



HOUSE OF LORDS

Select Committee on the European Union

Internal Market Sub-Committee

Corrected oral evidence
Brexit: space

Thursday 12 July 2018

1 pm

Watch the meeting

Members present: Lord Whitty (Chairman); Lord Aberdare; Baroness Donaghy; Lord German; Lord Lansley; Lord Liddle; Baroness McGregor-Smith; Baroness Noakes; Baroness Randerson; Lord Rees of Ludlow; Lord Robathan; Lord Russell of Liverpool; Lord Wigley.

Evidence Session No. 2

Heard in Public

Questions 10 - 19

Witnesses

[I](#): Mr Sam Gyimah MP, Minister of State for Universities, Science, Research and Innovation Department for Business, Energy and Industrial Strategy/Department for Education; Rebecca Evernden, Director, International, UK Space Agency.

Examination of witnesses

Mr Sam Gyimah MP and Rebecca Evernden.

Q10 The Chairman: Thank you very much for giving us your time in these rather hectic times. You will have gathered that the Committee has taken an interest in the space dimension of post-Brexit life, for both industrial policy and R&D reasons. We have talked to significant elements of the space industry and paid a visit to the space hub at Harwell, after which we were concerned about what has been going on, particularly on the Galileo programme. Our questions follow from a degree of experience relayed to us by different elements in the space sector.

In answer to my opening question, you can say whatever you like, but the key point is: what is happening about Galileo? We now know that since our meetings with the industry a decision has been taken by the ESA council to exclude UK companies from the latest procurement batch. However, we are not entirely clear of the legitimacy of that decision and how it has been taken, or whether there are any means that we can now undertake to try to get it reversed, or whether we have missed that point. Clearly, for significant elements of the space sector, it has rather damaging effects, in particular for Surrey Satellite Technology and the other Airbus subsidiaries involved. In recent days, we have heard from Airbus more generally about its concerns on Brexit; perhaps you could respond to that.

This is an open meeting; it is on record and it will be broadcast, so you need to judge your words. Perhaps you could give the general position on Galileo, and, if you want to say more general things at this point, please do so.

Mr Sam Gyimah MP: Thank you for the advice to carefully calibrate my answers, given that this is being broadcast. If I understood your question correctly, there are two main issues: first, where we are with the Galileo negotiations, and, secondly, the industry impact.

In the negotiations, we have been clear with the Commission that we want Galileo to be a core part of a future EU-UK security partnership. We have also been clear that for that to work we want full access to the secure signal, and we want UK industry involvement in the secure elements and the ability to participate in all areas of the programme. The Commission's current proposal, however, does not meet those objectives. We know that our proposal is ambitious, but it should be negotiable. Keeping the UK involved is in the best interests of the UK and the EU.

As the Committee is no doubt aware, the UK has been deeply involved in Galileo pretty much from its inception, so we are not in the same place as other third countries, which is what the current proposal implies. We have also said a number of times that, given the deep level of expertise here, excluding the UK from the success of the programme would make the programme more costly for the EU and lead to delays.

You mentioned what happened at the ESA council about the latest contracts. We are not yet past the point of no return, but time is running out. UK companies have been excluded from bidding for the most recent contracts on the PRS on security grounds. To be honest with the Committee, our industrial interest in that particular respect is, therefore, in sharp decline. You mentioned SSTL. It has built all the satellites for Galileo and thus far the Commission's actions have excluded it from bidding for further work. Airbus was instrumental in developing the ground control system but is now unable to do that work from the UK, and it will have to be delivered from France. CGI has developed the system encryption but is now unable to continue that work. As far as Galileo and UK industrial interests are concerned, those are matters of serious concern for us.

Despite those challenges, if we look at the wider impact, the UK space sector is in a strong position. We are starting work on a domestic alternative to Galileo, which you will probably come to later. We have a new satellite launch programme to bring launch capabilities to the UK, which we will be announcing very soon. We have invested £100 million in a satellite-testing facility at Harwell and we are looking very closely at a national space programme. There is a lot of action in train to make sure that we keep the capability and knowledge that we have developed, while negotiating with the Commission to achieve what we think is essential to an EU-UK security partnership, which is access to all parts of Galileo.

The Chairman: Can I press you slightly on that? Does that mean that any remaining hope of reversing the immediate procurement decisions will be through the overall negotiations on withdrawal and security and so forth, or is there any scope for reversing them via the ESA structure, or at least deferring the effect via the ESA structure until other things are clearer?

Rebecca Evernden: To add to what the Minister said, we are still in discussions with the Commission about Galileo and the process has not finished yet, so we need to be entirely clear that it is in the Commission's gift to reverse the position it has taken on the exclusion of the UK from participating in the sensitive aspects of the Galileo programme and excluding UK companies from being able to deliver those contracts. If we were able to conclude a successful agreement, probably within the bounds of a strong security partnership, the Commission could remove those conditions, absolutely, as part of that agreement. However, as the Minister noted, that looks very challenging at the moment, given the very firm position that the Commission has taken in saying that the UK will become a third country when we leave the EU, as we obviously will, and that we will be treated on a standard third-country model.

You asked whether we could use the European Space Agency to help to address the issue. That is quite challenging, because the European Space Agency is acting in effect as a delivery partner for the EU in managing the contracts. Therefore, it is given the terms for managing those contracts from the EU. We continue to be a member of the European Space Agency

and will continue to be so after we leave the EU, and we will use our influence through the European Space Agency to raise the difficulties that excluding the UK creates for the whole of the Galileo space programme, and indeed the other space programmes. But we do not believe that it is in ESA's power to reverse conditions that they are required to meet by the EU to deliver the Galileo programme.

The Chairman: Lord Lansley used to be involved with ESA himself. Is that sufficient for you, Lord Lansley?

Lord Lansley: It was a very long time ago. I was a UK representative to ESA in 1982, when the EU did not feature in these discussions, but to pursue the point about ESA, we continue to be members of it, although it is not an EU institution. As I remember, decisions in ESA were made by consensus. What I am not clear about is why we, as a member of ESA, cannot press ESA not to act as a delivery partner to the EU unless and until an agreement has been reached with the UK as an integral member.

The Minister is absolutely right; we have been at the heart of this from the very beginning. I was sitting there when we agreed LSAT, the originating programme. Do we have any remaining legal options to require ESA not to act with the EU, or indeed, for that matter, slightly anticipating, to require it to act as delivery partner to the UK if we were to go independently?

Mr Sam Gyimah MP: That is a good question. We have been taking all the steps we legally can to pressure ESA, which after all is and should be independent on this matter. I wrote to the Commission to delay the vote on batch 4 as it would prejudge the negotiations between the UK and the Commission on Galileo. I made the point specifically to officials at the Commission, including, I think, Bieńkowska, when I was at the last formal Competitiveness Council. At the ESA council on 13 June, the UK voted against a proposal to approve the next round of contracts for Galileo satellites, as these contracts are related to ongoing discussions between the UK and the EU. So we actually voted against.

We set out our position on Galileo in a technical note published on 24 May, which stated that our continuing the "current exclusion will time out the possibility of future UK participation in Galileo", and from a security perspective we have made it clear that "any gap in UK involvement in the design and development of Galileo and the PRS" would mean that the UK could not rely on the system for our own national security interests. Using the legal remedies available to us, we have gone as far as we can in engagement with the Commission and ESA.

Lord Lansley: I would have thought that at ESA, institutionally, they would be rather sympathetic to us.

Mr Sam Gyimah MP: They very much are.

Lord Lansley: They do not want to proceed without UK participation, if such is possible.

Rebecca Evernden: I think that is right. ESA, and indeed some member states, if you talk to them privately, admit that the UK has played a very valuable role in developing the heart of the Galileo programme and that, without the UK continuing to play that role, the programme will suffer delays and cost increases. That is inevitable.

On your question about the voting mechanism at ESA, you are absolutely right: traditionally, these votes were passed by unanimity. However, the Commission decided that in this particular instance it would absorb the financial risk from ESA to enable the vote to pass on a majority basis rather than a unanimous basis. Therefore, that is the basis on which the vote proceeded, but, as the Minister said, we voted against it because we disagreed with the Commission's position as taken, which sets out conditions that mean we cannot participate in the secure aspects of the programme.

Q11 **Lord Robathan:** Minister, since we have been at the heart of Galileo and provided a huge amount to the programme, could you tell us the motivation behind the European Commission being determined to get us out of Galileo? What is your speculation, your opinion?

Mr Sam Gyimah MP: It is speculation. A charitable interpretation of the actions would be that it adopted the overly legalistic position that, as the UK will be a third country, on every single issue we should be treated as a third country. The difference with Galileo, however, is that, yes, we might become a third country when we leave the EU, but we have been involved in building it, both in expertise and by contributing financially.

On security matters, we already have deep co-operation with the EU. Only a matter of months ago, we co-operated very closely with France in the US-led airstrikes against Syria, so the very idea that somehow the UK cannot be trusted on security matters, frankly—this may be unparliamentary language—is for the birds. You could speculate that a legalistic definition has got us here. You could also speculate that there are other industrial interests that benefit at the UK's expense. It is all speculation.

We have to focus on the negotiations. We set out our technical note and will make sure that we get the best out of it. If the EU wants UK-EU security co-operation, we see Galileo as essential to that.

Baroness Randerson: How long have the Government been aware of this EU stance? I ask that, because we went on a visit to Harwell many months ago and the issue was raised. Indeed, we had evidence there that we were already in practice being squeezed out. I went on a visit a year ago when this issue was raised with me by people working in the space industry. They saw signs that it was already happening then.

Mr Sam Gyimah MP: I was appointed on 8 January. I was first made aware of our specific involvement in late January when a letter was written by the Secretary-General, Commissioner Italianer, setting out the Commission's position with respect to Galileo, a position that we believe

was not entirely consistent with some of the principles of the withdrawal agreement—the joint report that had been agreed in December. That is when I first became aware of it.

Rebecca Evernden: The January letter from Alexander Italianer was the first formal notification to the UK Government that the Commission was going to exclude the UK from certain aspects of the Galileo programme, but you may be referring to the fact that, prior to that, the Commission had inserted participation clauses in contracts for UK companies bidding for work from the Galileo programme. I believe they started to be inserted in contracts from late 2016 or early 2017. At that point, we had had considerable discussions with the Commission, and our hope was that the wording agreed in the joint report, which was that the UK would be able to participate in all programmes until the end of the implementation period, would go some way to solving the problem and would indicate the Commission's willingness to come to some sort of agreement with the UK on Galileo.

As the Minister said, after that it became very clear in January that this was not the Commission's intention, and since that point we have been talking to the Commission and we are starting to enter formal negotiations around an agreement on Galileo.

Baroness Randerson: Do you agree that the Commission's position is consistent with the line it has taken with Canada? That was evidence we had at one point.

Rebecca Evernden: With Canada?

Baroness Randerson: It was treating us as members but as third countries.

Mr Sam Gyimah MP: I do not think there are exact parallels. Yes, Canada is a third country, but Canada did not start from the position of being a fully-fledged member of the EU, contributing to the programme and bringing capability and expertise to bear. That is the crux of the dispute, as it were. I do not find it satisfactory that the Commission can use this kind of legalese to try to stop us. It is one of the issues where, whichever side you were on in the referendum campaign, you could say that it is unacceptable on the part of the Commission.

The Chairman: No doubt some of these issues will arise again.

Q12 **Lord Rees of Ludlow:** To follow up Baroness Randerson's point, many people have been aware of this impending problem since a year ago, when we had a House of Lords debate on Euratom, which of course involved somewhat similar issues of security and collaboration with Europe, but we are where we are. Apart from the short-term concern if we cannot move forward from the 13 June decision, could you say a bit more about the longer term, Minister? If companies such as Surrey Satellites cannot bid for these contracts, is it likely to have a long-term fallout in weakening their position in the future development of Galileo,

and indeed in European space projects generally?

Mr Sam Gyimah MP: I am sorry, do you mean the long term for Galileo and European space projects?

Lord Rees of Ludlow: Mainly Galileo, but we will be talking later about Copernicus, which is similar.

Mr Sam Gyimah MP: For the long term, the question is whether, if the UK cannot be involved in the secure element, we will be satisfied with access to the other aspects of Galileo. We have made our position very clear: participation in Galileo should include the secure elements, and UK industry being able to carry on the kind of work it has been doing is a condition for our participation. If that is not forthcoming, the EU has to carry on with Galileo on its own while the UK looks to develop its own system.

We already have an agreement on GNSS with the Americans, so we will carry on using that, but we are working on a feasibility study at the moment and will look to build our own system. We are a confident, sovereign nation, and we should be able to do that.

Lord Rees of Ludlow: But given that our lack of participation would delay Galileo, I am surprised that you think our bargaining power is so weak in trying to get a resolution.

Mr Sam Gyimah MP: I do not think our bargaining power is necessarily weak. It appears to me that it is a question of teleology on the part of the Commission rather than relative bargaining power that has decided that. We are still in negotiations, but we have to prepare for every eventuality, and we have made it very clear that we will go our own way if need be.

Lord Rees of Ludlow: You seemed rather pessimistic in what you said earlier about getting any change that is going to allow UK companies to participate in the next set of contracts.

Mr Sam Gyimah MP: As everyone here knows, we are in deeply fraught negotiations—fraught on our side of the channel and fraught on the other side. I would not want to overstate our position, but there are active negotiations going on. My job as the Minister is to make sure that we have the right position but that we are also prepared for the worst.

Lord Liddle: Have you asked the Commission what assurances on security it would want in order to enable it not to treat us as a third country, and what answer does it give?

Mr Sam Gyimah MP: That issue has been explored.

Rebecca Evernden: It is difficult to share too much of the detail of the talks with the Commission, as they are still ongoing, but I will share what I am able to.

We have been very clear with the Commission that we are prepared to provide all the assurances it would require that we would continue to act

as a responsible partner on Galileo, but that becoming a third country does not mean that the UK becomes a security risk, which is, I think, the implication, or the reason, behind the UK's exclusion from Galileo. We have challenged the EU's assumption that somehow, by Galileo including the UK on a similar but not equivalent basis to member states, we are asking for member state status; we are not.

There are certain areas where we absolutely accept that we could not have the same rights as a member state—for example, we would not expect to be involved in votes on the programme—but we have been really clear that for us to be able to use the programme in a meaningful way, we need to be deeply involved, and to have our own assurance about the way the system is being developed.

There are a number of things that we would need to put in place with the Commission to make that work, one of which is a security of information agreement as well as a PRS agreement, and then some sort of programme participation agreement. We hope that, by negotiating all those things, we would be able quite quickly to allay any fears as to the change in status of the UK from being a member state to a third country.

Mr Sam Gyimah MP: Although the Commission might see that as an ambitious ask, given that we have a relationship with the United States and we have been through these issues with the Americans, it is possible for a third country to have the depth of relationship that we are asking for and for the Commission still to preserve its position, if the willingness is there.

Lord Liddle: I did not quite understand what you were telling me, Rebecca. Are you saying that at the moment we are discussing a text with the Commission that would provide those assurances?

Rebecca Evernden: No, we are not at that stage. We would like to be at that stage, but we are not at this point.

The Chairman: Part of our problem is the sequencing: we or our companies are being treated this way when we are still supposedly a full member of the EU. My legal adviser may advise differently, but it looks odd. The industrial effect is that if companies are excluded now and it takes us time to negotiate a security agreement, with all the things you are referring to, by the time that is completed the companies will have been excluded, they will be behind the curve and their ability to rejoin at a later stage will be limited, because once you are involved in that stage, another company will be the incumbent, and that will be difficult for our companies.

Mr Sam Gyimah MP: You are absolutely right to express that concern, and one of the principal reasons why we voted against the batch 4 contracts was that the contracts should be tendered or awarded at a time when negotiations are ongoing, given that we do not know what the outcome of the negotiations will be.

There is what I would call an asymmetric point, which is that the level of skill and expertise is easily replicable. For example, CGI and the work it has done on the cryptography and maintenance of the satellites could not be easily replicated. That is why not allowing the UK to continue is bad for the EU and bad for us, because the EU will lose out on that expertise and it cannot just replicate it overnight.

Lord Liddle: What I do not understand is the delay in negotiating the security deal. The Government have always been clear, have they not, that this is separate from the economic relationship, so whatever happens on the economic relationship, we want a close security deal with the EU? What is causing the problem in sorting it out?

Mr Sam Gyimah MP: I am not that close to the security deal, but what I know of the approach—

Lord Liddle: But it is obviously a key part, is it not?

Mr Sam Gyimah MP: It is a key part. The approach the Commission has taken to all the negotiations is that the divorce, as it were, had to be negotiated before the future relationship. A lot of the time until now has been taken up by the divorce, and Galileo and the security partnership fall into the future relationship. Frankly, that is why the whole position is illogical.

Lord Liddle: I see. I understand.

Q13 **Baroness McGregor-Smith:** Could you tell us what assessment the Government have made of the number of UK jobs that depend on full UK access to Galileo, including research and development, the ground segment and the space segment?

Mr Sam Gyimah MP: I have been in regular conversations with all the companies involved on what their plans are, given what we are experiencing. We are talking about very highly capable people with a very high level of skills, some working exclusively on Galileo-related matters, others working on a number of issues. There is a lot going on in the space sector, in the domestic alternative, which would provide contracts and potential work for those companies. The department is looking at a space sector deal. As I said earlier, we are also looking at a new satellite launch programme and a national space programme. These are critical skills and capabilities for us to retain in the UK, and we are working to ensure that we would do so if we were to fall out.

Baroness McGregor-Smith: Have the companies given you an estimate of the numbers of people who are potentially impacted who would have to move to other programmes?

Mr Sam Gyimah MP: None has given me an estimate of numbers. We have a very good relationship with the companies. We are all working to make sure that they are in a good position while negotiations are ongoing and, were negotiations not to be successful, to be able to continue to provide valuable commercial work for them.

Baroness McGregor-Smith: Have any of them said that they would look to move employees elsewhere, to other programmes outside the UK, or not?

Mr Sam Gyimah MP: Airbus is bidding for contracts out of France, so that is its response. I think we are currently in a good place, but were we not to implement the things I have discussed, we could see our capabilities in this area diminished. That is why it is a very serious concern for us.

The Chairman: We all know that Airbus has significant subsidiaries and interests that it could shift. Some of the other companies are either independent companies or British companies. This expertise is fairly transferable in physical terms. Do you think the reality is that people will set up or transfer to their other subsidiaries in the EU?

Mr Sam Gyimah MP: A lot depends on the speed of progress that we make on the domestic alternative to Galileo, were negotiations to be unsuccessful. Given the sums involved, if we were to focus on a UK GNSS, we are talking about contracts worth between at least £100 million and £150 million a year. There will be a huge commercial incentive for companies to keep their business and employees here—employees who live here and have families here—so a huge part of it will depend on the progress we can make on that, were negotiations not to be successful.

Q14 **Baroness Noakes:** Ms Evernden referred earlier to the clauses in existing contracts that have started to be put in since the Brexit vote, requiring delivery to be moved to an EU 27 country after March next year. Could you confirm your understanding of those contractual clauses and whether they are likely to be brought into effect at the Commission's behest? What is the Government's understanding of what the financial impact might be?

We were told in evidence that some of these would be unmanageable, which I assume means that it would threaten the viability of the companies concerned if they were pursued. I would like to get an understanding of how the Government are interacting with the companies concerned.

Rebecca Evernden: The Minister has made it very clear that we are in constant contact with those companies. We have very regular dialogue at CEO level, and at programme level, so we really understand the impacts on the companies. The clauses continue to be included in the contracts, and our understanding is that the Commission has the ability either to apply them or to offer a waiver to companies if it feels that is appropriate in the circumstances.

I cannot comment on commercially confidential issues, but we have said to the Commission in our engagements that, given the fact that we are still in negotiations, we should give companies the opportunities to make appropriate plans to deal with the clauses. For the small number where we are aware that there is an issue, the companies involved have made plans to deal with the impact of the clauses, which could involve moving

some elements of the work overseas. I stress that this is only the work concerned with the PRS—the secure element of the system.

Baroness Noakes: It does not apply more broadly.

Rebecca Evernden: It does not apply to other aspects of the contract. It applies to the PRS work, and the Commission has said that that aspect has to be delivered from within an EU member state. Clearly that will change in March 2019.

I emphasise the point that we have pressed the Commission hard to consider offering a waiver to those companies where it can do so, to mitigate any impact from the clauses while we are still in talks.

Baroness Noakes: What has the Commission's response been to date?

Rebecca Evernden: The clauses remain in the contracts at this time and our discussions continue.

Baroness Noakes: Is your understanding that UK companies would be financially distressed if the clauses were not waived?

Rebecca Evernden: It depends on the circumstances for each company. The companies have to make their own plans to deal with or to mitigate the impact of the clauses, which involves, if they were to be applied, considering how to move, potentially overseas, the particular elements that could not be delivered from the UK because it would no longer be an EU member state.

Baroness Noakes: Do the Government regard this as a serious issue affecting UK companies or as a minor technicality?

Rebecca Evernden: It is a serious issue for the companies involved, but the wider position which the Commission has taken on Galileo means that UK companies have not been able to bid at all in the latest round of new contracts that have been offered since the participation clauses were placed in contracts. It probably affects only a relatively small number of contracts and a relatively small number of companies, but, unfortunately, those wider conditions affect a much broader range of contracts and therefore a wider group of companies. That has superseded the Commission's position on general exclusion from the programme, and, in a way, has superseded the participation clause issue.

The Chairman: As I understand it, there are some existing contracts, and certainly potential contracts, including Copernicus-related contracts, where the same security reservations by the Commission would appear on the face of it to be less justified. Is it your understanding that exactly the same provisions would relate to existing and future Copernicus contracts?

Mr Sam Gyimah MP: We have not yet started formal negotiations on participation in Copernicus, but, dare I say it, I am a bit more relaxed on

Copernicus, because the regulations allow third-country participation and do not have the same restrictions as Galileo.

The Chairman: That is helpful. Could we go on to the use of Galileo?

Q15 **Lord Robathan:** We talked just now about industrial participation in the PRS contracts. I am particularly interested in the access that we might get. From everything you have said up till now, it appears that the EU negotiators on this in the Commission are pretty immutable. Do you think we can achieve an agreement on sufficient access to PRS? How likely is it? I know it is a value judgment.

Mr Sam Gyimah MP: If the Commission is being very rational, it is highly likely. If it is a politically driven position, it is a much more difficult call.

Lord Robathan: Noses and faces come into this, it seems to me. We are a much greater contributor of intelligence. You mentioned the United States. You did not mention the Five Eyes, but our intelligence services are the lead intelligence services in western Europe. We have paid a great deal of money into Galileo. You have mentioned already the possibility of starting our own thing. If we are excluded from PRS, do we get a refund? It is a serious question. If we are being kicked out, do we get any money back?

Mr Sam Gyimah MP: I think that is a matter for the Treasury, which holds the ring as far as the withdrawal situation is concerned.

Lord Robathan: Everything is always about the Treasury. You have already addressed the fact that the expertise that we have in the United Kingdom is very important to the Galileo programme. Indeed, without it the Galileo programme would be put back. What retaliatory actions—if I can put it that way—what sanctions can we put on if we are kicked out of the PRS system? We can use GPS anyway. Anybody can use GPS, but if we are kicked out of the PRS system, that is the most critical thing, it seems to me.

Mr Sam Gyimah MP: As regards where we are now, I would say that the Galileo programme is suffering from not having full UK industry participation. For example, CGI not being able to bid for the extra contracts means that the programme is losing out. Never mind retaliatory action by the British Government, the consequence of the industrial action that the Commission has taken is that it is losing out on key skills, and that will cost money and lead to delays, which is the case we have been making to all member states.

I have spoken to my counterparts in all the member states to make it very clear to them that the Commission is taking a position that has consequences for their national budgets. It is not retaliatory action, but the negative consequences are not just borne by us; they are borne by EU member states as well.

Lord Robathan: Would you describe it as cutting off their nose to spite

their face, Minister?

Mr Sam Gyimah MP: Highly frustrating.

The Chairman: Well done.

Rebecca Evernden: We have been trying, as the Minister says, to make very clear the mutual benefits of co-operation. The logical extension of the argument is that UK companies and the UK stay in, and the programme keeps to time and to budget. The EU can continue to benefit from the use of our sensor stations, for example, in our overseas territories, and we will continue to offer a financial contribution to the programme. There are lots of reasons why it is in our mutual interest, not least in the area of defence co-operation, where using the same system in the same way makes things much easier. That has been very much the nature of our argument, and we are hoping that it will persuade the Commission and member states of the benefits of a shared UK-EU approach.

Mr Sam Gyimah MP: Politically, a concern of ours, certainly of mine, at the start was that the Commission is taking a stance whose repercussions the member states may not have fully realised, so there has been concerted activity across government to communicate this to all the member states, people not just on the science side but on the defence side, and make it very clear what the consequences are. The ball is now very firmly in the court of the Commission and member states.

Lord Robathan: These are our friends and allies after all, are they not?

Mr Sam Gyimah MP: You could say that.

The Chairman: Irrespective of who has the contracts for Galileo, have the Government signalled to our European friends and allies what level of access we would like to have to Galileo, or is that dependent on whether we decide to run our own system in some form?

Mr Sam Gyimah MP: I think we have made it absolutely clear to all our friends and allies what level of access we would like, why that level of access matters and why it is to our mutual benefit. It is not just to the Commission; we have signalled that very widely, and we have also made it clear that our preferred option is to carry on with Galileo rather than to build our own, which would take time.

Q16 **Lord German:** Could I take the legal aspects separately from the political aspects? I want to look at two bits of legislation: the withdrawal agreement, which of course has not yet been signed but is in text; and the third-country issue, which was in the 2011 European Commission decision. On the one hand, as the European Select Committee in the House of Commons said, it looks as though what we actually have in Article 122(7)(b) is a statement that access to security-related sensitive information is excluded. As we understand it, that has been marked as green; in other words, it can be changed only for technical reasons. Is it clear that the UK Government are not seeking to turn green to another

colour, that they are agreeing to a clause in the withdrawal agreement and that that currently is your position?

Secondly, the 2011 regulation, which gives permission for third-party countries to take part in Galileo, absolutely forbids matters that include particularly security-sensitive issues, such as the manufacturing of security modules. Could you please let me know whether or not, knowing the 2011 regulation and having agreed the withdrawal agreement Clause 122(7)(b), you are right in saying that there will have to be a future negotiation and even then, with a future negotiation, you will still be excluded from security-sensitive matters such as the manufacturing of security modules?

Rebecca Evernden: I will pick up PRS and the 2011 regulation you referred to. You are quite right; that is where it is set out that third countries can only have access to certain parts of the PRS on conclusion of a security agreement. You have captured exactly the point. You are also right that that would continue to apply unless changed.

I am not a lawyer, but our understanding is that the withdrawal agreement would have the ability to set out the basis for a new arrangement. I note that a new draft space regulation that has been put on the table by the Commission very recently would bring together the three space programmes under a single set of legislation. If third countries were to be treated differently, it could be negotiated through that new regulation if there was appetite in the Commission and the EU 27 to do so. Those working groups have begun and discussions are beginning. We will continue to push for a different type of third-country agreement through that new regulation as long as we are a member state.

Lord German: To be absolutely clear, are the Government seeking to amend the 2011 regulation, along with other third countries, or are we trying to do it from within the European Union, having set out quite clearly in the withdrawal agreement that we should not have access to security-sensitive information?

Rebecca Evernden: On the withdrawal agreement, we were very clear in discussions that it was without prejudice to the ongoing negotiations on Galileo. The Commission would have to apply a specific exclusion to Galileo to apply that article, without going down a rabbit hole on this, and they could choose not to apply—

Lord German: It is not a rabbit hole.

Rebecca Evernden: They could choose not to apply that article if there was an appropriate agreement in place that meant the UK would have a different sort of relationship with the EU.

Lord German: Is that written? Is what you have just described a written-down statement somewhere?

Rebecca Evernden: I do not believe it is yet, because we are still in discussions about the nature of this relationship.

Lord German: The text is highlighted in green, which means it has been agreed by negotiators and will be subject only to technical, legal revisions. What you have described seems to be more than a technical legal revision.

Mr Sam Gyimah MP: Would it be helpful if we wrote to the Committee in substance about this?

Lord German: It would be, yes.

Rebecca Evernden: The only point I want to leave with you is that this paragraph is not explicitly about Galileo.

Lord German: No, I understand that.

Rebecca Evernden: Our understanding from those discussions was that this was without prejudice to the negotiations on Galileo, so if that exclusion is not applied we can continue to have the right kind of relationship with Galileo.

Lord German: Whether what you have described is a technical or legal revision would be useful to know.

To go back to the 2011 negotiation on the change in regulation that you were talking about, could you tell us a little about where that is at the moment? How far have you got with that, or to what extent has it been discussed? If you follow through the argument you referred to earlier about having a security agreement in place, it would permit you to do more than the 2011 regulation.

Rebecca Evernden: The discussions are at a fairly early stage, because the draft regulation was published only a couple of months ago¹ and is going through the normal Commission process of working groups, et cetera. How quickly or slowly those discussions progress is partly at the discretion of the presidency, but we continue to press for a different kind of third-country status through those discussions at this time and make clear the link we perceive to a wider relationship on Galileo.

The Chairman: Minister, your offer to write a letter on this slightly confused area would be helpful, not least because it is likely that the Committee will be responsible for scrutinising the proposals for changing the 2011 regulation. Thank you very much.

Could we turn to Copernicus in a little more detail?

¹ Note by witness: publication date: 6th June 2018.

https://ec.europa.eu/commission/sites/beta-political/files/budget-june2018-space-programme-regulation_en.pdf

Q17 Baroness Randerson: Minister, could you tell us what the Government believe is the read-across from the Commission's stance on UK access and involvement in Galileo to the Copernicus programme? Do the Government expect the Commission to take a similar stance on Copernicus, or not?

Mr Sam Gyimah MP: We do not expect a similar stance to be applied to Copernicus. We still participate in Copernicus and we intend to do so after we leave the EU. The UK has been instrumental in developing the Copernicus space programme; after all, we are a leader in earth satellite observation technology. Given that Copernicus has very clear status for third countries, we do not anticipate that there will be a read-across.

Baroness Randerson: The Commission's website describes its uses as improving "global stability and homeland security". Does that not touch upon the issues we have heard about in relation to Galileo? We had evidence some months ago that the UK currently has strong influence over the type of data produced by the Copernicus programme, and that is used by government as well as academic customers.

There is concern about the continued level of influence we will have. The evidence we had was that the UK is already "being squeezed out of things in practice". That is a direct quote from people who are engaged day to day in the Copernicus programme. That background suggests that there could be parallels in the way the Commission approaches the two programmes.

Mr Sam Gyimah MP: To some extent, the distinction is whether it should and whether it does. It should not, given the nature of Copernicus, whether or not we see the position with regard to Galileo as totally rational. Copernicus is used a lot more widely, and we have to conclude the right agreements with the Commission so that our businesses and academia can take part on a fair and open basis. Would it be approached in an entirely rational manner? I cannot vouch for that, but there should not be a read-across, even by the Commission's own logic.

Baroness Randerson: Are you pretty confident that things should continue as they have in the past?

Mr Sam Gyimah MP: That puts me on the spot.

The Chairman: I thought that was what you were here for.

Lord Rees of Ludlow: We seem to be getting new contracts, which is analogous to the Galileo situation, and we are involved in collaborations with other EU countries in deciding how to prioritise the particular data-gathering capabilities of Galileo. That is going to be very important. We will still have the same influence as we have now because we have such strong scientific commitment to these areas.

Mr Sam Gyimah MP: We should have the same influence.

Lord Rees of Ludlow: We hope we will, because we have strong communities in these areas and we have been involved in the planning of earlier satellites in the series.

Mr Sam Gyimah MP: Absolutely. It all requires imagination about how the UK can be a third country coming from the inside, and still have a level of influence not as a member state but as an ex-member state that has contributed significantly to the programme. We are making it quite clear to the Commission that there are ways to do that, and it is up to the Commission to grasp the nettle.

The Chairman: Quite a lot of imagination will probably be needed, Minister. More power to your elbow in putting that into concrete terms. Can we revert briefly to alternatives to Galileo?

Q18 **Baroness Donaghy:** Minister, you indicated in answer to another question that you would prefer future participation in Galileo to developing a domestic system. A technical note suggested that the Government were already exploring a domestic system. How developed are the feasibility assessments, or are they waiting for the results of the Galileo negotiations?

Mr Sam Gyimah MP: We are working in parallel, not waiting. As the Committee is aware, a task force involving government and industry, and led by the UK Space Agency, has been set up. It is taking the work forward over the next 18 months. The first deliverable is the detailed technical assessment, which is referred to as a schedule and breakdown of opportunities, and the costs associated with the UK system. Our aim is to release information publicly as appropriate, once the task force has delivered it. That is the path, but we are not waiting; we are working on it now.

The Chairman: Going back to when Galileo was first conceived, there were some hesitations about whether the Brits should get involved at all. One of the options considered then was whether we should develop a system in collaboration with the United States, particularly on the security side. Is that an option at this point? I do not expect you to comment on this, but is it in the Prime Minister's brief for her discussions with Mr Trump? Is it an option that we are even remotely considering?

Mr Sam Gyimah MP: We already have a relationship with the US on its existing GNSS, but there is definitely scope to develop our own with allies or, once built, to get other allies to use it, and by so doing make it economically more attractive to us. Those are all things we are looking at.

Lord Wigley: Do you have as a priority the need to try to avoid the UK losing the expertise we have here? If some of these paths open up, we could lose the expertise. That would be a game-loser in a big way, would it not?

Mr Sam Gyimah MP: Absolutely. I see know-how and technology as almost critical to our national infrastructure, so we will do everything we

can to make sure we keep it here. That is why we are not just focusing on a domestic alternative but on other developments in the space and satellite sector to make sure we keep the expertise here.

The Chairman: Minister, we have already taken up an hour of your time, but there is one further batch of questions.

Q19 **Lord Aberdare:** This is really a question of clarification as much as anything else and is to do with the Horizon 2020 funding that is currently channelled through ESA. In your letter, you confirmed that this was outside the Government's underwrite commitment on Horizon 2020 funds. What will happen to this kind of funding? Will something replace it or will it disappear, and what will be the effect on the companies that benefit from these funds?

Mr Sam Gyimah MP: The underwrite applies only to grants, not contracts. If we were to underwrite contracts, we would be in breach of state aid rules, which is why it does not apply to that, so only grants are covered by the underwrite. The best way to deal with the industrial situation is to provide new contracts and opportunities, of which there are many because we are a leader in this sphere and we can do so.

Lord Aberdare: From meeting a lot of companies in the course of our visits and sessions, it has been very clear that the UK space commercial sector has been a great success story over recent years, but one of the key issues they have raised with us is clarity and certainty for the future in relation to talent, which we have not talked about today; in relation to access, which we certainly have talked about; and in relation to regulation and funding.

If I was a company in this sector, I suppose I would be thinking very carefully about whether that success is going to be maintained in the UK. How confident are you that we can do enough to convince companies that, given the clarity and certainty they need, there is a good, strong prospect for the sector to continue to grow, with the help of the sector deal and the alternative options you have talked to us about?

Mr Sam Gyimah MP: We need clarity on the negotiation process but we also need alternatives. We are handling the issues relating to the negotiations by constant contact with the companies to make sure they are fully apprised of where we are. In addition, the companies have relationships in member states that they can bring to bear as regards the negotiations.

On the commercial side, we are rapidly working on a space sector deal, which will include a national space programme. Next week is Farnborough, where we hope to say something positive for the space sector. Over the next few months, we plan a drumbeat of announcements in this area, to shore up confidence and provide certainty for companies to continue to operate here, and to deal with the issue of talent.

The Chairman: That sounds like positive encouragement to the industry, which is undoubtedly in need of some. They are all looking forward to the

details of the sector deal, so that is useful. Do my colleagues have any remaining questions for the Minister? Minister, do either you or Ms Evernden want to register with us any points we have not covered?

Mr Sam Gyimah MP: I think it has been exhaustive.

Lord Robathan: Exhausting.

The Chairman: Thank you very much indeed for your attendance and for your answers, and we look forward to future letters.