 2016, has engaged very strongly with British industry, recognising that this was going to be an important feature of the project, and they have gone to a large effort to give us exposure to the platform, visit production sites and give us an insight into how the products are built. We as Pearson, as the owners of the armoured fighting vehicle factory in Newcastle upon Tyne—the former Vickers defence and BAE Systems factory—are obviously in a unique position as an independent capability for making fighting vehicles; that is why we are at the table. Then that switched into a very real RFQ response—sealed bids from each of the tier 1 members. We were very fortunate to be selected for, so far, assembly of the drive module, which is the automotive part of the vehicle, but we are still very much in competition for other work packages. But we are fully engaged with our existing supply chain and new members of that supply chain, who are predominantly UK-based.

John Spellar: I understand the claim from the consortium has been that Boxer will create or sustain at least 1,000 jobs in the UK. Therefore, if you are trying to disaggregate where those come from, if you haven’t awarded the subcontracts, it seems slightly difficult to understand how you can be so definitive about that.

Peter Hardisty: First, we have on order and have produced almost 700 vehicles, so we have a reasonably good understanding of the component parts, the complexity of the vehicle, the bill of materials and so on and so forth. We certainly understand what is required in terms of manufacturing the vehicle, whether that be the assembly or the fabrication of the armoured hulls. We do that in three factories already—two in Germany and one in the Netherlands. We understand what goes into the supply chain and we understand therefore what would be required for a fleet of—our assumption is—about 500 vehicles. We have conducted an economic benefit study. We had a leading consultancy firm assist us with that study, which we have provided to the MoD as part of our preliminary market inquiry submission. It breaks down the type of jobs by the skillset and so forth, and where we would expect those to be in the production process. Furthermore, we engaged with our suppliers—tier 1, tier 2 and so on—and understood what they felt a package of work would be worth to them in terms of staffing requirements.

We were able to bring together a reasonably robust picture on the assumption of 500 vehicles over about five years, which allowed us to give a prudent but reasonably robust estimation of what we expected the job count to be. In terms of where, we have said it will be UK-wide. We have engaged with a number of suppliers across the UK. Some down selection has taken place; some has yet to take place. That allows us, with a high degree of confidence, to expect to have a good distribution of jobs across the UK.

Craig Priday: Pearson is one of the few companies that has been selected for a package. I can confirm that if we execute that, bearing in mind that we are pre-contract and all of the assumptions that Peter mentioned, it would mean 80 new jobs for assembly—60 on the shop floor, with six apprentices, and 20 in the office doing project management, procurement, quality and so on. That would be fantastic news for the north-east. We are in need of jobs. In terms of MoD spending we are languishing at the bottom of the spend table, so the Boxer programme and what it might bring would be very welcome indeed.

Q5 **Mr Francois:** Herr Lischka, you have said that you have yet to agree a price with the Ministry of Defence.

Stefan Lischka: Yes.

Mr Francois: How will they maintain pricing pressure on you when they have given up the competition?

Stefan Lischka: I am not sure they have given up competition—it is just that we now have an attempt to make a convincing offer that meets the expectations, including the price. If we should fail, I am quite sure the UK would not sign.

Q6 **Mr Francois:** Of course they have given up competition. There were six or seven potential bidders for this programme and they have given it to you, so that is the end of the competition, isn't it?

Peter Hardisty: Perhaps I could reinforce that. Certainly, rightly or wrongly, our expectation is that we will be asked to give a price for a number of vehicles and a variant mix—

Q7 **Mr Francois:** Of course you will be asked to give a price—that goes without saying—but how will they maintain competitive pressure on your price when you have been handed the programme on a plate?

Peter Hardisty: Certainly it is not our feeling that we have been handed the programme on a plate. We know that the MoD has got from OCCAR very detailed pricing information of the variants already in service with the Dutch, the Germans and so on. They have a price point on a fleet size, albeit smaller than the UK. We are expecting, and expect to deliver, economies of scale for a larger project, and we are very confident that if we cannot deliver a price point that is acceptable to the MoD, it will go to competition. In our view, we are in competition with competition, if that is the language we wish to use. I can reassure you that price pressure is very much alive in our thinking and the way in which we will intend to contract for supply across the UK.

Q8 **Mr Francois:** So you are telling us that if you don't offer a price that the MoD are prepared to accept, they are going to re-compete the programme?

Peter Hardisty: That is our expectation. Undoubtedly.

Stefan Lischka: It will be decided by the MoD in the end, not by us. We will do our best, but the decision is up to the MoD.

Q9 **Mr Francois:** Have they given you an indicative budget for the programme?

Peter Hardisty: No.

Q10 **Mr Francois:** For instance, with the Type 31 frigates, they said they must not cost more than £250 million. They have not given you any version of that.

Peter Hardisty: There has been no interaction of that sort.

Mr Francois: Okay. Let's move on to jobs.

Q11 **Chair:** Before you leave that point, have they not even indicated that it should be on a price scale comparable to the versions that have been produced for other countries?

Stefan Lischka: They have indicated that they expect it to be cheaper, due to the fleet size of 500. That was the only indication, but there were no further requirements or figures, delivery schedule or price levels that we have to achieve.

Q12 **Chair:** So you have got at least an upper limit on what you would be able to charge.

Stefan Lischka: It depends on the requirements finally asked for in the version mix. If you have complex requirements for a very small family of versions, let's say only 10 vehicles of one version, the price would be different from if I have the same design for 200 Boxer vehicles.

Q13 **Chair:** So it could exceed the price of vehicles supplied to other countries if it is a more complex vehicle specification.

Stefan Lischka: It could.

Peter Hardisty: But I think it is fair to highlight that our understanding is that the MoD have a very detailed understanding of the requirement as set out by the other users. It is fair to say that particularly the German army have complex requirements and they have the price point for those, including vehicles that have yet to be delivered. So they have a very good understanding of the price environment and the through-life cost of the capability and all the other aspects surrounding it.

Q14 **Chair:** But they haven't chosen to convey a figure to you at this stage.

Peter Hardisty: No, they have not.

Q15 **Mr Francois:** Let's come on to jobs. UK companies, such as Pearson, will be able to compete for work on the programme. Will that just be for the UK variant or will that be for the programme across the board?

Stefan Lischka: That would be for all other Boxer programmes as well, as we currently already do. Since the withdrawal of the UK in '04, some companies from the industry remain in the Boxer programme and have been contracted since, due to their competitiveness. For example, Parker-Hannifin, based in Warwick are still providing all rear ramp hydraulics for all Boxers. There is a company called EnerSys in Wales that is providing batteries for Boxers and other products. There is Marshall's in Cambridge, who provided stretcher systems for the Dutch ambulances.

Wherever we have a supplier who meets our quality requirements and is competitive—there is also some effort to come to that point—we want to keep that supplier and use it for other programmes as well.

Q16 **Mr Francois:** Okay. So we have got UK suppliers for things such as batteries and stretchers. How much of the remaining work on the programme has already been allocated to other companies? The programme has been running for a number of years, and you have been competing during that time for elements such as the engine and the drivetrain and others. How much of the work on the whole of the programme has now been won by companies? How much of that work is now allocated?

Stefan Lischka: I could not say in percentage terms, but everything besides one certain mission module has been allocated to tier 1 companies already. One mission module is still being competed. From that point onwards, as soon as we have requirements, those tier 1 companies will then approach their supply chain and ask for bids.

For parts that will not be able to be produced in the UK, we will engage with our supply chain, but they will get the same commercial conditions as for the other Boxer contracts, if they order from those suppliers in Germany, Hungary or wherever.

Q17 **Mr Francois:** So ARTEC is the prime, and nearly all of the tier 1 contracts have already been awarded.

Stefan Lischka: Not the contracts, because we also do not have a contract yet, so we cannot pass on a contractual obligation. We engaged with MOUs and a certain understanding on how to prepare and who is responsible for which package. We are waiting for responses.

Q18 **Mr Francois:** But in principle you have selected the tier 1 contractors for most of the programme.

Stefan Lischka: Yes.

Q19 **Mr Francois:** Okay, I'm with you. So UK companies now seeking to enter the programme will be able to compete essentially only for tier 2 work. Is that right?

Stefan Lischka: Yes.

Q20 **Mr Francois:** Isn't that rather crumbs from the table?

Stefan Lischka: At a certain point we have to make a decision and set up the team to prepare to be able to make a bid in a short period of time. We did the competition between the tier 1s, which were all the large tier 1s capable of supporting such a programme, besides the competitive companies, since 2016. So for nearly two years we did the selection process to now be in a position to enter the next phase. Once we have requirements, they can approach their supply chain and then come up with a bid.

Q21 **Mr Francois:** I appreciate, in fairness, that you had to get on with the programme and decide who was going to make key elements of the vehicle. You couldn't wait around on the off-chance that we might rejoin. I am not blaming you for having done that. But what I am saying is that the fact that nearly all tier 1 work has already been given out means that UK companies cannot compete to be the prime, which is gone, and they cannot compete to be the tier 1 contractors, which is gone, so at best they will compete to be tier 2 contractors.

Stefan Lischka: Okay—

Mr Francois: Excuse me, I haven't finished my question. From a defence industrial base point of view, it doesn't sound like we are getting the high end of this programme.

Peter Hardisty: It is only very recently that we have understood what the procurement strategy might be, so it was essential that we prepared for a competition, or any other procurement strategy that there might be. By definition, we weren't going to engage with our competitors in an open competition to be an assistant to us in any way or form. So we selected tier 1 established UK contractors, some of which are in the room with us today—Thales, BAE, Pearson etc. They are household names and established, competent partners to go forward with. We didn't select some others, because they were going to be our competitors. Life has moved on, and we understand where we are today. I think it is right to say that yes, those large bundles of work are likely to go to these people, with whom we have an established relationship now, but there will be other packages of work, some of which are quite sizeable, still open to competition. So in concept, yes, but to call them crumbs is probably to overdramatise it from my perspective.

Stefan Lischka: To give an indication, of 100% of a vehicle value, only 5% to 10% maximum is related to the final assembly, test and integration, which will be conducted at the tier 1 companies, but 90% is in parts and assemblies. So it sounds like tier 1 has already been chosen, and so it is ended. No—90% is in the parts and components that still have to be contracted, so the largest volume is still open.

Craig Priday: In the drive module, which we are involved in, in terms of flow-down into the supply chain, more than 80% of the components are available to go into the UK supply chain. With my NDI hat on, I am very passionate about UK companies getting an opportunity to participate properly in the programme. ARTEC in particular has been really proactive, more proactive than some primes that are UK incumbents, in trying to engage with as wide as possible a range of British industry. They started that way back in 2016, and it continues now through industry days and meet the buyer events. We are supporting that through NDI and EEF, and with the support of ADS and techUK, to absolutely try to engage as many companies as we possibly can. There is a huge amount of value to be accessed in this programme. I think it is really good news for British industry. I get your point around the tier 1 but there is a huge amount of work that will be great news for British companies.

Q22 **Mr Francois:** Our Committee knows a bit about the UK defence industrial base. You have estimated 1,000 jobs. Whereabouts in the UK will those 1,000 jobs be? Give us the names of some plants that will actually do the work.

Peter Hardisty: We expect a reasonably large package of fabrication work to be undertaken in Stockport by WFEL—formerly Williams Fairey Engineering Limited—a bridge manufacturer in the UK. We would expect a large package of module work to be undertaken in the west midlands. I cannot tell you the exact location yet—that is still subject to a decision. We would expect to be engaging with Thales and Raytheon in Scotland. We would expect to be undertaking some work in Wales at different locations, across the UK and at Pearson—as you will have heard—in Newcastle.

Q23 **Mr Francois:** So at the moment, the only two specific places you are able to say for definite are Pearson and Stockport.

Peter Hardisty: And the west midlands.

Mr Francois: But the west midlands, with respect, is a big place.

Peter Hardisty: Absolutely, I understand what you are saying.

Stefan Lischka: The rest is subject to competition. That is why we do not know which company will make it and where it is located.

Mr Francois: But you have estimated 1,000 jobs. The reason I am pressing you on this is that you will remember that with the Ajax programme, General Dynamics bid for that programme and then put a lot of the manufacturing into Spain.

Peter Hardisty: Absolutely.

Mr Francois: So forgive us if we are slightly sceptical about some of these claims. I appreciate that some of these things have to be competed for, but at the moment you don't seem to be able to give us very much concrete detail about how this will work industrially.

Peter Hardisty: We can reassure you that the fabrication of the armoured structures—the drive module and the mission modules—will be undertaken in the UK. The drive modules will be fabricated in Stockport. The decision on exactly where the mission modules will be made is yet to be confirmed, but it is our absolute intention to undertake that work in the UK.

Q24 **Mr Francois:** What about the Thales work? Will that be at Thales in the UK or Thales in France?

Peter Hardisty: Our expectation is that it will be Thales UK, and some of that will be UK eyes only work.

Q25 **Mr Francois:** We have long memories—institutionally, the Committee has a long memory, even if its individual members do not. We will look back at these jobs guarantees in time. Are you quite prepared to stand behind your figure of 1,000 jobs?

Stefan Lischka: We are quite robust on that. We had to make several assumptions—let us say about the 500 vehicles and a certain delivery rate, because that is most critical. It is not the total amount, but a yearly delivery rate. We assumed a certain configuration as a baseline. It could be more—we do not know. Based on that, as Peter said, we had a top-down, theoretical approach of asking a consultancy for some figures, and we checked that with the working hours and balance sheets for our existing production. More interestingly, we asked our tier 1 and possible tier 2 companies, if they were to receive the work package and compete, how many jobs they would create and sustain, and we added that up. It added up to 1,000 jobs based on those assumptions. That is why we are quite confident with that figure if our assumptions are met. If it involved significantly fewer vehicles, that would change.

Q26 **Gavin Robinson:** Peter, you mentioned UK-wide jobs a few times. Do you understand the difference between the United Kingdom and Great Britain?

Peter Hardisty: I do, and I have visited Thales in Belfast.

Q27 **Gavin Robinson:** So is there a reason for omitting Belfast and Northern Ireland from the UK-wide job benefit?

Peter Hardisty: When I visited the facility that was identified, it was not ideally suitable for the package of work we had in mind. That was why I did not earmark it as a "must have". We talked to Thales, for example, about engineering and virtual teams, and the answer is that we would expect engineers from that facility to be part and parcel of any proposition, but in terms of undertaking steel-based platform work, probably not.

Q28 **Gavin Robinson:** So it is not UK-wide jobs; it is Great Britain-wide jobs.

Peter Hardisty: By the same token I do not expect to be doing things in Cornwall, either. We needed to be focused on what is economically possible. We have been there, had a look, and made a detailed assessment.

Q29 **Leo Docherty:** Mr Lischka, how will you draw on experience from the German, Dutch and other national programmes to benefit the UK programme?

Stefan Lischka: The answer is twofold. First, there is the industry side. Of course we have learned some lessons in production, and you can be assured that from our first delivery in 2009 until now we have optimised the design for production. You can also be assured that some failures in production were recognised and removed. Nearly 10 years' experience in production is available in three different locations. The first line was in Munich, the second shortly after in Kassel—another city in Germany—and the next one in Ede in the Netherlands. We have started production three times, we have optimised the vehicle, and we have learned some lessons. We will share that with our tier 1 suppliers—perhaps they will have new failures, but we want to avoid them making the mistakes we did.

That is the industry side. The other side is up to the UK. It could ask OCCAR what went well in the programme and what did not run so well; what is a reliable timescale and what is not. OCCAR will have project management experience from the other nations. It is about what runs perfectly well and what normally does not run so well, and not making the same mistakes.

Q30 **Leo Docherty:** Are there any specific UK-only requirements that might increase the price, such as computers or comms?

Stefan Lischka: It depends on the specific requirements and integration, including the integration of a large UK-specific C5 system. We had to face the same complexity, split up in different systems and not as one package, in the other nations. There will be specific, and project-specific, challenges for the UK, but we have already been challenged by some of them and know how to deal with them.

Q31 **Leo Docherty:** Peter or Craig, have you anything to add to that?

Peter Hardisty: Only that although we have not seen the detailed UK requirement, we know roughly what sort of variants are in mind. A Boxer in Germany has a sophisticated radio system, and it won't have a German one; it will have a British one. The complexities are subtly different, but largely the same, so in terms of gold-plating from a UK perspective, we are not aware of anything.

Q32 **Leo Docherty:** What is your expectation of how many vehicles the UK is going to require?

Peter Hardisty: Our planning assumption has been 500 vehicles.

Craig Priday: The amount of knowledge sharing that has already taken place from the principals of KraussMaffei and Rheinmetall is quite exceptional. Our people are invited into their workshops so that we can look and learn from the way they operate now and adapt it to our own production systems.

To answer Gavin, it would be very welcome if Northern Ireland companies wanted to participate in the programme. We have some industry days coming up next month that are in Wales and the UK. I am in discussions with my colleagues at EEF to have a similar industry day in Northern Ireland, but obviously, if you could point any companies that are suitable in our direction, they would be very welcome to participate.

Q33 **Mr Francois:** Peter, just to give us some idea of the scale of Rheinmetall in the UK, what do you turn over at the moment?

Peter Hardisty: There are four UK businesses. There is an automotive business, which is about £10 million. There is a publication business, which is £12 million. There is a vehicle business, which is about £3 million—most of that is staff on the Challenger 2 life-extension project. And there is an electronics business on the Isle of Wight, which has an £11 million turnover.

Q34 **Chair:** Let me thank everyone concerned for keeping strictly to time in this short session. In case we wish to write to you with one or two other queries and questions, would that be okay? Would you be able to respond to the Committee?

Stefan Lischka: Absolutely.

Chair: Thank you very much for your time. We will now move on to the second panel.

Examination of witnesses

Witnesses: Guto Bebb MP, Lieutenant General Paul Jaques and Major General Christopher Tickell.

Chair: Good afternoon, gentlemen. Would you each just briefly introduce yourselves for the record, starting with you, General?

Lieutenant General Jaques: I am Paul Jaques, Chief of Matériel (Land), and I work at DE&S in Abbey Wood.

Guto Bebb: I am Guto Bebb, Minister for Defence Procurement.

Major General Tickell: I am Chris Tickell, Director of Capability for the Army.

Q35 **Chair:** Minister, can you tell us why the MIV announcement was made over the Easter bank holiday weekend, during a parliamentary recess, before completion of the Modernising Defence programme?

Guto Bebb: First, the commitment that had been made in the House was that there would be an announcement before the end of the financial year, and we were in a position to announce before the end of the financial year. It was unfortunate that we ended up doing the announcement on 31 March. That wasn't deliberate, but we certainly put down the ministerial statement at the first opportunity after the recess.

One of the reasons why we were really up to the end of the financial year before we put in the decision was the fact that I was appointed to my position in early January, and although a position had been reached whereby the decision had almost been made by the time I was appointed, clearly, with such a complex procurement process, I wanted to be certain that I could justify the decision that was going to be taken. It is a process that undoubtedly is scrutinised very tightly by Parliament and by the Defence Committee. Therefore, I wanted to assure myself that the process that had been taken was open and transparent. I wanted to assure myself that the decision to go via the OCCAR route was justifiable. I wanted assure myself in terms of the comments I was getting that we would have significant amounts of UK content within any product, and that that would be justifiable. The process of getting to the position where we were confident that the position could be announced did take time and I take full responsibility for that.

On why the announcement was made before the Modernising Defence programme is completed, I think it was always the case that the decision would be made before the completion of the Modernising Defence programme. The capability required and the reason the MIV vehicle is required is simply because of the fact that the Army has a requirement identified through its Strike concept. That was always going to be announced before the Modernising Defence programme was completed. I do not think there was any link between the timing and the work being done on the Modernising Defence programme.

Q36 **Chair:** I accept the second point, but with regard to the first point, you knew very well, did you not, that on the Thursday before the Saturday when you made the announcement—when the House was in recess—it had been raised on the Floor of the House at business questions? It had been requested that the forthcoming announcement should be made to the House, not while Parliament was in recess. Indeed, the Speaker intervened and said that the answer is very clear. To quote him, "the announcement should be in the House of Commons. That is the situation, and it is the responsibility of office holders to ensure that that is the case."

It seems a little disrespectful to the House of Commons to be reading those announcements in the press, when they could just as easily be made on the Floor of the House of Commons and questioned summarily and immediately.

Guto Bebb: I would not doubt that the way in which the announcement was made was not ideal. However, when these types of announcements are made, they have to fit in with a cross-Government process of announcements. The MoD is no different in having to fit in in such a manner. I am happy to take full responsibility for any failure on this issue.

Q37 **Chair:** Could you not have made it on the Thursday rather than the Saturday?

Guto Bebb: Under the circumstances, the advice we had was that that would not be appropriate; therefore, we ensured that the commitment that I and others made to the House that there would be a decision made before the end of the financial year had to be honoured. That commitment was honoured by the fact that we made the announcement in time before the end of the financial year.

Q38 **Chair:** It might seem that I am making too much of a fuss about procedure here, but there is a bit of a pattern emerging. As you may know, we and the BEIS Committee unsuccessfully requested a joint evidence session with MoD Ministers on the national security concerns regarding Melrose's acquisition of GKN prior to any final decision being announced. We all know what has happened—we were not granted the access we wanted. That announcement has just been made within the last hour or two.

Does that not demonstrate a pattern of a lack of parliamentary transparency and accountability on such important matters? Now the announcement has been made, will you agree that we should have that joint session with the BEIS Committee so that we can look into the GKN issue and the safeguards that have been announced today for the national security side of that business?

Guto Bebb: I am not sure whether I can speak on behalf of the Department at this point on the question making, the joint meeting and GKN, but I am more than happy to take that issue back. I would have no concerns about having such a joint meeting, but I am sure you appreciate that the final decision on that would not be made by me.

On the comments you made about the discourtesy to Parliament, it would pain me if there was a feeling that we had deliberately avoided parliamentary scrutiny. I was very aware when I left Parliament before recess that an announcement would have to be made before the end of the financial year. Circumstances conspired to result in the deciding being announced as it was.

Chair: We have had two instances of that now, so we do not want a third one, not even for a Welshman like you or me. I want to check something before I bring in my colleague Mark. We have heard about national security safeguards announced by Greg Clark today in relation to GKN. Is it right that those safeguards will last only for the first five years?

Guto Bebb: I am not in a position to comment, because I have not heard the statement from the Business Secretary. I happened to be in the Library preparing for this hearing. I hope you will understand that I am not in a position to expand on what has been said in the Chamber. Obviously, I will read *Hansard* tomorrow with a great deal of attention, but I cannot comment on the specific question that you have asked.

Q39 **Chair:** You can see why, having had that announcement take place on a day when we were holding this hearing, and another hearing this morning, it was pretty miraculous that any of our members managed to get in to ask a couple of questions. I would certainly take a pretty dim view if we were not then able to have a proper session with MoD Ministers on a joint basis with the BEIS Committee, as we both requested. Please take that message back in the strongest possible terms.

Guto Bebb: I would be very pleased to take that message back, and I have certainly heard it very clearly.

Chair: Thank you very much.

Q40 **Mr Francois:** At the risk of hammering the nail, Minister, I was preparing for this session by being in for the statement on GKN. The Secretary of State for Business, Energy and Industrial Strategy gave a number of commitments relating to GKN, specifically to the aerospace division and to national security. On our side of the House at least, we welcome those assurances, but he mentioned a number of guarantees that have been given. It would be very advantageous to have an opportunity to question Ministers in detail about those guarantees and how exactly we think they will operate in practice. There is sufficient meat there to more than justify a hearing. When you go through your process of taking that back, can you add that to the discussion? In all seriousness, as one former Whip to another, it is worth your turning up.

Guto Bebb: Mr Francois, I say to you very honestly that the message has been heard very clearly. The representations made by the Department to the Business Department were quite strong, and I am sure that we would welcome the opportunity to engage in an open forum on the issue. The last thing I would want to do is to be seen as hiding from any parliamentary scrutiny on the matter. I am simply stating a fact, which is that I was not in the Chamber to hear the statement from the Business Secretary, so it would be inappropriate for me to comment on something that I have not heard.

Q41 **Chair:** I entirely accept that, and I am sure you and our military guests will be pleased to know that we will now get to the substantive subject of the hearing. May I start by saying that you have said that Boxer was "the stand-out performer across a wide range of requirements" and "a worthy choice for the British Army"? Therefore, how can you also claim that this is not a Main Gate decision, when you have spoken in such positive terms about that piece of equipment? Is the MIV programme now fully funded?

Guto Bebb: The answer to the second part of your question is yes, the programme is fully funded. In terms of whether it is a Main Gate decision, it is not a Main Gate decision because a significant amount of negotiation still has to be completed as part of the process and the assessment phase that we have now embarked on. The commitment that we have made very clearly is that a formal announcement will be made, and has to be made, in the final quarter of 2019. During the process, we need to solidify, for example, commitments given on onshore content and issues in terms of value for money. There is an assessment process in place, so I would dispute that it is a Main Gate decision.

However, it is also the case that the decision to go via that method has to be explained, because clearly we need to be confident that we are procuring the right vehicle for the capabilities required by the Army. It is very reasonable to state with confidence that the evidence presented, and the undertakings by the Department and by other specialists, indicate that it is the right option for the capability needs that the Army has indicated.

Q42 **Chair:** Is there any prospect of the competition being reopened if you fail to reach an agreement on price with the company, for example, or is the competition over and done with, as far as you are concerned?

Guto Bebb: We are still in the process of competition, it could be argued, because we need to ensure that we get the right value for money from the process. We are confident that it offers us the best opportunity to secure the best possible deal for the taxpayer and for the capabilities required by the Army, but clearly, if there were unforeseen circumstances during the assessment phase that resulted in us reviewing the view that it was the best method of securing value for money for the MoD and of ensuring that we had the right capability for the Army, we would have to revisit the issue. However, that would in itself be challenging, because clearly one of the issues at stake here is ensuring that we provide this capability within the timescale envisaged by the Army. Clearly, the aim is to ensure that we undertake this process in a very thorough manner, to ensure that we secure the value for money opportunities that are offered by the route that has been chosen.

Q43 **Chair:** Have you not rather thrown away your bargaining position by making it so clear to the company that they are in pole position? They have basically got the contract, yet you have not yet specified a price for the vehicle that the Government will pay.

Guto Bebb: I wouldn't say that we have, because the way the OCCAR system works means that there is opportunity to hammer down on prices, and to ensure that we have price transparency, and price transparency on the complexities of the long-term investment in this vehicle. All those issues need to be hammered down and clarified, but we are confident as a Department that the option that has been chosen offers the best and, at this point in time, I would argue the only option open to the Army, in terms of the capability requirements that they have identified.

Q44 **Chair:** Finally from me, can I ask the two military representatives what your assessment is of this vehicle, and why you think the Government should be so enthusiastic about it?

Lieutenant General Jaques: I will kick off. In broad terms, the first thing is its performance. The Boxer vehicle is the best-protected vehicle on the market at the moment, remembering that we are going for an off-the-shelf product—an existing product—and are not trying to develop something from scratch. It has the best growth potential. It has growth potential both in power and in that it can carry more weight. That is significant because through the life of a programme we tend to see between 10% and 20% weight growth on the vehicle.

It has the best power-to-weight ratio, and is the only vehicle to meet the requirement. In doing so, it will have the best mobility. It has proven mission reliability, because it is in service with the Germans and went to Afghanistan. We have full understanding of how it performed there. It is also very adaptable. Particularly, the modularity gives us a choice of how we acquire and support the vehicle that is quite unique, and we think that will offer value.

The next key thing is it offers, in our opinion, the best value for money, taking together performance and cost. Thirdly, I have a great deal of certainty in the data that we have. We have received an enormous amount of data on the vehicle, and we have the best understanding I have ever had of a vehicle at this stage of acquisition. It has low risk in terms of it meeting performance and coming into cost—I know what the target cost will be. With my colleagues behind me, I will not talk about that, but I understand where we can drive a deal.

Lastly, I have an enormous amount of transparency. Going through OCCAR gives us transparency of the process all the way through. It is almost very similar to the single source regulations. It also enables us to engage on prosperity at this early stage. I would not be talking about the industrialisation of a programme at this early stage were it not for the fact that we are going through OCCAR.

Q45 **Chair:** Thank you. Do you have anything to add?

Major General Tickell: Clearly, I would echo what General Jaques has said. I would just add that we have been looking at an 8x8 requirement for some time. We have therefore evolved that requirement over time. We worked very closely with our allies such as the Americans, with their Stryker Brigades. We looked at the French experiences, for instance, in Mali, and of course the German experiences with Boxer. We are very confident that our requirement is mature, and that we are keeping it very grounded and absolutely not over-egging it.

Q46 **Mr Francois:** In what requirements did Boxer not stand out?

Lieutenant General Jaques: It was either equal to or better than any of the other vehicles we considered.

Q47 **Mr Francois:** When did you issue the RFIs to the other potential competitors?

Lieutenant General Jaques: We did not issue an RFI. We went through a pre-market engagement last year. That was a very structured process. We did not issue the requirement; we issued a series of structured questions, where we asked for evidence against what we were asking. That enabled us to look at that evidence and compare it with each of the requirements. That was the approach we took, which has given us a lot of confidence. We used a series of experts inside and outside of the MoD to analyse that and to ensure that we kept people from our scrutiny area involved throughout the process.

Q48 **Mr Francois:** So you asked a series of questions?

Lieutenant General Jaques: Very well structured questions.

Q49 **Mr Francois:** You said that Boxer was the stand-out performer across a wide range of requirements, but how can you be confident of that statement without having run a competition?

Lieutenant General Jaques: Because we know enough about the marketplace. We can see what is available. There are two other vehicles in service, one of which is coming into development and has a history, meaning we can look back at everything that was there. We can see the performance of the vehicles. We have understood them. We asked for specific data on protection, performance and power, and we asked for an enormous amount of data on cost and understanding reliability.

To give you an understanding, we had a lot of data coming in. We were then able to use our expertise to look at those vehicles, to talk to other armies and to do a market analysis in that sense. We are very confident that we know what the performance of what is on the market is to enable us to make that assessment.

Q50 **Gavin Robinson:** Was it a mistake to leave the Boxer programme in 2003?

Guto Bebb: I don't think that is the case. The situation in 2003 was that there was a requirement to ensure that the vehicle that was chosen could be flown in the C-130J. That requirement has changed with time, and as a result the decision has been taken to re-join the programme.

It could be argued that the experience between 2003 and 2018 would have contributed to this decision. Hindsight is quite clearly always a wonderful thing, but I would argue that the requirement, as stated in 2003, was very different from the requirement that has now been articulated by the Army.

Q51 **Gavin Robinson:** Was transport the main inhibitor back in 2003?

Guto Bebb: It was the main reason why the option of going after Boxer was rejected in 2003, yes.

Q52 **Gavin Robinson:** What modifications have there been or what lessons have been learned from all the data that has been gathered by those who deployed Boxer?

Lieutenant General Jaques: The German army have been very forthcoming with their experience of the use of the Boxer programme, in Afghanistan, particularly. It entered service with them in 2009. They have been very clear on what its performance has been, on its reliability and on where they have changed, adapted and modified it because of issues.

We have a great deal of confidence. The Germans are good at collecting data on what its actual performance will be and pulling it together, so we therefore understand the reliability of the systems, which is key for us. Again, it is very novel, at this stage of an acquisition, to have a very thorough understanding of the performance of what you are buying in detail.

Q53 **Gavin Robinson:** Why is now the right time to re-join or re-engage with Boxer?

Lieutenant General Jaques: For me, when we looked at the marketplace, we came away with the fact that Boxer is the stand-out vehicle. Going through OCCAR offers us a lot of value in the way we can acquire that vehicle.

Q54 **Gavin Robinson:** What about interoperability in two respects: first with other allies and the MIVs they use, and secondly with Ajax?

Lieutenant General Jaques: There is an interoperability benefit from a support perspective and in being able to share supply chain costs, which will clearly be explored over the next year, so we will understand how we might take that forward. On operational interoperability, I will hand over to Chris.

Major General Tickell: The main way of delivering interoperability, as you will know, Sir, is through a communications architecture. Whether that is with Ajax, with our allies or with something like the F-35, the key is to make sure that we have the right open architecture so that the platforms can talk to each other, share data and make sure that data is in the right place at the right time to deliver the effect. Of course, one of the key requirements is to make sure that Boxer itself—the mechanised infantry vehicle—has that open architecture in order to deliver what I have just described.

Q55 **Gavin Robinson:** So are there full interoperability plans to have commensurate communications with Ajax and others?

Major General Tickell: Absolutely, because Strike is about a system of systems. The benefits of Strike will be delivered through Ajax, with the mechanised infantry vehicle, with indirect fire, with long-range fires and, of course, with being able to talk to air as well.

Q56 **Gavin Robinson:** Will that be an ancillary cost, or is it factored into the Boxer programme?

Major General Tickell: It is within the Army's equipment programme.

Q57 **Leo Docherty:** General Paul, you mentioned the value of OCCAR. Will you expand on the benefits, either of the programme or the financial benefits of procuring through OCCAR?

Lieutenant General Jaques: Of the key benefits, for me the first one is the transparency that comes with it, the openness that comes from going through OCCAR. It has already been very helpful in enabling us to put forward our case, and it will become more so. The second one is the ability to engage with industry in a more collegiate manner to understand how we will industrialise, which is not something we would do through competition. The third element that really comes home is our access to the IP. We will have full access to IP which—if we bring more than 60% onshore, which is our aim, it will clearly give us an ability to look at the export of that vehicle downstream.

Q58 **Leo Docherty:** If a commercial arrangement is not achieved, what is the plan B, the fall-back plan?

Lieutenant General Jaques: It remains competition—that is the fall-back plan.

Guto Bebb: On that specific issue, we have had written assurances from ARTEC that the 60% is a minimum. My expectation is that we will exceed that 60% target, and certainly that is the task that we have offered the team, but in terms of the 60% minimum, that has been assured in the ministerial correspondence between myself and ARTEC.

Q59 **Leo Docherty:** Minister, on that note, how will you ensure value for money?

Guto Bebb: The value for money issue has been the whole process that has allowed us to reach this stage. One of the issues that offers me confidence in the process that OCCAR offers us is the transparency of pricing, not least on the full-life capability of the platform in question. The degree of detail on the pricing that is available through OCCAR is certainly significantly more than would happen through normal competition processes. That gives confidence that the value for money argument can be made very strongly as part of this procurement.

Q60 **Leo Docherty:** Will you write a cost ceiling into the contract?

Guto Bebb: The key thing here is that the Army knows full well the amount of money it has for the requirements it has. The aim is to ensure that we deliver at below that level. As to whether we can write a price ceiling into the contract, I am more than happy to take that away and to think about it as a way of ensuring that we have protection for the MoD budget.

Leo Docherty: There will be a contractual structure to prevent costs from spiralling.

Guto Bebb: Yes, indeed. Increasingly, this is something we are doing on a project by project basis. The certainty of procurement processes is something that we need to enhance, so that we are not left in a situation where additional costs are borne by the taxpayer. I am more than happy to look at that in detail as we move forward with this procurement.

Q61 **Chair:** How long will the demonstration phase last? Will it rely on evidence in the German, Dutch or other national programmes?

Lieutenant General Jaques: We plan on it lasting two years at the moment. That will be refined as we move forward over this coming year, as part of the assessment to understand and finalise exactly what the nuances of the Army's requirements are, as we get down into the detail of things—the comms fit, the ECM fit, the remote weapons station and some safety features. As we understand that, we will take into account the data that we get, in particular from the Australians. The Australians have opened up all the data from their competition to us—they offered us that last week. What that gives us is a mine of data for us to understand, which will shape what we do in the demonstration phase.

Q62 **Chair:** Australia has recently selected the Boxer, is that right?

Lieutenant General Jaques: Yes.

Q63 **Chair:** Was it against the same vehicles that we were considering?

Lieutenant General Jaques: Exactly the same.

Q64 **Chair:** You said earlier that two other vehicles were already developed—with a third one under development, did I hear you say?

Lieutenant General Jaques: All three of those were in the Australian competition.

Q65 **Chair:** What you are saying is that, in a way, the Australians have done some of our competitive work for us, in this assessment.

Lieutenant General Jaques: The way that I would look at it, Chair, is that what we have done is to carry out an exercise at reasonably low cost, working with our allies and doing some very sensible interrogation of the marketplace, based on what exists. We came to a conclusion, and the Australians, who were running a parallel, fully competitive system that cost them a lot of money and time, came to the same conclusion.

Q66 **Chair:** We heard earlier from you, Minister, that this isn't the Main Gate decision, albeit that it seems a pretty firm one, so when will the Main Gate decision need to be taken to ensure that the first MIVs are in service by 2023?

Guto Bebb: Quarter 4, 2019—the decision has to be made by that point, so the assessment phase will run until then.

Q67 **Chair:** To what extent will UK-only requirements such as command, control, communications, computers and intelligence drive cost and the programme? In other words, are we going to have more bells and whistles than some of the other versions that are out there?

Major General Tickell: The short answer is no, we are driving down any bells and whistles, as you describe them. The two key components are the communications fit and the ECM. As I was describing earlier, the costs of those are factored into the programme.

Q68 **Chair:** General Paul said earlier—I think I remember hearing him say—that this has the ability to grow, so I take it that it is so designed that we will be able to slot in modules as new pieces of equipment are—

Lieutenant General Jaques: That is exactly the element for the next year, or nine months or so. The assessment phase is where I want to get to a complete understanding of the architecture of the vehicle that we will then take forward into demo.

Q69 **Chair:** And how long is the vehicle intended to be in service?

Lieutenant General Jaques: Forty years.

Q70 **Chair:** So that will require a lot of little compartments to be able to be upgraded for such a long lifespan.

Lieutenant General Jaques: It will, and the modularity of the vehicle—i.e. the fact that you can change the whole mission module; if you have seen the vehicle, basically you can take the mission module off and put a new one on—enables you to have a key ability to upgrade modules as you go through life, to deal with the things that you don't know you'll need in 20 years' time.

Chair: Anything to add?

Major General Tickell: I think I would just add that going back to Strike as a concept, that is founded upon constant adaptation and experimentation. You may or may not be aware, but we are investing very heavily in experimentation, to make sure that when we field the concept, or the first brigade, it absolutely hits the ground running. Therefore we would see that continuing throughout the life of the Strike brigade. Hence the growth requirements and growth potential of the platform are very important.

Q71 **Chair:** Minister, you will know that over the last 20 years our concepts of primary threat have gone from expeditionary warfare to counter-insurgency and now, more recently, back to state-based warfare. That is just over a 20-year period. If this vehicle is meant to last for 40 years, are you absolutely satisfied that it is strong enough and flexible enough to face all sorts of changes in the type of threat that we might face over such a long period?

Guto Bebb: Certainly the discussions I have had over the past three months on this issue, which have been quite intense, have given me confidence that this is the right option to give us that flexibility over the next 40 years.

Lieutenant General Jaques: I will go back to the fact that it is the best-protected vehicle of this type that we can get off the market. Secondly, it has the most growth potential, both in power and in weight, and that is critical because we will be adding things to the vehicle. There are some things in development now—in research—that will be fielded over the next five, six, 10 years. But we know that historically we need a weight margin, and this vehicle has the biggest weight margin to enable us to do that, and a significant power margin. Plus, its modularity means it is the most future-proof of the vehicles on the market today.

Q72 **Mr Francois:** How strong was the need to meet the ISD of 2023 as a driver in the decision to abrogate a traditional competition?

Guto Bebb: I think it was a very important element of the decision, but I think the option that we chose, the Boxer, won on capability as well. There is no doubt that the issue of ensuring that we had a vehicle which would be in place by 2023 was also an important consideration, and remains so, as we carry on through the process of ensuring that we have the best possible price through the OCCAR system.

Q73 **Mr Francois:** The other key element of the Strike Brigade is the Ajax. That is being procured by General Dynamics. As I understand it, they made a number of guarantees about jobs, UK work share and suchlike. Yet quite a bit of that vehicle is now being produced in Spain. Why is that?

Lieutenant General Jaques: It always was going to be produced in Spain. When we ran a competition we didn't look at industrialisation as part of that competition. We are not allowed to, under regulations.

Q74 **Mr Francois:** Under what regulations?

Lieutenant General Jaques: European Union regulations.

John Spellar: Rubbish.

Lieutenant General Jaques: It is not part of the downselect. When we do the discussions on what we choose, you cannot put that in as a reason to do it. You do it afterwards.

Q75 **Mr Francois:** I am sorry, General, we have been doing that in defence programmes for 40 years. That is why we have sometimes bought domestically when it would have been cheaper to buy internationally, off the shelf. Of course we look at industrial factors in taking downselection decisions in defence procurement. We have been doing that for years. It is absurd to say otherwise.

John Spellar: You might have said you chose not to, but you can't say you couldn't do it.

Mr Francois: With respect, that is a bizarre statement.

Lieutenant General Jaques: Why don't I write and explain that for AFVs that has not been the case, against regulation?

Q76 **Mr Francois:** Besides, what used to be article 223 means that national security and defence equipment is specifically excluded by EU treaty law from the competition directives. Of course you can take those factors into account.

Lieutenant General Jaques: Can I come back to you? I think that would be the easiest way.

Q77 **Mr Francois:** No, let's have it out now. I'm not going to let you off the hook. You said it. You should not have said it.

Lieutenant General Jaques: We did not run it as part of the assessment when we chose Ajax. It was not part of the assessment that we took on for that AFV. Subsequently, after we had got through and chosen the downselect with GD, the work on the supply chain then came to the fore, but it was not part of how we assessed whether Ajax, or Scout as it then was, was the right solution in the competition. Subsequently, you are absolutely right. As you go through and develop the proposal with the winning bidder, you look at where work is as part of the consideration. When we get to Ajax, the prime element of that work, there was a UK element of the supply chain in tier 2 and tier 3—

Mr Francois: Which is what we're being told on this one too.

Lieutenant General Jaques: Yes. Then when we let the support contract, GD decided to move an element of the integration of the vehicle to Merthyr. The first 100 vehicles are being assembled in Spain; after the 100th vehicle it moves to Merthyr, who will then do the assembly of the vehicle. The hulls are being built at the GDELS factory in Trubia in Spain, and there is a European supply chain for the whole of the vehicle that comes together to support Merthyr in the assembly.

Q78 **John Spellar:** In that European supply chain, are any British suppliers providing for other sales elsewhere in Europe?

Lieutenant General Jaques: There are no sales at the moment on the Ajax. It is still in the Demonstration Phase. There is clearly a hope that there will be; GD are very keen to export it to different countries and there is a UK supply chain that will benefit from that.

Q79 **Mr Francois:** By way of comparison between Ajax and Boxer, we are being told on Boxer that it is about 1,000 jobs—perhaps you could clarify whether those are jobs created or jobs sustained—and that 60% of the programme value will be spent in the UK. What are the comparable figures for Ajax?

Lieutenant General Jaques: Again, can I come back to you on that one? I have not prepared that element, and if I did that off the top of my head, I might be—

Q80 **Mr Francois:** With respect, this is the Army's premier AFV programme, because we are still some way away on the Challenger upgrade. It is the Army's absolute premier fighting vehicle programme, and it has been 30 years in the gestation, and you don't know how many jobs it will create or how much of it will be spent in the United Kingdom.

Lieutenant General Jaques: Not at my fingertips, but I can go back and get to that almost by reply.

Q81 **Mr Francois:** Isn't there one of those bright young things sitting behind you who can pass you a note?

Lieutenant General Jaques: I'm hoping.

Q82 **Mr Francois:** General, forgive me, but as you are the MGO, it is a bit disappointing that you don't know. Obviously, this Committee has the example of Ajax, and we are being made various promises on Boxer, and we would like to be able to compare the two. They are two obvious natural comparisons to make.

Lieutenant General Jaques: You have made a good point on sustained versus new jobs. It is the subtlety of that that is quite important, and it is different depending on the periscope or prism you look through. I can go away and say, "What is it?" Clearly, we have not decided what it will be for MIV. We have a proposal that is being worked up, so at the moment that 1,000 jobs is a proposal. By the time we get to the end of next year it will be firmed up; we will have a very firm understanding.

Q83 **Mr Francois:** I see that your—

Lieutenant General Jaques: Yes, the bright young things have succeeded in figuring it out for me. Ajax is expected to support approximately 4,100 jobs across 230 UK suppliers.

Q84 **Mr Francois:** So, far more?

Lieutenant General Jaques: Again, what I want to do is try to work that through as we go through the next year, to get it to a point where I understand what the MIV programme will be offering.

Q85 **Mr Francois:** Just quickly, you said that there is a proposal for about 1,000 jobs that is being worked through.

Lieutenant General Jaques: That is based on the current 60%, and the way it has been put across to us by our industrial colleagues.

Q86 **Mr Francois:** Okay, but are you confident in that figure of 1,000 jobs? The Department made quite a big thing of that when it made the announcement.

Guto Bebb: Certainly from our perspective, the figure of 1,000 jobs has been highlighted as the number that we would expect to be in the UK as a result of 60% of the procurement being done in the UK. I think the key point, which you have highlighted, is the difference between sustained and new jobs. This is obviously a new project for UK businesses, but the answer to that question depends on who wins the contracts within the supply chains.

It is very difficult to respond to that specifically at this point, but in terms of the fact that this will create 1,000 job opportunities as a result of the onshoring elements, which is a minimum of 60%, as I say that has been the focus of ministerial dialogue with the ARTEC consortium, and I am very confident that that will be delivered.

Q87 **Mr Francois:** We heard in evidence earlier that most of the tier 1 work has already been allocated, so a lot of the competition to follow will effectively be only at the tier 2 level. Is that right?

Guto Bebb: There had been discussions with large tier 1 suppliers. The key thing is that we have engagements now with tier 2 across the UK. I am very encouraged by the fact that the ARTEC consortium is looking at doing industrial meetings in all four corners of the United Kingdom. The opportunity is there for businesses to bid into this project, and I think it is important that we encourage them to do so. Clearly, the supply chain will be crucial in ensuring that the 60% increases within this project.

Q88 **Mr Francois:** One last question. General Jaques, you said 4,100 jobs on Ajax in the UK, and production has now started, as I understand.

Lieutenant General Jaques: Yes, it has.

Q89 **Mr Francois:** Okay, so how many of those 4,100 jobs have been achieved?

Lieutenant General Jaques: I don't know that at the moment, because it includes support. Clearly it is not in service yet, so that support work has not been generated.

Q90 **Mr Francois:** Do you think you could let us have a note on that?

Lieutenant General Jaques: I think I can do that.

Q91 **Martin Docherty-Hughes:** Minister, you mentioned 60% minimum. Can you go into that a wee bit more? Will 60% of the overall cost be spent within the UK, or is that 60% of the production within the supply chain of what actually is the construction of the vehicle?

Guto Bebb: My understanding is that it will be 60% of the value of the procurement process, so it will be a combination of the process of constructing the vehicles, and on top of that there will be the service element. From a percentage point of view, we are looking at 60% of the overall value of the procurement.

Q92 **Martin Docherty-Hughes:** So, value—great. In terms of actual impact on the supply chain and industries across the UK, it might not be that great because it might go only to a couple of contractors.

Guto Bebb: I think that is very difficult to assess. I would argue that that would not be the case. Quite often in these processes the percentage of the work that is related to the through-life servicing is significantly more than the initial procurement, so I would argue that the 60% of the value of the contract as a minimum is a pretty good guarantee that there will be opportunities for the supply chain across the UK.

Q93 **Martin Docherty-Hughes:** Taking that a bit further on the value, cost is important, but General Jaques you kept mentioning industrialisation. The impact on the industrialisation in terms of the broader industrial military supply chain is also about creating added value by investing in our own industrial military supply chain, rather than, say, Spain's. I am sure you would agree with that.

Guto Bebb: Yes.

Q94 **Martin Docherty-Hughes:** I think a question was asked earlier on it being fully funded. If you do not know the cost, how is it fully funded?

Guto Bebb: I think the question of cost is the difference between the cost of an individual platform and the cost of the overall project. What I am saying quite clearly is that the overall project cost has been estimated and is within the Army budget. The question you asked was whether this was fully funded. Yes it is, within the budget the Army has for developing its strike concept.

Q95 **Martin Docherty-Hughes:** It is either fully funded or it is not. It is funded within a constraint, clearly, within the Army budget. What if it goes over budget?

Guto Bebb: The whole point of being Defence Procurement Minister is to start to stop things going over budget. The last thing you would do is say, "Any budget we offer you can be flexed if necessary". That is not the way we want to do things. The Army know the budget that they have. Within that budget, they have to procure and keep the vehicle in service for a period of 40 years. I think that is a clear commitment that we are making.

It is no different to the fact that we are trying to do things differently with the Type 31e frigates. It is about doing things in a different manner that ensures value for money for the UK taxpayer. It is about time that we did not end up in a situation where MoD contracts run over budget on a fairly regular basis. It is imperative that we avoid that.

On the issue of bringing value to the UK, the fact that there will be a full transfer of IP brings significant onshore value to the UK as part of the process, if we go down that route. Again, I think that contributes to having technical know-how in the United Kingdom that will be beneficial to UK industry.

Q96 **Chair:** But with the Type 31e frigate, you have been very upfront and we have a guideline figure of £250 million per unit. What is the overall cost that you are allowing for those 500 vehicles?

Q97 ***Guto Bebb:*** The overall budget is about £4.4 billion[1], but the key point is that I would not go any further than that at this point, because there is a full negotiation ongoing in the system. **Chair:** What does that £4.4 billion cover? Just the cost of acquiring—

Guto Bebb: And the ongoing full-life servicing as well.

Q98 **Chair:** For how many years?

Guto Bebb: About 500.

Q99 **Chair:** No, for how many years?

Guto Bebb: I thought you said how many units. I do apologise—obviously my hearing. The vehicles will be in service for 40 years.

Q100 **Chair:** So that figure will cover the acquisition of the vehicle and its service throughout those 40 years.

Guto Bebb: That is my understanding, yes.

Q101 **Chair:** So we can do some maths on that basis.

Guto Bebb: No, the 4.4 is over 10—my apologies; I am being corrected. The £4.4 billion is over the initial 10-year period. I apologise.

Q102 **John Spellar:** That is acquisition and 10 years of service and maintenance?

Guto Bebb: Yes.

Major General Tickell: That also includes the integration costs, as we discussed earlier.

Q103 **Mr Francois:** When you asked all your questions of the other potential competitors, was that the cheapest?

Lieutenant General Jaques: When we looked at it, we did a bottom-up cost analysis and a market cost analysis, we asked everyone some questions, and we went and asked our allies what they paid—some of them told us quite straightforwardly. From that, we came up with a whole series of target prices. On the Boxer programme, we then received the whole bill and material costs—15,000 items with every single cost and all the margins. We understand in detail what is being paid for this vehicle today by the Germans and the Dutch. That enables us to have very strong confidence in the price that we will pay for the vehicle.

Q104 **Chair:** Why were you not able to agree a price, then?

Lieutenant General Jaques: Because we want to negotiate on that price, Mr Chairman.

Q105 **Mr Francois:** Sorry, but with respect, you did not answer my question. You said you got lots more detail out of Rheinmetall about what Boxer would cost. You also told us earlier that you had asked lots of very detailed questions, which is why you did not need to have a competition. Was Boxer the cheapest option or not?

Lieutenant General Jaques: It depends if you compare—it is really hard to answer that question. Why is it hard—

Mr Francois: Have a go.

Lieutenant General Jaques: It is the best value for money, which is a combination of cost and capability.

Q106 **Mr Francois:** But it was not the cheapest?

Lieutenant General Jaques: Not necessarily the cheapest.

Chair: But then it had more capability, you are saying, than the one that was cheapest.

Lieutenant General Jaques: That's the point. You are comparing apples and bananas.

Q107 **John Spellar:** What were the differences in capability?

Lieutenant General Jaques: I go back to protection. It was the best vehicle. It has the best protection of any of the vehicles; the best growth; the best power-to-weight ratio, which is significant in terms of mobility; proven mission reliability, because we have lots of data; and it is adaptable. The modularity of the vehicle and the way it is constructed enables it to be future-proof, and enables us to take some interesting decisions on how we acquire the vehicle. To put some flesh on that, the Australians have bought more mission modules than they have drive platforms.

Q108 **Martin Docherty-Hughes:** It is important for the panel to understand that, if we as generalists get given a good explanation of value at an early stage, it makes it easier for the Committee. A broader explanation makes more sense, rather than, "Cheap is good". Many of us here have members of family in the services who might have been in Afghanistan and Iraq in previous vehicles, which were not up to scratch for a range of reasons. The explanation needs to be teased out. That is why I was asking earlier about the notion of value of money. There needs to be a broader concept of what that actually means. If we get that at an early stage, half the argument would probably be won.

Major General Tickell: There is no doubt that if we had this vehicle now, it would be in service on operations.

Q109 **Graham P. Jones:** Interestingly, Minister, you just said that the IPR would be brought back to the UK with this project. Is there a difference between IPR secured through OCCAR and IPR secured through an open competition?

Guto Bebb: In terms of the flexibility that that offers the United Kingdom, I think the IPR coming back through OCCAR offers us everything we would be looking for in the ability to generate exports for the UK, for example. In terms of what we have been looking for in developing UK industry on the back of this contract, this offers us a really constructive and positive outcome.

Q110 **Graham P. Jones:** That wasn't my question. My question was, is there a difference?

Guto Bebb: I wouldn't be able to give you a hard and fast answer at this point on this one. I am sure somebody might be able to answer that question. The key requirement from my perspective was the ability to ensure that the value for money touched upon in terms of developing UK industry can be provided through the option of procuring this platform via OCCAR. I am confident that is the case.

Q111 **Graham P. Jones:** So will the fact that it has been procured through OCCAR diminish opportunities for sales?

Lieutenant General Jaques: No, it is the opposite. It enables us to have the IP through OCCAR, which is always an unknown when you go to competition. IP clearly comes at a price. The IP through OCCAR comes as being part of OCCAR. That is quite a powerful thing. Again, it is a novelty. At this stage, before we have made the decision, we already know what we are going to get. As we go through the next year, one of the questions we will be asking is what that means for genuine export opportunities in time and space from a UK base. That is part of the prosperity proposition that is enabled through going down this route, which would not be enabled if we were not going through OCCAR.

Q112 **Graham P. Jones:** Does the fact that it is done through OCCAR, and the fact that we don't have an open competition and procurement in the United Kingdom, diminish in any way the UK's sovereign capability?

Lieutenant General Jaques: No, I don't think so. That is my opinion.

Q113 **Chair:** Any other views?

Major General Tickell: I would absolutely concur. Maintaining sovereign choice and operational advantage within the UK is absolutely key. On the acquisition strategy, which is not my part of the ship, I absolutely believe that this route will protect sovereign choice and operational advantage.

Q114 **Chair:** It does seem that, if this is such an outstanding vehicle—you have painted a very positive and upbeat picture of this—why did it take so long to arrive at this decision? Would it not have been better all round if the presentation and the timing of it could have been managed, going back to the points we made right at the beginning of the session, in a rather more orderly way?

Guto Bebb: Again, Chair, I was very upfront at the outset. When I was appointed to this position, I wanted to be fairly confident and be persuaded of the correct decision being recommended to me by the Department and the Army. In terms of the timing, I have already taken responsibility for that and I would hope that you would take those comments in the manner that they were offered.

Chair: All right, well let's hope we can manage it better in the future. To conclude our session, I have one more section from John Spellar.

Q115 **John Spellar:** Does the proposed investment by Rheinmetall relate only to Boxer production and integration?

Guto Bebb: What we are talking about at this point in time is the manufacturing of the Boxer. It is the assembly and the integration of the Boxer system within the UK.

Q116 **John Spellar:** Okay. Given there is existing production integration capacity for armoured vehicles, what impact will that have on that?

Lieutenant General Jaques: Production capacity in the UK?

John Spellar: Yes.

Lieutenant General Jaques: We haven't got at the moment someone who is running, for example, a whole production facility. There is not anyone running that at the moment—we have not set it up. The MIV hull will be produced in the UK. There will be some competition for who will actually do that. That will create a hull manufacturing capability in the UK, which for me is quite good. I do not think we are taking away; we are adding to the base in the UK.

Q117 **Chair:** And the fact that we have already got some capacity for building armoured vehicles in the UK will enhance the efficiency of the whole process.

Lieutenant General Jaques: We will get some specialist suppliers. Hull manufacture, for example, is quite specialised. The hull production plant for Ajax is in Spain, and there was a lot of investment to put that in there, and it will remain there. The hulls for Ajax will always be made in Spain. It is the integration that moves to Merthyr. With MIV, the hulls will be produced in the UK. That is quite exciting for me, because that gives me a hull manufacturing capability, which is quite a specialist piece of work. It requires serious welding and capability. Having that onshore is very good.

Q118 **Mr Francois:** So it is a specialised capability to do this type of work? You must have a pretty good idea of where it will be. Where will it be built?

Lieutenant General Jaques: There is a definite element of competition between some of the supply chain, which of course is for ARTEC to manage.

Q119 **Mr Francois:** But at the moment, you do not yet know where it will be built?

Lieutenant General Jaques: No.

Chair: We have had a very good run around. Do I see one last spurt from Leo?

Q120 **Leo Docherty:** General Paul, what is the nearest best alternative?

Lieutenant General Jaques: Can I sit on my hands on that? I think the difference in margin with the nearest competitor is quite significant, and I would not want to be seen to say what is the nearest and best. It is quite close. I do not think it is a case of saying, "It is that one." We then get into it being one or two vehicles, not two or three. I do not think it would be right for me to put that on the table.

Chair: You've all come down on a definite decision: track. Over the next 40 years, may we all be spared to see how right you were. Thank you for coming along this afternoon.

[1] The 10 Year budget for MIV acquisition and support was c£4.4Bn. This position has been updated and c£1.1Bn has been moved into the later years.