

International Trade Committee

Oral evidence: Defence sector exports, HC 740

Wednesday 2 September 2020

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Members present: Angus Brendan MacNeil (Chair); Robert Courts; Mark Garnier; Sir Mark Hendrick; Mark Menzies; Taiwo Owatemi; Martin Vickers; Craig Williams.

Questions 19 - 41

Witnesses

I: Prabhat Vaze, Director of Economics, Belmana; and Professor Trevor Taylor, Professorial Research Fellow in Defence Management, Royal United Services Institute.

II: Oliver Waghorn, Head of Government Relations, BAE Systems; Paul Everitt, CEO, ADS; and Rhys McCarthy, National Officer for Aerospace and Shipbuilding, Unite.

III: Dr Sam Perlo-Freeman, Research Co-ordinator at Campaign Against the Arms Trade; and Roy Isbister, Small Arms and Transfer Controls Leader, SaferWorld.



Examination of Witnesses

Witnesses: Oliver Waghorn, Paul Everitt and Rhys McCarthy.

Q19 **Chair:** Without further ado, we move to the second panel this afternoon, more from the defence industry itself. We have Paul Everitt, Oliver Waghorn and Rhys McCarthy. In that order, can I ask Paul first to introduce himself in his own terms—name, rank and serial number? I often say that, and in this inquiry it is probably appropriate to say name, rank and serial number.

Paul Everitt: I am Paul Everitt. I am the chief executive of ADS, the national trade association for the UK's aerospace, defence, space and security industries. We have about 1,150 companies of all sizes based all across the UK.

Oliver Waghorn: Good afternoon, Chair, my name is Oliver Waghorn and I am head of Government relations at BAE Systems.

Rhys McCarthy: I am Rhys McCarthy. I am national officer for Unite the union's aerospace and shipbuilding sector.

Q20 **Taiwo Owatemi:** My first question is directed to all the members of the panel, but I am going to start off with Paul. Are you able to explain to what extent the defence sector export market supports the UK's employment market?

Paul Everitt: I was listening carefully to the earlier conversation, and we do not separately collect information on defence jobs associated with exports and defence jobs associated with the domestic market. Most companies will be supplying both the domestic customer here in the UK and hopefully the international market as well, and they will be flexing their workforce depending on the level of orders and the level of demand.

For most businesses a high and consistent level of export is part and parcel of their business model. They would not be as competitive for their UK customer if they did not have that consistent and high level of exports. The export market allows them the resources then to invest in the research, the development and the developing capabilities that hopefully ensure that the UK armed forces continue to be ahead of their opposition.

Oliver Waghorn: Paul is right that we will typically ebb and flow between UK programmes and programmes in support of export customers, but to give the Committee a sense of the context, we employ 34,000 people in the UK and, as the previous panel has highlighted, about 80% of exports are focused in the air domain. If I just look at the air sector, we employ 23,000 people. As of today, 59% or 13,500 of our air employees are employed on export campaigns, so it is a significant and fundamental part of our business.

Q21 **Taiwo Owatemi:** Rhys, what data do you have on employment in the



UK?

Rhys McCarthy: I suppose of interest is how intertwined defence is both from a UK setting and from an export; 60% are exports and, as other panellists have suggested, it plays a key role. Without the export market they would have a major impact on the overall business model and the research and development, the costs of bringing a product to market. These all underpin jobs, thousands of jobs. There are 350,000 people employed in the UK in defence jobs—135,000 directly employed and the rest indirectly throughout the supply chain.

Q22 **Taiwo Owatemi:** That is quite a lot. Building on my previous question, in order to determine the drivers for growth and employment is it possible to disaggregate domestic procurement from foreign export?

Paul Everitt: As Oliver has indicated, I am sure individual businesses can have a better sense, within their overall employment levels, of which at any point in time are focused on exports and which might be focused on domestic programmes, but the business model for most companies is they invest in research and development here in the UK for products and services that they will sell to the UK armed forces. On the basis of the success of those products with the UK forces they are able then to sell them to our allies and partners around the world. The two are inextricably linked and some of the questions in the previous segment, the affordability of the kind of high-tech, world-leading products that we are able to supply to the UK military, are based on the additional volume that we are able to attract over the lifetime of a particular product.

Q23 **Taiwo Owatemi:** My next question is directed at Rhys. If exports were to decline, which subsectors would be most adversely impacted and could jobs be readily transferred into other subsectors of defence or other sectors of the economy?

Rhys McCarthy: Other colleagues have spoken about how important aerospace is, and I am not sure it is easy. When things are going well there is a crossover of that skill base, and somebody who is making defence products can easily make civil products. But to disaggregate them is problematic and we would lose jobs. Oliver is from BAE, which is solely defence, but we have British companies such as Rolls-Royce and GKN that have a mix of civil and defence. At the moment, because of the Covid situation and civil aviation planes being almost grounded, it is the defence contracts that are keeping the business going with revenue streams.

Oliver Waghorn: Just to reinforce the point, 75% of our revenues come from outside the UK and it is that complete revenue picture that allows us to support the 34,000 jobs. It allows us to hire 800 apprentices a year and have nearly 2,500 in training. It is not just us. It is the 6,000 SMEs in the supply chain as well. Absence of the export market would cut very deep indeed.

Q24 **Mark Menzies:** Before I begin, I refer the Committee to my entry in the



register of Members' interests and to the fact that I have BAE Systems Military Air very much at the heart of my constituency.

This question is to Oliver Waghorn and Paul Everitt. Have the various strategies that have been published by the Government in recent years made any practical contribution to the exportability of equipment manufactured in the UK?

Oliver Waghorn: I think they have, is the short answer. The Government have rightly recognised the prosperity contribution that defence makes across the whole economy and, within that, the critical importance that exports play. We have seen that manifest itself whether in the national shipbuilding strategy or the combat air sector strategy. We see it, and it is our experience. It is right at the heart of the Government's thinking, and it is part of the reason that the Government support us in the way they do, and that is very welcome indeed.

Paul Everitt: I would agree. There is no doubt the Government have recognised the importance of exportability, and my sense certainly is that there is a much more open, early and transparent dialogue between Government procurement and acquisition authorities and industry on defining what exportability looks and feels like, and on what kind of requirements are helpful or unhelpful in creating a product in a modular sense that can be more easily exported, recognising that we will always want in the UK the ability to adapt something to a specific UK standard, as some of our international partners will want to adapt a product to their own. There is an understanding about how you have to shape the procurement in order to build in that level of adaptability.

Q25 **Mark Menzies:** These are uncertain times for the civil aerospace sector, we can see that, and sadly we have seen considerable job losses in recent months. Paul, what do you think the Government can do in terms of defence exports in order to help secure jobs and to help ensure that that manufacturing capacity is, at the very least, maintained?

Paul Everitt: In the short term we would be looking to see whether there are Government defence programmes—we particularly highlighted space—that the UK Government can bring forward to create some extra demand in the short term for the UK supply chains to try to take up the slack. Longer term, it is the consistent flow of new products and projects into the defence industry that will create the future opportunities for more exports. We can talk a little bit about the work that the Government do already in promoting defence exports. From an industry point of view, we have always received a significant level of support.

Like everybody, all countries are having this kind of discussion about what role their own domestic defence industries can play in helping to kickstart their own economies and, therefore, the level of competition that the UK will face in many export markets is likely to be that much more intense. We probably have to work a bit smarter rather than just more of something.



Q26 Mark Menzies: This is to Rhys. It is quite easy to talk in general terms about defence exports, defence sales and export wins, but behind every one of those there are tens of thousands of highly skilled men and women, thousands of apprenticeships and so on. As a senior Unite representative, what more do you think we can do in the defence export sector to help secure and really drive those jobs and skills?

Rhys McCarthy: Particularly in the Covid situation, we have seen countries like France and Germany bring forward projects, both internally for domestic demand but also with a view to export, which Paul has touched on. These will underpin jobs. For every one defence job created in the UK, 1.6 jobs are created elsewhere. These jobs, because they are earning above the national average, spill out into the local economy. They support the candlestick maker, the baker, the hairdresser, the restaurant and all those things. If you did not have a well-paid job, you could not have gone out to "eat out to help out" last month. They have the skills, they create the industrial base and they create the ability.

I think Professor Taylor touched on this earlier, which was really, really interesting. If you do not have that consistent work and programmes coming through, you lose that skill capability, and then you almost cannot bring that back on tap again. We have seen the problems in the past with submarine building in Barrow. Professor Taylor touched on it with the problems with the aerospace programmes of the Italians and the Germans. Once they have gone, they often do not come back. They are things that have to be protected. If you look at defence itself, it is there to protect the nation, and defence exports protect the economy. That is something we forget sometimes in this period with this Government, unfortunately. I think it should be top of the list, and looking at what other countries are doing to protect the national interest.

Q27 Mark Menzies: I would like to endorse what you have just said. As a constituency MP, three times over the last 10 years I have seen, unfortunately, redundancy situations. When that happens, the whole local economy grinds to a halt, everything from the hairdressers to the taxi firms. People are not eating out or buying clothes for the kids, and so on, until they know more about their employment. This impacts the whole economy. People may not think their job depends on defence but, sooner or later, on a local level it does knock on. Thank you for that.

Oliver, again on that theme, what more do you think the UK Government could be doing to drive those defence equipment sales?

Oliver Waghorn: It is fair to say that the Government are already doing a fantastic job. That starts at the very top: the Prime Minister, members of the Cabinet and Ministers across Government Departments, but also the trade envoy network, ambassadors, high commissioners and DAs. We really could not get better support. It is a really very compelling offering, and it means that we are able to compete and win routinely around the world. The best thing the Government do for us is buy what we produce. Nothing gives us a better start in an overseas market than having an RAF



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roundel on the wingtips of an aircraft, or a White Ensign flying out the back of a piece of kit. It really is critical. It is a vote of confidence in the sector, and it is a recognition that what the women and men of BAE Systems—and across the industry—produce really is world class.

Q28 Mark Menzies: In terms of looking at stuff that has been left on the table, if we take the Type 31e frigate, does that illustrate that the export objectives of the shipbuilding strategy have not been fully embraced by the MoD, or do you think that that is unfair?

Oliver Waghorn: Type 31 is not a BAE Systems platform, so it is not really fair for me to comment on that. But just as a general observation, the national shipbuilding strategy rightly recognises that exports are going to be a fundamental way that we can support shipbuilding in the UK. We are lucky enough, in the Type 26, that we are not just providing the Royal Navy with the Type 26 global combat ship but exporting it to Australia, Canada and who knows where else. It has meant that we have turned an eight-ship programme, hopefully, in the UK into a 35-ship global programme, with all the opportunities that is going to bring the supply chain up and down the UK, and in Australia and Canada as well.

Rhys McCarthy: Domestic procurement is intertwined with exports. FSS comes to mind. I know those are procured for the UK, but it is very, very concerning, because it is the whole issue of keeping our skills base, that industrial base there, and not having those peaks and troughs that lead to a collapse in the capability of shipbuilding. The Government postponed the tendering process. It was put out to international tender using the excuse at the time that to not do so would be in breach of EU rules. We have left the EU now. It is a warship. You can easily say it is a warship. It looks like a warship. It has more defence capability than the aircraft carrier it is supplying. The French have a similar ship and they call it a warship.

We had it postponed. A cynic would say that was done because there was an election last year. We were getting a nod and a wink from the Defence Minister saying that it would be put into a UK tender. We would prefer multiple companies to be in it and sharing that workload, but we wanted it to go to a British company. BAE can bid for it, and Babcock; we are not scared of competition. Our members are across those companies. But what we want is for it to be built in the UK. That will sustain British shipbuilding and put us in a place that we can then build on and maintain, and then we can go into more export markets. I think it is really key that we do that, and we need to put an extreme amount of pressure, and use your good offices and pressure, on this Government to make sure that FSS does not go to an international bidder.

Q29 Sir Mark Hendrick: I want, first of all, to declare my interest in that thousands of aerospace constituents work at BAE between the two sites at Warton and Samlesbury. I agree with what Oliver was saying; I think the Government are doing a good job, certainly in the defence sector, in terms of doing its best to win exports. That affects my constituents and



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our local economy. As Mark Menzies himself described, it has greatly affected lives.

Further on in Lancashire, though, we have Barnoldswick, and it is a Rolls-Royce plant producing the blades for the aircraft engines. The problems in the civil sector have been mentioned. Barnoldswick and Derby have been threatened with huge job losses that are really going to affect parts of Lancashire and Derbyshire. Can I ask Rhys and, to some extent, the other representatives on the panel what they think the Government should be doing to impress upon private companies like Rolls-Royce that they should not just be looking at business overseas and sales overseas but at jobs in this country, and making them less likely and more reluctant to move jobs elsewhere? That is looking like Singapore at the moment in terms of Rolls-Royce.

Rhys McCarthy: Yes, it is extremely disappointing, the news of Rolls-Royce last week at Barnoldswick announcing that they were going to move work to Singapore. The majority of Rolls-Royce's business is civil aviation, but defence does play a major role and, as I said earlier, it is playing a major role in keeping funds going into the company. Our reps and our members have worked really hard with the company to avoid compulsory redundancies. We have played a role in lobbying Government on opening loans to Rolls-Royce, and they also have a small modular reactor developing in that market, and the seed money from the Government of £500 million that we have been pushing for.

To countenance the job losses, which is hugely damaging, as you know, for the local economy, we have taken that decision because you only have to look up in the sky; there are no planes flying at the moment. But then when you find out from Rolls-Royce that they are moving work—because that was on the basis those jobs were going because there was no work. But there is work in Barnoldswick, and for them to move it to Singapore is a betrayal, to be honest, and it is going to have a devastating impact on the local economy. Quite frankly, Rolls-Royce should be ashamed of themselves. They need to watch this space, because our members in Barnoldswick have had enough, and we are seriously looking at industrial action over this situation. When there is no work, that is one issue. Where there is and they are shipping it out to Singapore, it is completely another.

Oliver Waghorn: Just to come in briefly on that, at the start of the Covid pandemic as a company we asked ourselves a simple question, which is: how do we want to be remembered in this process? We take a long-term view about the importance of the UK market, and it meant that not only did we not furlough anybody in the UK, we also decided to keep our apprentice programme up and running. We will take on 800 apprentices this year. It has not skipped a beat. The best thing we can do for our supply chain is support them at this time, and we do that by making sure cash flows into the supply chain, and by offering them support and advice on Covid mitigations and so on. In that regard, the



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Ministry of Defence has been absolutely fantastic for us. They have been very sensitive to what we need and the help that they can provide.

Q30 **Martin Vickers:** Can you suggest how cross-Government working could be improved to encourage the export of British equipment and services?

Oliver Waghorn: I do not want to sound complacent, but it really is hard to identify specific opportunities to improve the system. The Government really do work very well. It is a thoughtful, well-planned process. There is an appropriate division of labour between the Ministry of Defence, the Department for International Trade and other Government Departments. The Government really do act with one voice and with one body in support of BAE Systems and the rest of the sector. It really is first class. The best thing they can do for us is to carry on as they have been in recent years. We really could not ask for more.

Q31 **Martin Vickers:** That is always a phrase that we like to hear, that the Government are working well. Rhys, would you agree?

Rhys McCarthy: I know trade union officials—and Mick Whitley may agree with me—have a reputation of having an opinion on anything but, if I may, I will pass. I think these are more questions for industry and ADS. I would rather give an answer where I am confident I know what I am talking about, if that is okay.

Q32 **Martin Vickers:** Before I go to Paul, I have a supplementary to that. ADS has said that the UK Defence Solutions Centre should play a more formal role in supporting prosperity through exports. Can you explain what this would look like?

Paul Everitt: Sure. If I just address the bigger issue, which is what more could the Government do? We all agree that the Government, by and large, are doing a good job. However, given we are facing a much more competitive international marketplace, we cannot afford just to keep doing what we are doing. We need to think through what more we can do and how we could improve what we are doing. First and foremost, that is around better targeting of activity. We need to understand more clearly where our key markets are. We have some markets around the world, and some allies, with whom we have very strong and long-term relationships, where we have successful export campaigns, and have over a long period of time. But we cannot afford to be complacent about those, and we need to be thinking carefully both about what are we doing now to sustain the current level of exports and about where those countries want to go next. What are the capabilities that they are looking for where the UK could play a role?

It could also be more targeted. There are some countries around the world where we traditionally have very strong relationships and successful export campaigns, where sadly, of course, over the last two or three decades we have seen our market position erode. We need to think more carefully about what it is that some of our competitors are doing that makes them more successful. In this respect, it is where the UK



Defence Solutions Centre can play a role. Just for awareness, the Defence Solutions Centre is part of the Defence Growth Partnership. It is a joint UK industry-Government collaboration. The Defence Solutions Centre has some permanent staff of its own, but also regular secondees from across industry to bring particular areas of expertise. Their focus is in probably three key areas. The first is bringing together market intelligence. So, what are some of our key countries, allies and partners? What are they already buying, what are their defence equipment plans, but also what are the capability challenges that they are talking about?

The Defence Solutions Centre also works with the UK MoD to understand what its future capability requirements are. The purpose of that is to be able to share sometimes quite sensitive information with the wider defence community, so not just the very large businesses that have those sort of regular dialogues but the wider UK defence industry, who perhaps have capabilities that could help support some of the priorities that the MoD might be outlining.

Then the third area for the Defence Solutions Centre, if you imagine that we have a good understanding now of what our allies and partners want to buy and we know what the UK itself is prioritising, we can bring that information together to identify specific areas of capability and specific countries and relationships where there might be a more fruitful level of dialogue. So, the third area that the Defence Solutions Centre works on is working with the MoD to create the industry-to-industry dialogues that help create not just the defence and diplomatic relationships, but the industrial relationships that are so important in the future world that we see for defence procurement.

As we said earlier, it is not possible for an individual nation to develop on its own all of the solutions that it needs. Very often you need international collaboration with partners able and willing to contribute to the development of capability, but also who create the markets for the products and services once they are developed. The Defence Solutions Centre provides a way for industry and Government to work together to better understand what those international market opportunities look like and create the relationships at an industrial level, and some of the intelligence that our Ministers and officials can use when they are in some of the key dialogues that they undertake with our international allies and partners.

Chair: Thank you. I will give a reminder about time now. We have about seven or eight minutes left on this panel.

Q33 Mark Garnier: Thank you, Chair. Paul, can I turn to you? In answer to a question a bit earlier you made reference to the fact that you have a wide variety of resources, including trade envoys, and there is nothing better than the RAF roundels on the wings of an aeroplane when you go overseas to the export market. DSO is currently in the Department for International Trade. Is that the right place for it, or do you think it should be in the MoD?



Paul Everitt: No, I think it is in the right place. What is important is that there is a level of co-ordination between the Department for International Trade, the MoD and a number of other Departments. As we said earlier, the international relationships that help secure major defence projects and procurements are built Government to Government. Having a number of interactions with international partners is really important, and having a strong centre in the Department for International Trade, helping to co-ordinate and inform other Departments, has been working very well. Recently, in the slight rebranding of what was DSO into UK Defence and Security Exports, we have formal commitment from Ministers within the Home Office, the Ministry of Defence and International Trade to that broad cross-governmental working, which is the key thing that we need.

Q34 **Mark Garnier:** The technical skills within the Department, do you have all the people there that you need to be able to deliver what you want?

Paul Everitt: People would always like more or better. What we have been working on, and this is particularly true through the Defence Growth Partnership, is industry being prepared to second some of its own staff to work with officials in an arm's-length way to ensure that they get some of the expertise and insight that might be really useful in the developing relationships that are a core part of making progress on defence exports.

Q35 **Mark Garnier:** Finally, UK Export Finance: good, bad or indifferent?

Paul Everitt: Generally good. The challenge for UK Export Finance is it has strong relationships with the top end of the marketplace. It is more difficult to create a similar type of relationships with small and medium-sized enterprises because the gap between their deals may be so long that it is quite difficult to maintain the level of dialogue or familiarity. Larger businesses are doing enough deals on a regular basis that those relationships are always fresh.

Q36 **Mark Garnier:** Paul, that is a really important point, because UK Export Finance quite often is the last point that people go to. If you are a big business, say, for example, Oliver at BAE Systems, you have very mature and well-established banking relationships that should be able to finance a lot of these deals that you are doing. My view when I was in the Department was that UK Export Finance is there to try to help those people who have less firm financial relationships. What you said to me just there slightly rings an alarm bell. I would hope that UKEF would be working hard to maintain those relationships with those people who need it more.

Paul Everitt: It does, but the difficulty is that, again, some of the small and medium-sized businesses will themselves arrive at the end of their deal-making process to UK Export Finance, rather than perhaps engaging with them at the beginning of the process. Certainly, that is an issue. In the work that we are doing with the Department for International Trade, we are developing a programme of skills and training to ensure that small and medium-sized enterprises understand how to go about some of those



export processes in the best way. It is better to be engaging with UK Export Finance when you are beginning your marketing drive into a country so that they can sit alongside you with some of their own expertise and, therefore, UK Export Finance's capability becomes part of your offering to the customer, rather than, "Oh, I need to get some additional finance, or some additional cover, so I need to run around and find the right person to talk to."

Q37 Mark Garnier: I could go on about this for hours, but we have a very short amount of time. This is my last point. Can you take this away as homework to make sure that your small and medium-sized members are getting that advice, because it is really important?

Paul Everitt: I will absolutely do that.

Q38 Chair: Just before we come to an end, I will throw a devil's advocate question at the panel. Of the £656 billion-worth of UK exports, defence is, at £14 billion, in about 12th place, sitting alongside those of general industrial machinery and equipment, food and live animals and transport equipment, and at about half the level of power-generating machinery. You say the Government work well, but maybe too much is made of the defence industry and there is too much special pleading for the defence industry. How would you answer that? Secondly, what do you feel your threats might be in the industry going forward? What are the risks, as you see them, to maintaining that important £14 billion? I will go around everybody for a quick 90-second answer. I am pretending I am Emily Maitlis here.

Paul Everitt: In terms of why we are important, first and foremost, it is the international relationships that these export arrangements help to solidify and support. The work we do is in support of Government and national security priorities, so it is strategic in its nature. It makes the UK's own procurement more affordable so we can keep ourselves safer by doing what we are doing. Also, the industrial capability that it creates here in the UK is about helping us as a nation be more resilient. Our aerospace and defence companies were the ones that stepped in when we were trying to meet the ventilator challenge, along with a range of other key sectors, and it has put its hand to a range of other things in the national interest.

Q39 Chair: And the threats to you?

Paul Everitt: Externally, France and the US are very, very hungry to take our export markets. Internally, we know there is going to be pressure on public procurement in the coming years because of the costs of Covid. It is absolutely essential that we continue to fund the UK defence industry and ensure that there is a flow of high-quality products to the industry so that we have the capabilities and the pipeline of exports that will help ensure that we have both the national security but also industrial capability for the long term.

Q40 Chair: Thank you, Paul. Emily Maitlis feels very safe with my timekeeping



there. Rhys McCarthy?

Rhys McCarthy: Paul put it very succinctly, but defence is an important piece of our jigsaw, and without it you cannot get the full picture. The threats come with this defence spending review because of the pressures that have come under Covid. It will be seen as a cost-cutting exercise, and we will be going the opposite way to how the French, Germans and Americans are seeing it, that you pump prime the economy by putting money into the defence industry. You protect internal jobs, the skills, the technology, et cetera. It is a broad balance of defence that you have, not just going into Dominic Cummings's "Star Wars"-type stuff. We need that as well. We need all kinds, from tanks, to planes, to ships, and everything else in between.

Q41 **Chair:** I will take that as a general plea against austerity, which I would expect from trade unions, and I see the nod. Oliver Waghorn?

Oliver Waghorn: Paul and Rhys have touched on a couple of points, but from my perspective the case revolves around 6,000 members of the supply chain, 34,000 people for us, and a great many others. Eighteen thousand of those are engineers, who have 27% higher productivity than the national average. We have nearly 2,500 people in apprenticeships. This is not in the south-east and London. These are in the midlands and the north, in Preston, in Brough, in Glasgow and on the Clyde. That is why for us it is a real success story, and it is something that we, for our part, are really proud to be associated with. As I look at threats, I would rather think about opportunities. Government, with the integrated review coming up, have a great opportunity to give a vote of confidence in the defence sector and really give us an opportunity to show the world, and to showcase to the world, some of the great technology that the sector can produce.

Chair: Thank you. That was an optimistic note, or perhaps a plea by the defence sector, to end on. Thank you very much, Oliver Waghorn, Rhys McCarthy and Paul Everitt. It is most appreciated that you could give us your time today. I probably ran a little over time, by two or three minutes.