HOUSE OF COMMONS

Defence Committee

Oral evidence: Defence Industrial Policy: Procurement and Prosperity, HC 163

Tuesday 8 September 2020

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Watch the meeting

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

Questions 116-156

I: Councillor Tudor Evans OBE, Leader of Plymouth City Council, Nick Hurst, CEO, Artemis Optical Ltd, and Brett Phaneuf, Founder and Chief Executive, Submergence Group LLC (USA) / M Subs Ltd (UK).

II: Garry Graham, Deputy General Secretary, Prospect, Rhys McCarthy, National Officer for Aerospace and Shipbuilding, Unite, and Ross Murdoch, National Officer, Shipbuilding, GMB.

Written evidence from witnesses:

- Plymouth City Council
- Prospect
- Unite
- GMB

HOUSE OF COMMONS

Examination of witnesses

Witnesses: Tudor Evans, Nick Hurst, and Brett Phaneuf.

Chair: Good afternoon on this Tuesday 8 September. Today's session will be in two parts. In the first part, we will look at Plymouth as a case study for the effect of defence industrial policy on procurement and prosperity, and in the second we will hear from the unions on the issue. This is our third session on this topic. We want to find out the effect on local prosperity of the Fleet Solid Support Ships contracts, and I welcome Councillor Tudor Evans, Brett Phaneuf and Nick Hurst as the first panel. I will ask Stuart Anderson to start with a question about the overview of the subject.

Q116 **Stuart Anderson:** Thank you, Chair, and thank you to all the panel for appearing before us today. Perhaps I can start with you, Councillor Evans, and your overview of the situation.

Tudor Evans: First, thank you on behalf of the city of Plymouth for the invitation this afternoon and the opportunity to contribute to the work of this Committee. Plymouth is the 15th largest city in England with a population of approximately 262,000, an economic output of just under £5 billion, supporting 108,000 jobs and contributing around 12% to the wider heart of the south west LEP area's economic output.

Plymouth is branded as Britain's Ocean City for good reason. Seafaring and the defence of our nation is in its DNA. Sir Francis Drake and Sir Walter Raleigh may have put the city on the map as the premier port in the nation in Elizabethan times, but it has been argued that Plymouth's naval heritage goes all the way back to 700 BC. For the 300 years up to 1971, the port built over 300 vessels, and played major roles in the Napoleonic wars, and the first and second world wars.

It is this rich history that makes Plymouth the city it is today. Many of our key economic sectors, in particular marine and advanced manufacturing, would not be in the city if it were not for our history of defence. Plymouth continues to play a crucial role in the defence of our country today, through Her Majesty's naval base and the dockyard at Devonport. Defence spending is of vital importance to our economy: it is worth £685 million in GVA to the city. That is 14% of the city's total GVA, representing just over 10% of the city's full-time employment.

Let me give you an idea of what is involved. Her Majesty's naval base Devonport and the dockyard is the largest naval base in western Europe and an irreplaceable strategic asset for Plymouth and the UK. You can fit Nelson's column inside the frigate repair sheds at Devonport. It is home to the amphibious fleet, hydrographic vessels and half the Type 23 frigates and it is the future home to Type 26s, in addition to being the operational training hub of the frontline fleet through FOST and the Royal Navy's amphibious centre of excellence at RM Tamar. It has the only facility in the UK authorised and licensed to carry out deep maintenance on Royal Navy submarines.

A 2015 economic impact assessment of the naval base and dockyard found that, in total, Babcock spends £51.4 million annually with 369 suppliers. Of this, £41.5 million, spent with 269 suppliers, originated from Her Majesty's naval base Devonport. One third of them would find it difficult to replace the business if their contract with Babcock were to fail. Only 8% believed that they would be able to find other markets immediately with no impact on their business. Productivity is significantly above the industry and city-wide average, at just over £62,500 GVA per FTE, compared to approximately £45,200 for Plymouth as a whole.

Beyond the walls of the dockyard and the naval base, a flourishing defence ecosystem hosts a wide variety of companies such as Thales, M Subs, BMT, Collins Aerospace, Babcock and Barden, to name a few. Both the marine and manufacturing industries account for 21% of the UK's marine manufacturing industry. Plymouth accounts for 9.2% of England's entire marine industry, and marine manufacturing generates £408.6 million in GVA.

The city also hosts the UK's first marine enterprise zone at Oceansgate, and the marine business technology centre with a smart sound testing range, which we prefer to call our proving ground. Phase 1 and 2 of Oceansgate will create 367 jobs, and phase 3 a further 600 jobs. While not officially designated, Plymouth is the UK centre for marine autonomy, a world-class test facility for autonomous solutions and alternative propulsion technology, and a number of prime and SME businesses with established operations in Plymouth are developing the latest marine autonomous systems. This is a real opportunity for the city, and we would want to see Plymouth officially designated as a national centre—the national centre—of excellence for marine autonomous systems.

Supporting this innovative private sector is well-established supply chain spanning manufacturers to small-scale suppliers. Plymouth boasts the largest concentration of manufacturing south of the midlands—in the whole of the south of England south of the midlands. It is home to manufacturing and engineering giants such as Kawasaki, Pipex and Plessy. In fact, 12% of Plymouth's jobs are in manufacturing industry, compared with 8.3% nationally.

Both within these companies and outside, the city is a hub for defence innovation, supported by a collaborative environment made possible through organisations such as FAST—the future autonomy at sea cluster—and cross-sector projects such as Smart Sound Plymouth, COAST Laboratory and Cyber-SHIP.

Plymouth also sits as an anchor point in the wider south-west defence ecosystem. Recent mapping of the heart of the south-west LEP defence industry showed the scale of the defence sector across Devon and Somerset, estimating its value at £2.6 billion. This innovative capability has been recognised by DASA, as it looks to launch its south-west regional defence cluster and reverse the historically low levels of success for DASA grants in the area. Thank you.

Q117 **Stuart Anderson:** Thank you for that very in-depth and insightful overview of Plymouth. It has given us a good, rounded discussion to move on from. You spoke about £685 million GVA. Could you explain relatively briefly how you have managed with past fluctuations and what contingency preparations you are making for the integrated review?

Tudor Evans: I have a number of historical examples, which I would be happy to supply you with in writing afterwards, if you are short of time. Bear in mind that when agency management of the dockyard came in in 1985, Plymouth lost some 16,000 jobs, virtually within 18 months. It took us 12 years to recover from that position, so we have been on an odyssey of diversification in terms of our economy since then, as you would imagine. We have been working very hard on that. Every time a flag is flown, or a kite is flown, about potential reductions in the dockyard, we are alert to that, working on our case for retention of services, because it is so important.

Just to give you an example, there was talk a little while ago of Bulwark and Albion going. Those two ships going would put 1,176 jobs at risk, and would remove £61 million GVA from the Devon and Cornwall economy, so we are always alert to those kinds of things and making our case. We are working on our future now: the Oceansgate project is a 35-hectare site at the southern edge of the Devonport dockyard, and that is where our future lies, in part. On the projects around Smart Sound, we have 350 square miles of ocean around Plymouth Sound, so it is a really good place to be doing that kind of thing.

As I say, we have specialisms emerging all over the place in a number of sectors, from culture and creativity to the visitor economy and so on. In 10 days, we will be opening our new £45 million project called The Box, which is the biggest cultural opening in the UK this year and probably for the next five years. By the way, the heart of that will include a magnificent display of Royal Navy figureheads, flying from the ceiling.

Q118 **Stuart Anderson:** Thank you for that, and please do send in that additional information and those case studies as we build up the information on this.

I would like to turn to Mr Phaneuf and Mr Hurst. You are based in Plymouth, and you provide to the defence industry. Was that a simple decision—"We're going to put ourselves in Plymouth, right by where our customer is"—or did any other circumstances form part of your rationale for setting up there?

Brett Phaneuf: For me, it was a little bit different than for Nick. I am obviously from the States. My US company had contracted with a local business that was on again, off again, and that was for the development of a small manned submersible that we used with NavSea to develop requirements for large unmanned underwater vehicle systems.

We found the location; the facilities; the availability of science parks and real estate to build a bespoke factory; the number of qualified people from the local university; the good engineers—great engineers, actually; the retired military personnel and the presence of the military in general; and the fantastic natural resources, including a wonderful harbour and sound in which we could operate almost year round, to all be compelling. We continued to invest, to stand the company up properly as an ongoing limited corporation. It has grown and grown, from a small garage and five people to about 65 people now; we are still small, but on this side, it just organically happened. It does not hurt that it is a fantastic place to live, either.

Nick Hurst: From our point of view, we initially moved to Plymouth in 1994 to take advantage of the incentives that were being offered to locate to the science park at Langage. Just recently, we signed a new 15-year lease, reinforcing our long-term commitment to maintaining our position in Plymouth for a few reasons. The main ones would be the relative proximity to MoD Abbey Wood and Army HQ; the potential to collaborate with the abundance of defence-based companies in the region; the ability to expand our foothold at relatively low cost to elsewhere in the country; the local support of local MPs and other trade organisations and the LEP; and, very importantly these days, down here in the south-west the work-life balance we can offer our employees is perhaps more attractive than elsewhere in the country. That is becoming an increasingly important factor these days, post covid, when people are looking for a new role or a new job.

Chair: It is good to hear such a strength of support for the city of Plymouth.

Q119 **Martin Docherty-Hughes:** As a former councillor myself, I am very much aware of some of the challenges that local authorities the length and breadth of the United Kingdom of Great Britain and Northern Ireland face sometimes. You mentioned, first of all, autonomous systems. How engaged do you feel your business is. What options are there in terms of regeneration and development? Taking the issue of diversification, forgive me for asking, but would you welcome the placement of the nuclear deterrent in Plymouth, in your submarine base opportunities?

Tudor Evans: By deterrent, do you mean the missiles?

Martin Docherty-Hughes: If you were asked by the MoD to take on board the nuclear deterrent, and through the submarines, which are based in Faslane in Scotland at the moment, would you see that as an opportunity for diversification, and would you welcome it?

Tudor Evans: I think the question is, “Is the capacity there in the dockyard at the moment?” As you know, we are about to embark on a £1 billion construction project to enable our dockyard to maintain its existing work on maintaining the deterrent. That project is about to kick off. You have thrown me there a little bit; I didn’t realise that the deterrent itself—the weapons—was on the move.

Q120 **Martin Docherty-Hughes:** Well, they are not at the moment, but, take my word for it, I would like them to be. If I can just ask you for a bit of clarity for the Committee, if you were given the opportunity—

Tudor Evans: At the moment, our priority is that we have 13 redundant submarines in Devonport, in number 5 basin, which have been sitting there since they were decommissioned. We have been trying get the MoD to sort that out, because they are taking up valuable space inside the yard, which could be used for a more diverse range of opportunities for the surface fleet. If we were to be prioritising anything on the submarine front at this moment in time, it would be to get subs out rather than bring the deterrent in. That would be the priority at the moment.

Martin Docherty-Hughes: That would be a no to hosting the nuclear deterrent.

Chair: I think we should just make it clear that there are no intended plans to move the nuclear deterrent from Faslane for the moment, but we can understand why the question is posed.

Q121 **Richard Drax:** I do not know if you are a nautical man, but these nuclear deterrent submarines are huge and draw more than aircraft carriers. In Portland, in my constituency, we could not get them in. Would you have the depth of water—were this awful scenario to ever happen, which it will not—to take those submarines?

Tudor Evans: Yes, indeed. We are a little down the track now in terms of our *[Inaudible]* on that basis. Plymouth Sound has got one of the deepest natural harbours in the UK—in the world actually. So, yes, the draft is fine. We have a bit of a problem with the giant aircraft carriers, actually, although we can still get those in once or twice a year, but the submarines are fine.

Chair: Can I pull us out of this very interesting political rabbit hole about where to put the nation’s nuclear deterrent? Anyone who has visited Devonport will be aware that there is a graveyard of older submarines that need to be decommissioned, and that is well overdue. You have articulated that point, and I don’t think there is any need to return to it. Moving forward, Kevan, can we turn to prosperity, please?

Q122 **Mr Jones:** Two years ago, the Government produced a prosperity agenda for defence, and very little seems to have been implemented. From the point of view of a local authority, Councillor Evans, in terms of ensuring that contracts, when they are let, take into account local prosperity, how do you think that should be weighted and done?

Tudor Evans: I think what we are saying is that there is a massive opportunity here to respond positively to the levelling up agenda. If things continue as they are, not much weight at all is given to social value, skills and prosperity retention locally, but even if it were 5% to 10%, we think there would be a massive opportunity to deploy MoD budgets to even more benefit to our locality. Just up the road from us, at the construction project at Hinkley, in Somerset, there is some really good practice about how the deployment of that enormous sum of money can have a fantastic effect on the local economy. All we are asking for is that kind of modelling—that kind of matrix—to be deployed in the spending and awarding of MoD contracts.

Chair: Thank you very much indeed. Richard, can we turn to local authorities?

Q123 **Richard Drax:** Councillor Evans, what could the MoD do better when engaging with local authorities?

Tudor Evans: As a council, we are used to working in partnership. We have to. With health and social care, for example, we work hand in glove with hospitals, social care providers and primary care to ensure high-quality services for our residents, while maximising economies of scale and driving efficiencies.

The MoD is woven into the fabric of our city. The armed forces have provided jobs for thousands of Plymothians down the years, and Plymouth has also offered thousands of military personnel and their families a home for generations. Fifty thousand people attend our Armed Forces Day celebrations every year on Plymouth Hoe.

Q124 **Richard Drax:** Councillor Evans, forgive me—can I just interrupt? I do apologise. Can I gently remind you of the question? What could the MoD do better when engaging with you? Obviously, it is doing a very good job, and you are eulogising, quite rightly, about your lovely city, but what could it do better?

Tudor Evans: Sure. I was on a Zoom call the night before last with the local hospital about how they are going to deploy their £600 million of Government money and how we can work together for the betterment of the city. We don’t have those conversations with the MoD when there is money to be spent.

Look at the £1 billion project in the yard at the moment, for example. Don’t get me wrong, £1 billion of spending and 1,000 jobs is fantastic. I am not sniffing at that. What I am saying is that we could make it even better if we had a bit more of a discussion around, for example, getting people upskilled in advance of that kind of activity, and having the timescales shared with us so we can prepare people for that. We do it for bulges in other inward investment projects, so why not this one?

Of course, we have the opportunity. There is a public sector landlord in Plymouth. We would love the DIO to come in from the cold and join us in this celebration. We work well with One Public Estate. We have just started a new project outside Plymouth railway station, Brunel Plaza, where OPE has been magnificent in its help, so we can and do work with Government. We strongly ask: please. We hear announcements that the Royal Citadel may be sold, but there have been no discussions with the council. We hear that Stonehouse Barracks, which has been the home of the Royal Marines for 350 years, may be sold, but there have been no conversations with the council about the future of that, even though the council—

Q125 **Richard Drax:** Councillor, sorry to interrupt you again, but if you are getting nothing from them, are you pushing them and sending delegations or speaking to MPs and doing all the things that you can do to get the MoD to listen to you, and hopefully to work better with you?

Tudor Evans: Sure. We have three MPs covering Plymouth—Sir Gary Streeter, Johnny Mercer, who of course is a Defence Minister now, and Luke Pollard, who is the shadow Environment Secretary—and we regularly brief them on what we call Plymouth's offers and asks. It is not just us with a begging bowl. It is us saying: "If the Government will give us this, we can deliver that for UK plc." All that we ask is that the MoD works more proactively with the council to ensure that the opportunities and risks associated with future land and building disposals in Plymouth, or the increase of other Defence assets by rebasing personnel in the Plymouth travel-to-work area, are fully consulted on with the council. That is as simply as I can put the ask.

Richard Drax: Thank you.

Q126 **Chair:** Can I ask our other two panellists to speak about why Plymouth is a place to invest globally? Is there the brand awareness that makes Plymouth attractive in the same way that Detroit is attractive from the car industry's perspective? Have we reached that point where there is international brand recognition for Plymouth, or is that something that the MoD needs to work on more closely with Plymouth?

Brett Phaneuf: I guess my perception is limited to how it is perceived in the United States and my work with the Defence Department there. I think it is, bluntly, often confused with Portsmouth—bluntly, it is. I have had many people turn up in the wrong city waiting for a meeting. I wish I were kidding.

I think we could do a lot more to raise our international profile, particularly with the United States military, given that we have a now long-standing defence co-operation treaty that puts to rest a lot of ITAR—international traffic in arms regulations—issues that would have otherwise prevented co-operation. There is a lot more that we could do at high levels in the MoD, and even base to base, commander to commander, unit to unit.

My specific area within Five Eyes involves very close organisation and co-operation, but it is mostly centred around London and Poole. People do not generally know it, although we now have quite a lot of visitors coming from the States to see the products that we make and export, and they have become aware of how impressive Plymouth is, both in terms of the skills that exist here and the ability to build some things that no one else can, on price and on budget, which is critical. It is much more cost-effective to work here than in the States, to be honest.

It is coming up, but we could do a lot more. I think that the resources at Devonport are not deployed to their fullest effect to give people on the other side of the pond an understanding of what they could really do here if they put their mind to it.

Chair: That is really interesting to hear. The south-west of the UK as a whole punches above its weight when it comes to MoD procurement. I should mention that it is probably better to mix up Portsmouth and Plymouth than Plymouth UK and Plymouth Massachusetts.

Brett Phaneuf: Absolutely.

Chair: Nick, do you have any views?

Nick Hurst: I do. It strikes me that R&D investment in projects by the MoD seems to stop at Bristol, and the south-west is quite often ignored and not given the sort of funding that seems to be available to the M4 corridor and other parts of the UK. As Brett was saying, Plymouth has a lot to offer. There is an abundance of defence companies down here, with some clever people. The MoD itself perhaps needs to partition its strategy a little bit, so that it does not always favour the larger enterprises and considers the smaller enterprises. We can often react quickly to situations and we tend to be more innovative. I think that a certain amount—or more—of the R&D spend could be targeted to the south-west and particularly Plymouth.

Chair: Thank you. John, will you take us on to the shipyards.

Q127 **John Spellar:** We talked about the various opportunities, and one of the interesting ones—I know this is across in Cornwall, but it is enormously important to you—is the takeover and, we hope, reopening of the Appledore shipyard. What opportunities do you see arising from that, Councillor Evans?

Tudor Evans: Obviously, I do not like commenting on what is happening in another local authority area, but right at the beginning I worked with colleagues from the GMB union, amongst others, on trying to save Appledore shipyard. Its recent acquisition by Harland and Wolff is music to my ears.

Any move to boost UK shipbuilding is welcome for jobs in this area, and in the surrounding community. It is great news for Devon and the wider marine sector. The key thing now, if you don’t mind me having the temerity to say this, is that if levelling up is to work we need to ensure that work that is currently intended to go abroad does not go abroad, but is used to back UK shipbuilding. There are skills, talent, steel and passion here, and we should be using our UK tax pounds to shore up these yards and to give them a brighter future.

Q128 **John Spellar:** Will the local authorities in Devon and Cornwall, and the Members of Parliament, be lobbying hard for the Fleet Solid Support ship contracts to be coming to the UK, most likely on a modular building basis, with advantages for a number of areas?

Tudor Evans: Again, we have been campaigning for that. For Devonport itself, the FSS does not in itself provide thousands of jobs, but design jobs and good, well-paid jobs, above the Plymouth average, would be very welcome indeed. We were really surprised that the FSS ships were not classified as warships. Had they been, they could already have been finding their way to UK yards. We find that puzzling. We would be happy to see those FSS ships done here.

If we take the Type 31s, we reckon that they will bring 100 design jobs into Babcock in Plymouth. I would be happy with that. According to the Confederation of Shipbuilding and Engineering Unions, however, there would be a direct tax and national insurance return to the Treasury of £215 million, which is 20% of the contract cost. If that were to be applied to the UK yards, rather than being sent abroad where that 20% would be lost forever, here it could be recycled and repurposed. In the post-covid environment and, dare I mention it, the post-Brexit environment, we will need every pound we can get and every job we can get.

John Spellar: I will just say, your puzzlement about the current position on the FSS is shared by members of this Committee.

Chair: You touched on the international markets. That leads us nicely to Derek's next question.

Q129 **Derek Twigg:** What are your perceptions or views on the international defence market in terms of whether it is a level playing field and how fair it is? Perhaps we can start with Brett and Nick.

Nick Hurst: In general, no, I do not think it is terribly fair. As a business, we are lucky enough to have some specific qualifications and capabilities that allow us to access the international defence market without too much difficulty, as we operate in a niche. I am aware it is difficult for others. We have often found that traditionally difficult markets such as the US are difficult to break into, but we have been more successful because of our technology and know-how. They are generally more welcoming to us.

That said, as a component-supplying SME, we are often frustrated by the market's tendency to bias decisions towards the larger enterprises, as I mentioned earlier. As such, we are often stifled in our ability to offer solutions, which we know provide a good technical advantage and offer not only real value for money, but, in many instances, were we to be engaged at an early stage, essential savings.

When the Government are looking at making large platform acquisitions, they do not always insist on strong protocols regarding onshore supply, meaning that UK plc can sometimes lose out on these things. Brett, I don't know if you have anything to add to that.

Brett Phaneuf: On the international market, I would not say it is necessarily fair; I guess it is quite variegated. For example, over the past few months, we have been working on a couple of proposals for India. We often see that the RFPs that come out are nothing more than fishing for intellectual property to help them develop their internal RFP that will only be distributed within India. They have a huge component for internal content. We see the same thing with Australia, although they are much more welcoming and they very much like having US and UK companies—part of Five Eyes—to start up subsidiaries or team with Australian companies.

Working in the US is odd. They are much more focused on buying domestic for their military product. We should be here, too. But I think the Government often ignore the fact that we have a pretty significant defence trade co-operation treaty. That is pretty much overlooked, and we do not push it. It breaks down a lot of the barriers to market entrance in the US, particularly around ITAR. But then there are some significant advantages to being in the UK, one of which is that our ITAR restrictions are different, so I can sell to a larger swathe of the world the things that I design and build here, which I sell to the United States, but for which I maintain intellectual property in the United Kingdom—intentionally so.

It is a mixed bag. I think we could do more to promote domestic production and export. Certainly, it will get more and more expensive the longer we ignore doing that; the skills and yards go away. It is good to see Appledore coming back, because it is turning the tide. Whether the markets are fair, the biggest issue is whether we are competitive and innovative. If we are innovative, we have a product that people want to buy; "fair" does not have a whole lot to do with it, particularly when we are selling to our allies.

I would say that we need to focus more on funding small businesses. If we want to forget about fairness and be competitive, we need more contracts for small businesses. They are much quicker and more innovative. We need to drive down the cost of all the shipbuilding innovation. The stuff that goes to the large primes in the US and UK, it is very difficult. In fact, it is often harder for a small business to work and comply with large prime processes and requirements than to comply with Government requirements.

Q130 **Derek Twigg:** How would you suggest that small businesses or Government change, in terms of having many more small businesses involved?

Brett Phaneuf: The Government tend to set up various committees or programmes, such as Progeny, but they tend to be administered by the large primes themselves that compete for the business. That is problematic on its face. We could stop doing that. We could make it easier to access List X material for companies that qualify. That is a difficult process and something that you tend to have to be sponsored for in part by a large prime, which is a barrier to entry.

In the past decade, I have seen an alarming trend to run almost everything through large primes for no other reason than that they have a contract already and it is easier—this is a direct quote many times, but I am paraphrasing—to do that than try to set up another contract. I have a perfect example. We are about to be awarded a contract this week, or so they say, that the end user wanted and has been pursuing for two years—not the product or the R&D, but just the contract being put in place.

There is a real problem, with a malaise in the service where they say, "We will just go with the vendor that already has the contract." That doubles the price right out of the gate, for something that I could sell—sometimes it triples or quadruples. On one contract I am working on now with the US, we are delivering 95% and we are 25% of the cost. Everything else is burden admin sitting on top, managing us. There are more people managing the output of my company than in my entire company. That is not as bad in the UK. It's quite bad in the US, but it still exists here. It is very difficult. Little companies, small companies, that don't really know it inside out like we do find it labyrinthine to navigate. There are so many clusters, so many committees, so many meetings, so many programmes. They all end up being driven through the large primes; you need small business set-asides.

Nick Hurst: Could I interrupt? This is in answer to your question about what Government could do. One of the frustrations we have is that trying to sell UK Defence-funded technology overseas to allies is frustratingly difficult. There are many obstacles put in our way that prevent us from talking to allies about some of the technology that we have developed for the UK and that we could sell and would be great for UK plc. We have two examples of that that we have worked on in the last seven years and that we have developed; these are assets in the UK now. We were told at the very beginning that there would be an export—the MoD would sponsor us to take this out and export it to allies, certainly, across the world, and we have found that that has not happened. It has been very frustrating, and you get very little feedback from the MoD when you ask for some help in that regard.

Brett Phaneuf: On that topic, we actually have—I just looked this up to get the right name. Most of that goes away if you push on the UK-US defence trade co-operation treaty. Most people don't know that it exists and the things that it makes easier. Even us—we are selling, funded by a US end user, a product that is only built here in the UK by this company, and we still had to put in place State Department technical assistance agreements that take months and months to manage. And they are quite difficult to continue to manage, because every single component that you might want to trade or support has to be on the treaty, listed with a price. That is totally unnecessary, because nobody looks at the treaty at all. Even the Defence Department doesn't—on both sides. They have no idea the thing even exists. That's one way we could fix things.

The other way would be—I think we just need to focus a little more on small businesses and understand that they are the hub of innovation. With a little bit of forethought, maybe aligning our NavyX with the US NavyX, aligning their DARPA with our ARPA that is about to start—there are huge areas of technological expertise and export from small businesses here in the UK that could really advantage a place like Plymouth and my company, Nick's company and many, many others—even the large companies. There just doesn't seem to be a coherent approach to pushing UK product into the US, but there should be. The US has a huge foreign co-operative trade office that loves working with the UK. They have a decades-long-established joint coalition warfare programme office, whose favourite place to work with is the UK. But they have very little engagement from the UK side that we can see to take advantage of these many-billion-dollar programmes.

Nick Hurst: I keep banging this drum, but SMEs are the life blood of the UK economy, according to Boris, yet we get very little support, particularly from the MoD but also from Government in general, in terms of being able to exploit some of these opportunities that exist for us worldwide.

Q131 **Chair:** Can I just turn this around? You speak about the importance of being able to sell completed products across the world and what more we can do with that. Switching it over, what work is done to promote Appledore as a capability to build small ships? You look at your inventory—what is being built there? I think Harland & Wolff or InfraStrata has now taken over the operation. There is a new lease of life, a new opportunity there. What is the strategy to go to NATO allies, for example, and say, "We can build your ships; we can compete with your own businesses to produce small vessels, because that is what we do well"?

Brett Phaneuf: I think that at the end of the day, it is going to be about price. It's like buying cars—everybody looks for the most they can get for their money.

Q132 **Chair:** Do you need Government assistance to make that happen? Or should we just leave it to the—

Brett Phaneuf: I think a lot of process can be streamlined. The Government assistance could be more directly connecting the various yards and businesses if the opportunities are not there through the large primes. There are some opportunities here in Plymouth with the schemes that are going on, but it is a tough one because you are competing against yards in India and China that are state yards running as companies. They will discount it just to have the throughput, so we have to focus on our allies and convince our allies as well as ourselves not to buy from somebody else; let's buy from each other. Let's maintain high standards and figure out how we can reduce the burden of interacting with one another across the pond and elsewhere.

Chair: I am slightly conscious of the time, but that leads us nicely to look at the wider picture of the defence industrial strategy. Richard, do you want to take us forward on that?

Q133 **Richard Drax:** This question is to you all. In part, you have answered, Mr Phaneuf, a lot of this question, but perhaps all three of you could give some pithy points in answer to it. What would you like to see from a new defence industrial strategy? Mr Phaneuf, do you want to start?

Brett Phaneuf: That's a big one. We have to stop paying lip service to the idea that we are doing commercial off-the-shelf component integration. We have to focus on it. We often think about how to commercialise defence technology, but that is completely backwards. We have to think about how we streamline procurement, the acquisition process and the contracting process and incorporate more commercial technology with less burdensome regulations that prevent it. We think about buying things on 10, 20, 30, 50-year scales, but the technology, by the time we procure it after two years of arguing about the procurement, is largely obsolete. We need to see a really commercially focused procurement strategy, particularly at the outset of any R&D project, looking at what we want a capability to be and not constraining our companies to select from a highly technologically limited format in a contracting vehicle system that simply does not work for innovation. We need a much more agile acquisition force, particularly at the front end for R&D. That is my opinion.

Richard Drax: Mr Hurst?

Nick Hurst: I agree with what Brett says. I would add that the MoD—I feel a little sorry for the MoD in this respect—seems incapable of looking much more than 18 months ahead at any one time. Babcock have just published a 50-year plan for what they want to do in Plymouth. The MoD do not seem able to look much further than, as I say, 18 months. I think part of the reason for that is that every time there is a Cabinet reshuffle, there is a new Secretary of State for Defence who has different priorities from the previous Secretary of State, and then there is pressure from the Treasury and so it is a moving feast. It is like a wobbly jelly. They cannot actually hold it in place for very long before things are changing. I think the way Government runs these large Departments needs to be looked at. It is quite an old-fashioned way of doing it. If you look at countries around the world and the US and elsewhere, they have permanent Secretaries of State, or the equivalent thereof, who remain in post for a decade or more. You find that there is a much more solid strategy and plan, and procurement is more straightforward.

Q134 **Richard Drax:** All the points that you have raised affect your long-term planning, which I think you were hinting very strongly at, Mr Phaneuf.

Nick Hurst: Yes, very much so.

Q135 **Richard Drax:** Mr Hurst, perhaps you can answer that quickly.

Nick Hurst: As I said to you earlier, we have developed some technology that we could sell, but are unable to sell. Equally, by the same token, we spent about £60,000 developing some technology for a platform that is being offered at the moment. The decision should have been made on that in 2015 when we did the work, and every year it has been pushed out another year and another year. I am referring to Warrior. I don’t know if you are familiar with that. And here we are in 2020, five years later, £60,000 worse off for our troubles and still no sign of that actually going ahead.

Tudor Evans: Could I echo the call for a little longer termism? It is really important for business—for small and medium-sized enterprises that perhaps have a riskier life cycle than most. A bit of stability is something that I think the City Council would be calling for—if we could have a longer-term plan. I know that 50 years is quite difficult politically. Fifty months sometimes seems like something that is out of reach.

Can I just give a couple of points of feedback from some businesses in Plymouth about what they would want from a new defence industrial strategy?

Chair: Very briefly, if you can.

Tudor Evans: We have a problem in terms of uptake of Innovate UK money—in Plymouth anyway. We would really like to find out why that is. We think it is because the grants do not marry up well with the needs of business. I think that is something that you might like to have a bit of a look at.

The other thing is that, with marine having been identified as a high-value proposition for our area for exports, it is disappointing that with our high concentration of defence businesses there is no dedicated defence specialist operating in our area. This is another question of can we join it all up? Bits are in place, but they need to be made more of a coherent whole.

Finally, on productivity, defence industrial productivity in Plymouth is much higher than productivity generally in the city, so any improvements that we can make to defence productivity actually benefit the whole city, and we would passionately support you in your efforts to help us with that.

Chair: Thank you very much indeed. The passion with which you have spoken today has been very evident indeed. It has been very helpful to give us an insight and a case study, looking at Plymouth today. Thank you very much indeed to Councillor Tudor Evans, Brett Phaneuf and Nick Hurst for your time this afternoon. We are going to have a technical pause for just a moment, as we do a transfer. This brings to an end panel 1 of today's session.

Examination of witnesses

Witnesses: Garry Graham, Ross Murdoch and Rhys McCarthy.

Chair: Welcome back to this Defence Committee hearing on defence industrial policy: procurement and prosperity. I am pleased to welcome our second panel: Garry Graham, who is deputy general secretary of Prospect; Ross Murdoch, who is the national officer for shipbuilding at the GMB; and finally Rhys McCarthy, who is the national officer for aerospace and shipbuilding at Unite. I must declare an interest: I am not a card-carrying member of any of your unions, which you might not be surprised to hear, but I welcome you here today. You will be aware of what we were discussing beforehand. We will look at the bigger picture of our defence industrial policy, and we are very keen to get your perspective on this important area in our studies. To open us up, I invite John Spellar to talk about Fleet Solid Support Ships.

Q136 **John Spellar:** Thank you, Chair. I am a 50-year member of Unite and was previously a national officer of one of its components, the electricians union. I want to ask our colleagues for their reaction to the recent announcement by the Government that they will still go ahead with having an open and international competition for the Fleet Solid Support Ships, and for their assessment of the implications of this for the shipbuilding industry around the country.

Ross Murdoch: I thank the Committee for the invitation and for the opportunity to give evidence on this extremely important subject area on behalf of the members that we represent.

It is disappointing to hear that news again. If the contract were to go to an overseas company, the impact on UK shipbuilding would be extremely serious. If you look beyond the Type 26 and Type 31 frigate contracts, in reality the FSS is really the only game in town at the moment. There is a lot of speculation—if that is the right word—about what might be needed in the future. We have heard talk about hospital ships, fishery protection vessels and littoral strike support ships, but they are all at some point in the future. The orders themselves are uncertain, and it appears that no one is planning on the assumption that they will definitely be required, so FSS really is the big-ticket item for the members we represent.

Two years ago, the GMB submitted a report called "Turning the Tide", which said that the FSS contract would directly support 1,800 jobs in UK yards. That was based on a £1 billion valuation of the contract, and we now know that the contract could be worth up to £1.5 billion, so the value to the industry and its supply chain is even higher. There is real potential here for a modular-type build for FSS, similar to what was carried out with the carrier alliance, with the work being distributed between different yards in terms of build, assembly and potentially the technology. That would spread the prosperity impact across a number of yards and secure their medium-term future.

In his original report to inform the national shipbuilding strategy, Sir John Parker mentioned—it is often repeated—the need for a steady drumbeat of shipbuilding orders, so that we move away from the "feast and famine" that he referred to. As a result of no steady drumbeat of orders, we have regretfully seen the closure of the historic Appledore shipyard in north Devon in the early part of 2019. Thankfully, after an 18-month campaign by GMB and Unite, working with the South West Business Council on jointly lobbying the Government, it is about to reopen as Harland and Wolff Appledore, which is fantastic news. But for the same reason—the lack of a steady drumbeat of orders—we also witnessed both Harland and Wolff in Belfast and Ferguson Marine on the lower Clyde being taken to the brink. In the case of Harland and Wolff Belfast, it took a campaign of yard occupation. That in itself was a significant contributory factor towards finding a new owner for the Belfast yard. At Ferguson Marine, trade union campaigning led to an intervention by the Scottish Government to secure the yard's immediate future.

You could add in the same situation at Cammell Laird in Birkenhead, where there was an announcement of massive redundancies that would have seen the yard become a shell of its former self. Again, a campaign led by the unions resulted in a taskforce being set up that secured the yard, with our members remaining gainfully and, importantly, directly employed. I would like to take this opportunity to pay tribute to all the activists in those yards who worked tirelessly behind the scenes and helped to make all that possible.

As well as those yards, there are some others that, more often than not, operate almost on a hand-to-mouth basis. There are massive opportunities here with FSS for a bright future for UK shipbuilding and its wider supply chain, potentially including yards and associated communities that in reality have experienced years of decline. By way of an example, I would cite Tyneside, which could possibly benefit here as well. The GMB members that I represent continually remind me of Prime Minister Boris Johnson's numerous comments about shipbuilding, and I am sure the other two union colleagues get the same. They often take some of those comments as a potential hope for the industry.

I know in September 2019, he talked about bringing shipbuilding home—I am part-quoting, part-paraphrasing him—and touched on how the UK "is an outward-looking island nation, and we need a shipbuilding industry and Royal Navy that reflect the importance of the seas to our security and prosperity." He said that the Government would "do all it can to develop this aspect of our heritage and the men and women who make up its workforce." He talked, importantly, about that being from the apprentices embarking on hopefully a long career to those families who have worked in the shipyards for generations. He said he looked forward to "the restoration of British influence" and he talked about working together to see "a renaissance in the industry". He finished by saying, "Let's bring shipbuilding home."

The members I represent refer to those comments and really want to see what they often refer to as warm words and encouraging messages turn from rhetoric into reality. Bringing things right up to the present day, the Prime Minister added recently—I think it was last week, when he visited Harland and Wolff Appledore—that he wants the UK to become a "shipbuilding superpower". That simply will not happen unless the FSS order is retained in the UK, and I would suggest that this will really be the first test. If the order is not placed in the UK, the fear will be that we go back to the feast and famine investment cycle that Sir John Parker touched on, which has always been accompanied by painful job losses, including in the supply chain.

UK companies will always be less likely to bid in the future if they think they cannot compete fairly with overseas bidders, whether that is state-owned yards or state-subsidised yards. That is not just my opinion; it comes from real discussions with UK companies, and you cannot overstate the negative impact of job losses. Study after study, from Swan Hunter to Harland and Wolff, have shown that many workers who are made redundant do not find alternative work that is as well paid or as satisfying. Older workers in particular find it difficult to remain in the labour market, and many redundant workers experience poor mental and physical health. Skills are lost, and it is very difficult and expensive to rebuild that capacity.

There is also an issue of investment, because when employers invest in facilities or skills, they have to think decades ahead. We heard some of the previous panel talking about 50 years, and that is the reality. When employers invest, they have to think decades and decades ahead. A loss of confidence in the Government's policy can cost the UK hundreds of millions of pounds in investment. We saw that when BAE Systems cancelled its planned frigate factory on the Clyde when the Type 26 order was downgraded. The FSS competition has already been halted once, and there have been some worrying press reports—I will stress it is just press reports—

John Spellar: Ross, I think we will have to cut you off now, because of the time we have, but that was a very useful exposition of the argument, and one that I am very pleased is on the record.

Q137 **Mr Jones:** In terms of the feast and famine argument, would you agree that what is needed is a strategic drumbeat, as Sir John Parker said, which would also give confidence to the private sector to invest? At the moment, the Prime Minister is saying that he is going to build his way out of the present coronavirus crisis. Would the early awarding of those ships to UK yards not be a direct way for the Government to boost the nation's economy?

Garry Graham: That is exactly right. The issue of FSS has become—quite rightly—totemic in people's eyes. Certainly, I cannot imagine other European nations and other major defence nations around the world making a similar decision. The potential decision to send FSS construction abroad is economically and industrially illiterate. What we have seen our European competitors doing over the covid crisis is bringing defence contracts forward to be fulfilled in their domestic markets, so that it is a driver of economic growth both locally and nationally within their own economies.

Q138 **Chair:** I do not know whether anybody can say, and I understand you may not have these figures, but what has been the cost of the delay in making a decision and moving on with that?

Garry Graham: I do not have those figures to hand.

Chair: This has been going around the buoy—excuse the pun—for quite some time. The delay itself must be costing the MoD a lot of money for failing to make the decision. The ships are required and needed in service, and it is putting a strain on the existing capabilities. We will try to find that answer somewhere else, but it is an interesting question to ask. We will move on to the wider picture of defence industrial strategy. Emma Lewell-

Buck, will you take us forward on that?

Q139 **Mrs Lewell-Buck:** Good afternoon, everyone. Before we move on, I am pleased to hear support for the FSS contract being in the UK. Some of you might know that I come from a proud family of Tyneside shipyard workers, and what Ross said is right. I know painfully well what happens when that work disappears and skills are lost, as well as what happens to the wider economy, so thank you all for being supportive in that.

Garry, previous witnesses to this Committee have said that they do not actually feel that we have a defence industrial strategy. With that in mind, how far would you concur with that statement, and what would you like to see in a defence industrial strategy?

Garry Graham: I think the reality is that we might have a policy, but we do not have a strategy. What you will see is that, on occasions that contracts are let, the term "defence industrial strategy" might be tagged on to them, but do we see a coherent defence industrial strategy across domains and at the heart of MoD procurement policy? No. There are some challenges there and I look to what other countries do.

First, we need to be clear that defence spending for the UK must be proportionate to the threats that we face. Historically, we have used figures relating to GDP, but the reality is that, despite having a Government who talk strong on defence, our defence spending is lower now than it was in 2010. Spending on defence between 2010 and 2017 fell by around 15%. It has seen a gradual increase, but even by 2021, it will be 7% lower than it was in 2010. The first thing is the political desire and commitment with regard to defence spending for the UK, and that it is proportionate to the threats that we face.

Providing suppliers with a level of confidence around what is in the pipeline, in terms of orders, enables them to invest, both in infrastructure and in the skills that they need for the future.

We need to look more broadly, when we talk about defence industrial strategy, than simply at construction. We have got to talk about research and development, design, build, support and sustainment as key elements of that industrial strategy.

There has been a fixation around the principle of competition. We need to have a more sophisticated approach to what we regard as value for money in our defence spend, both in terms of creating our own sovereign capacity and capability as a nation to defend our citizens, and using that as a launch pad for exports.

Some figures were shared with you earlier, but if you look at the RUSI research on defence spending, for every pound of UK defence spending, around 37% finds its way back to the Exchequer in tax and national insurance. That does not include the benefits to communities, through the multiplier effect, on top of that, when money is spent in local communities across the piece.

As a nation, we need to have greater funding around research and development. In the last decade spending on research and development has fallen by around 37%. The MoD needs to think of itself as far more than simply a customer, and as the guardian of the defence supply chain for the UK and the custodian that enables exports in the future.

The MoD has had its own problems. In 2010, the MoD experienced some of the most severe headcount cuts across the civil service. Ensuring that the MoD has the capacity and skills that it needs for the future is absolutely vital with regard to that. So, there are a whole range of issues that need to be addressed.

When I go out and speak to industry, there is willingness to work with Government, but the initiative needs to come from Government, in terms of setting out what they mean by defence industrial strategy, and how that will help us meet our sovereign capability and capacity needs for defence in the UK.

The default position should be that we procure in the UK and we support companies in supply chains in the UK. If we are going to spend what we need to spend on defence, which we need to do for our national security, we are going to have to take the electorate and communities along with us. That means being able to give evidence of good quality, high-skilled jobs being provided in communities, and investing in a pipeline of skills that will secure the future of the industry and careers for our young people.

Q140 **Mrs Lewell-Buck:** Thank you for that, Garry. At the start of your answer you touched on the issue that there sometimes seems to be a disjoint between different parts of the system and in the MoD. Ultimately, where do you think the leadership should be coming from? Who should be leading on what you have said that we should be doing?

Garry Graham: It needs to come from the top of Government, if I am honest about it.

Mrs Lewell-Buck: So the Prime Minister?

Garry Graham: Yes. What we see is smokestack thinking within the MoD, sometimes because of understandable budgetary pressures in certain areas. We need a holistic approach across Government. As Professor John Louth put it, in terms of RUSI, should we think of defence spending as gross spend for the MoD or net spend when you see the return to the Exchequer, which benefits the UK economy? I am in favour of the latter, not the former.

Q141 **Mrs Lewell-Buck:** In your view, is there a particular country that has nailed this and got it right and that we should be looking to as a good example?

Garry Graham: Certainly what you see in Germany, France, Sweden and elsewhere is a more interventionist and proactive approach. As I mentioned, some of the response we have seen in Europe to the economic consequences of covid has not been to reduce expenditure. It has been to bring forward procurement plans in the defence sector, to inject a level of demand and confidence into the economy, and to meet national defence needs.

Ironically enough, look at the United States—you had somebody speaking about the US earlier. In some ways, the US takes a far more protectionist and proactive approach to the support of its defence industry, and we are looking for the same in the UK: an end to off-the-shelf foreign procurement. There are lots of examples and lots of evidence out there that simply meeting the minimum technical specification and going for the lowest cost bid in the longer term doesn't secure our defence needs as a nation, doesn't provide value for money, and doesn't support the quality jobs that we need to see created across the four nations of the UK and in our regions.

Q142 **Mrs Lewell-Buck:** My last question is to all three of you—Garry, Rhys and Ross. Have you had any engagement at all from the MoD on the integrated review and new industrial strategy?

Rhys McCarthy: No, not directly—indirectly, through the submission to this Committee. It is not personal to me, but I think it is very disrespectful to our thousands of union members, to the three unions speaking here today, and to hundreds of our shop stewards, who are proud of the job that they do, and proud of their role in defending in the country and the economy. Not being involved is, as I said, very disrespectful. Managers and Ministers come and go, but our members know their industries inside out. They know their products and how good they are, and what needs to be done. Some involvement, if that came out of this, would be a positive step—full engagement with the MoD in forums and meetings.

Ross Murdoch: Again, as with Rhys's answer, the simple answer is no. We have had good engagement with the MoD in the past, including during the production of Philip Dunne's report, and we would want to engage constructively and make the case for investment in defence, but we really need the MoD to be more open to consistently engaging with the unions. And it is a no on the integrated defence, security and foreign policy review.

The Secretary of State did say that he intended to consult with all necessary stakeholders, including the trade unions, but that consultation hasn't happened yet, and I know the GMB and its sister CSEU unions have been trying to secure a meeting with the Secretary of State for some time. We had one scheduled, but unfortunately it was cancelled at the last minute, and we have been hoping to find a date in the diary soon.

I cite one example of how engagement could be better. In early March, the MoD co-hosted a conference on investment and prosperity with King's College London. This was in response to the recommendations of the Dunne review. As a union in the defence sector that gave evidence to that review—we have an interest in this area and have something to contribute—we wrote to the MoD and asked if we could attend, but we never received a reply. So it could be better.

Garry Graham: We wrote to the Secretary of State on his appointment, congratulating him on getting the job and setting out a number of issues that we wanted to take forward in terms of discussions, and we haven't had a response.

Mrs Lewell-Buck: Okay, so you have all reached out, but you have been ignored, essentially, it would appear. Thanks very much. I will let you move on.

Q143 **Chair:** Can I confirm for the record that you have not formally been invited to submit anything in writing, let alone make an oral submission on the integrated review? Is that what you are saying?

Garry Graham: That's correct.

Q144 **Chair:** Is that the case with all three of you? Nobody has reached out to you to ask you for any written contribution to the integrated review?

Rhys McCarthy: Not personally. Not that I am aware of.

Chair: Can we move on to competition in supply chains? John Spellar, do you want to take us forward on this one again?

John Spellar: Yes. It is very different from when George Robertson and I were doing the defence review in 1997.

Chair: Those were the days. Let me grab my sandbag.

Q145 **John Spellar:** Can I put a question to Rhys? We have been talking about competition. Is competition as operated at present an effective means of sustaining a UK defence industrial base, and if not, what alternatives would you propose?

Rhys McCarthy: I do not think that us unions and our members are afraid of UK internal competition, particularly if it drives excellence. I think that what we have concerns about—it has been shown with the FSS debacle; let's call it what it is—is international competition that damages our industrial base and our skills that go with it. We do not want to lose sovereign capability and we think it is a penny-wise and pound-foolish approach. As others have touched on, there does not appear to be a defence policy or a strategy.

As for how you improve it, you do that by promoting internal competition in the UK and looking at optimising workshare; that was carried out, for example, in the Aircraft Carrier Alliance, and in what we have seen within Team Tempest, in the UK context. But it is also about making sure of the prosperity dividend, which others have touched on, and which returns, for every pound spent on manufacturing goods in the UK, about 37% to the Treasury. Also, the social value, the skills, and the jobs must be taken into account and put into any contract. We have had occasions when it has not been possible to do things solely in UK competition terms and where there is an international element. That is taken into consideration.

Q146 **John Spellar:** In your assessment, does that put the UK at a disadvantage compared with our international competitors, with their formats for competition for their contracts?

Rhys McCarthy: I think it does. A colleague spoke about FSS, but I think it is a bit of a litmus test, to be honest. We are hearing a lot—it is very topical at the moment—about state aid, as we try, or not, to get a deal through in the transitional period. As some of my colleagues will say, we are all supportive of state aid and state intervention, being trade unions; I think there is no surprise there. But we get a little bit cynical when you have a situation with FSS whereby, under current EU rules that we are bound by, the UK Government at a stroke of a pen could say the FSS are warships, which we all believe they are anyway. That would take out that issue that the bid could only be done in the UK and built in the UK.

One of the favoured international bidders is a Spanish state-owned company receiving Spanish state aid, and it has an unfair advantage. We have seen this previously with other shipbuilding that has gone on, with South Korea for example.

I think it is not a fair playing field. It is something that must change, and we have really got to have a situation where the prosperity dividend is in contracts. There is a bit of confusion. Someone said that sometimes politicians blame the Treasury, and then the Treasury blames the MoD, and so on, but someone needs to sort this out. We need to stop talking about the prosperity dividend and the undoubted benefits that we get, and put them in place.

Q147 **John Spellar:** I absolutely agree with you. The state aid argument that is going on is completely baffling to me, because the Government do not use the provisions that they have under EU rules to support British industry. Why it is a big issue for them, or whether it is in fact basically a bargaining issue, or maybe a distraction issue, I do not know. But that is another matter.

Do any of you think—this was mentioned to us a bit in the previous session by the companies from Plymouth—that the MoD has oversight of, or even an understanding of, supply chains and the way that they should interact with them in their procurement processes? Ross first.

Ross Murdoch: The Dunne review certainly found that it did not. The Department does not appear to have a good internal understanding of its supply chains, and I believe there are problems with some of the official statistics as well. Beyond a certain point, we are relying on information published by the tier 1 contractors.

One example I would cite is that, in 2005, BAE Systems published a comprehensive list of 1,700 companies in its submarine supply chain as part of the "Keep our Future Afloat" campaign. As far as I am aware, that publication has not been repeated, so we have a good snapshot of the submarine supply chain at that point in time, but not since. I and my two trade union colleagues were involved in giving evidence to the all-party parliamentary group on shipbuilding and ship repair. In preparing for its

2019 report, it looked at the Type 26 frigates supply chain—only a limited selection of it, I stress. The report cited that somewhere close to 80 parliamentary constituencies had supply-chain companies feeding into that contract. I reinforce the point that it was only a selection, so it was likely to be much more substantial than that.

The MoD could require its contractors to report that information consistently. That would aid the Department's understanding and the wider public interest, but I guess that would really require a different approach to contracting, to again pick up some of the points that Rhys made. The GMB has made that same argument about prosperity, in terms of returns to the Treasury, tax and national insurance, plus the multiplier effect of workers in a widespread defence supply chain spending, and therefore stimulating the UK economy. That is very much a hot topic at this time, which is like no other in my lifetime. Post-covid, and with potential Brexit uncertainty around the corner, GMB would certainly argue that here is a perfect opportunity for defence to make a valuable contribution to the rebuilding of our UK economy.

In other industries, we would often turn to the Office for National Statistics, but I do not think official statistics any longer distinguish between defence and non-defence suppliers, so that means there are not official estimates of contributions to GDP, for example, or the multiplier effects of different parts of the defence sector.

Garry Graham: One of the things that we advocate as part of defence industrial strategy is close collaboration between the MoD, major suppliers and the supply chain. Sometimes the procurement process is cumbersome and time-consuming and, frankly, does not allow that early engagement with some suppliers that allows for more imaginative and technological solutions to be reached.

Sometimes you feel that the buck is being passed between the Treasury and the MoD with regard to the approach. While we might talk about collaboration across the sector, some 15-year-old in the Treasury who has just read Adam Smith might think that that is complicity, but there is a willingness from the industry to work with the MoD on these issues. Moving on from the mantra of "Competition will provide all" to developing a defence industrial strategy that meets our defence needs and supports local and national economies is vital. We need to move on from where we are.

Q148 **Martin Docherty-Hughes:** It is always a delight to discuss shipbuilding, as the son of an 86-year-old coppersmith who worked at John Brown's on the Clyde. Sadly, unlike a lot of my colleagues, in my community, shipbuilding has been utterly devastated; it vanished 20 to 30 years ago. My hope is that we can share colleagues' experience about how they retain sufficient investment in research and development.

Garry, are the UK Government and industry making sufficient investment in research and development? What should be the priorities for such spending, based on the needs of your members?

Garry Graham: The direct answer to the question—are we spending as much as we should on research and development?—is no. The brutal reality is that we are spending, in real terms, less than we were. Spending on research and development has reduced by about 37%. As a result of the decision to leave the EU, we are going to lose access to research and development funding coming from the EU, where the amount available was about £100 million. We need to be investing in research and development. There is a real challenge out there for the private sector, and that is why I was talking about early engagement.

Q149 **Martin Docherty-Hughes:** Sorry to interrupt you, Garry. What do you think should be the priorities? What type of research and development do you think should be the priority?

Garry Graham: Beyond the domains of air, sea and land, to give you a level of greater granularity, I think there should be investment in cyber—both defensive and offensive—biological and chemical, complex weapon systems, and strategic communications. That is as well as investment in research and development relating to air, sea and land.

Q150 **Martin Docherty-Hughes:** Thank you. Can I go on to research? What do you think are the essential skills needed in the defence industry now and in the future? This is not just about the UK Government; some of my colleagues forget that education and skills sit with the devolved Administrations. Are they all doing enough on the essential skills required in the shipbuilding industry?

Rhys McCarthy: I think we need a holistic approach. We need a Government that really understands defence policy, and that is also about defending the economy and the skills that go with that. We had announcements from the Prime Minister recently—another soundbite dating back to 2017—about apprenticeships for anyone under 25, looking at the ongoing covid pandemic, but we need detail.

Recently, Safran, which has a mix of civil and defence, has let go some of its apprentices, and thankfully BAE Systems has taken them in. We have had conversations with GKN Aerospace. It had a cohort of apprentices coming to the end of their apprenticeship, and before March it had jobs for them. Unfortunately, it does not have jobs for them at the moment. It wanted to have some flexibility in the apprenticeship levy. I think there are billions sitting in the Treasury gathering dust. It wanted to tap into that money to keep those apprentices on for another year and keep training them. We need some creative approaches to maintain the skills. We are all aware, not just in defence but across manufacturing, that we have an ageing workforce, if you look at the demographics.

Q151 **Martin Docherty-Hughes:** Sorry, I am just very conscious of time. You mentioned apprenticeships. I was at BAE Govan last week, and I was delighted to hear that at least there they have kept on all their apprentices and taken on apprentices from other areas.

Finally, some of you mentioned a lack of long-term planning in investment. On MoD spend, I believe that we should have at least a full parliamentary term in which we know what we can spend, and what we have full parliamentary approval for. Is that something that you agree on, rather than this ad-hoc approach to financing MoD opportunities?

Rhys McCarthy: I agree. Colleagues have said that Babcock have a 15-year plan. Most businesses will have a 10 or 20-year plan, but so do Governments around the world. French, German and Australian defence have decades-on visions and plans, which they then put into practice. We continue to have Governments that are out of step with what people and companies want. What our members want is a long-term view, not this very short-sighted cycle, which does real damage to confidence, investment, jobs, apprenticeships and everything that flows from that.

Q152 **Chair:** Thank you very much indeed. Can I speak to the wider issue of prosperity? We have touched on it a little bit in relation to local economies, retention of skills and so forth. Can you give an overview of our sovereign capability? Do you see us losing skillsets at the moment? You touched on some of the challenges that we face, but those challenges are, of course, equal around the world. We briefly mentioned a possible pivot over to some of the Chinese competition, and South Korean competition as well. How do we fare from a sovereign capability perspective compared with, let’s say, 10 years ago? Ross, do you want to start off?

Ross Murdoch: We have long argued that the MoD should set up a clear understanding of its likely future operational requirements in a whole range of scenarios. We can then ask ourselves whether we have the sovereign manufacturing base to meet the nation’s security requirements in all those scenarios, and evaluate whether the policies pursued by Ministers are sufficient to deliver and preserve that capacity.

I think RUSI has argued that if the UK cannot manufacture its own defence equipment, we then become reliant on other nations, at a time when the world is becoming less safe and old alliances are less dependable. That is not a new argument: going back to the 2005 defence industrial strategy, it warned that if we do not make it clear which industrial capabilities we need to have on shore, the capability that is required to maintain our national security may disappear. That is precisely the sort of situation that we almost saw in the nuclear submarine sector in the 1990s, which was only remedied with great effort and at great cost. A repeat of that industrial near-death experience can be avoided in the future, but it does require a clear understanding of sovereign requirements, a real industrial strategy, and a recognition that the future of our yards is not just a commercial issue.

If you look ahead, with the exception of Ferguson Marine, the Scottish yards are committed on the Type 26 and Type 31 programmes. If other yards are allowed to fail, and the international situation deteriorates and more ships are required, it begs the question of where they would be built. We can at least preserve our existing capacity, but that does require certainty and the steady drumbeat of orders that I talked about earlier, and an end to the policy of international competition.

Chair: Thanks, that is very helpful indeed. Talking of capabilities and technologies, Stuart, do you want to conclude on this point?

Q153 **Stuart Anderson:** This follows on nicely from what you have just said, Mr Murdoch. What criteria do you think should be applied to identify the capabilities or technologies that we should be considering as sovereign?

Chair: Garry, do you want to lead us on this one?

Garry Graham: As I think we all understand, we live in an increasingly hostile world, with a proliferation of threats to the UK. Maintaining and ensuring that we have sovereign capability and capacity is really important. We have heard recent media reports that there will have to be trade-offs between certain domains in order for us to focus on artificial intelligence, robotics, use of drones, unmanned vehicles and cyber-defence. I think that is a false dichotomy, in terms of what we do as a nation.

Some of the work we do will be transnational by its very nature; aviation is a good example of that, with Team Tempest and that type of work. However, there are other areas in which it is absolutely vital that we both maintain and develop sovereign capability and capacity to deal with the threats that face us.

The challenge for that, politically and economically for the UK, is how that will be affordable and acceptable to the electorate. The key issue is about the defence sector not only keeping citizens safe but being a driver of economic benefits for citizens across the UK, in the four nations and the regions.

Q154 **Stuart Anderson:** I think you have covered some great points there. Are there any other specific criteria—I open this up to all the witnesses—that we should be using to identify what are those key sovereign capabilities and technology at the very initial stage?

Garry Graham: We talked about competition earlier, and I talked about collaboration and working closely with industry. The reality is that what we need to develop is some kind of balanced scorecard, in terms of our weight and what we need to do. There are some areas of sovereign capability and capacity that are absolutely vital.

In terms of nuclear, you think about weapons systems. You think about some of the responses to technological challenges and opportunities that we have in the defence areas, where you think, "We clearly need to have sovereign capability and capacity in those areas." That is so we have independence of action and we can secure our defences as the UK.

As you go and look at some other areas of the supply chain, some of the arguments with regard to that might be less pressing from a purely defence perspective, but you would also want to look at the social and economic benefits that come alongside defence procurement.

Stuart Anderson: Thank you for expanding on that.

Q155 **Chair:** Finally—this question is for all three witnesses—we touched on covid-19. In the areas you represent, how are your members coping these days? Are people adapting, from your perspective?

Rhys McCarthy: We have not seen a downturn in work, because the contracts with the UK Government or foreign Governments have continued. It is more of an issue of different work patterns and shift patterns, with safe ways of working and hygiene controls. Due to the generally good industry relations we have with the likes of BAE, GKN, Babcock and so on, we have worked very closely with them to create the best practice to keep operations running and workflows and contracts delivered, but most importantly to keep our people safe. That has been really positive.

Our concerns, looking further afield into a defence review—and if I may be so bold and hopefully not misquote the Chair—are that we are not seeing a defence strategy; we are potentially seeing a cost-cutting exercise. What we need to see is the use of defence as a way of stimulating the economy—particularly to get us out of this covid crisis and the recession that it is causing; we do not want it to tip into a depression—and follow what other countries have done, such as Germany and France, which are pushing forward shovel-ready projects, which we have similarly in the UK, because they want to defend their industries and they want to defend their jobs and their skills. That is the real challenge going forward.

Chair: That is very helpful. Thank you, Rhys.

Garry Graham: Just by way of observation, I think what we have experienced during covid has prompted some to think quite rightly about the biological and chemical challenges that we might face in the future and the importance of research and development around that.

The feedback I get, speaking to members and employers across the MoD and our members working in the private sector, is that they have risen to the challenge of covid. A number of employers have enabled home working in a way that historically has not been done before. Previous concerns about security and a range of things have been dealt with, and people have been delivering effectively.

Where people have been required for operational reasons to attend workplaces, to engage in construction engineering projects—all those kinds of things—we are working closely with employers to ensure the health and safety of our members.

Across the sector, those working in it and the members we represent should be really proud of what they have done across the public and private sectors to ensure that Britain's defence needs have continued to be met.

Chair: Sirs, thank you very much indeed. This has been an extensive inquiry—one of the bigger that we have been investigating, and it is so important that it is. Garry Graham, Ross Murdoch and Rhys McCarthy, thank you so much for your indulgence today and for sharing your views and perspectives. We hope that all your members remain safe during these difficult times and also thank them for what they are doing for the defence industry. Thank you once again for your contribution. That brings this session to a close. I thank the Select Committee members as well.