

European Scrutiny Committee & Defence Committee

Oral evidence: European Defence Industrial Development Programme, HC 1695

Wednesday 21 Nov 2018

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Members present:

European Scrutiny Committee: Sir William Cash (Chair); Mr Marcus Fysh; Kelvin Hopkins; Mr David Jones; Darren Jones; Stephen Kinnock; and Andrew Lewer.

Defence Committee: Dr Julian Lewis (Chair); Leo Docherty; Mr Mark Francois; Johnny Mercer; Mrs Madeleine Moon; Gavin Robinson; and John Spellar.

Questions 1-153

Witnesses

I: Stuart Andrew MP, Minister for Defence Procurement; Linda Dann, Head of European Bilateral Relations and EU Exit, Ministry of Defence; Daniel Drake, Head of the Euro-Atlantic Security Policy Unit, Ministry of Defence; and Valerie Evans, Head of the International Relations Group, Defence Equipment & Support.

Examination of witnesses

Witnesses: Stuart Andrew MP, Linda Dann, Daniel Drake and Valerie Evans.

Q1 Chair: Good afternoon, Minister. I am afraid that my voice has let me down for the first time in 34 years. Thank you very much for coming. This is a joint sitting of the European Scrutiny Committee and the Defence Committee; Dr Julian Lewis is, of course, the Chair of the Defence Committee. I am very grateful for the participation of all those present.

The first question that I would like to put to you is as follows: why did the Government agree to a clause in the withdrawal agreement that allows the EU to exclude the UK unilaterally from “sensitive” programmes—even during the transition period, when the UK remains a full contributor to the EU budget?

Stuart Andrew: First, thank you for the chance to appear before you. I hope that we have been open with you in terms of the information that we have received as the negotiations have been going on. Throughout the session, obviously, negotiations are still live, but we will try to answer where we can.

On the specific question that you asked, obviously this is a negotiation. We are not going to get everything that we want, but the UK can participate during the implementation period, particularly when we look at EDIDP, which is a two-year programme—allocations for funding that will be available in 2019 and 2020. We will be looking at which of those will be of interest to us as a country, particularly for us in the Ministry of Defence.

Q2 Mrs Moon: Will you give us an idea of what proportion of the funds you expect to use for projects that will run beyond 31 December 2020 and are therefore theoretically off-limits to the UK? What numbers are we talking about, and how critical are they?

Stuart Andrew: My understanding is that at the moment the contracts have not yet been decided. They will be decided by the end of this year—in terms of the 2019 programme. These are about capability developments, so clearly they could be long term—they might start now and go on beyond the period. We will look at those that will be of benefit to us as a nation, where we have those capability issues and where we think that this project could help us in narrowing the gap.

Q3 Mrs Moon: Is any aspect of this assessment looking at who has the level of capability to ensure that whatever is being developed is going to be of maximum benefit not just to the UK, but across the Alliance? Is anyone looking at that?

Stuart Andrew: I will ask Valerie to come in on the specifics, but we have been very clear that any projects that we go along on really must complement the work that NATO are doing. It would be silly for NATO and allies, who are already working collaboratively on areas, particularly in this field, on capability—there is no point in duplicating work that is happening;

it needs to really complement or enhance it, in our view. I don't know, Valerie, if you have anything specific—

Valerie Evans: I can reinforce the message that the Minister has just given. The work programme has been put together broadly to be consistent with the capability development programme, which is developed within the European Defence Agency. That is exactly put together in conjunction with the NATO defence planning process so they are consistent and coherent, and we are content that those requirements reflect capability shortfalls and will help the Alliance.

- Q4 **Mrs Moon:** The part of my question that does not seem to have been addressed is this. How much is there an assessment of which companies have the maximum skills capability to ensure that whatever is being developed will be developed to the best capacity for the use of NATO, so that it is not just a case of, "Well, we're out, but our companies are actually very good at this"? Galileo has been a prime example of that: we have specific skills that we are not going to be able to utilise for the full use of the Alliance. So how much of that argument has been present in all the discussions that have taken place?

Stuart Andrew: I think it is fair to say "extensively". These are not just discussions that are happening in terms of the programme committee; there are also ongoing discussions we have already with partners outside the EU framework, as it were, and we are having these discussions with our allies on a host of capability arrangements. We ensure that we continue to make those on a bilateral basis, too.

- Q5 **Mrs Moon:** Are you looking for any discount for the UK's contribution to the EU budget, on the basis of the exclusion?

Stuart Andrew: Not specifically that I am aware of, if I'm honest. Is there anything that you want to—

Valerie Evans: We expect not to be excluded; I think that would be the argument.

- Q6 **Mrs Moon:** Your proposal is not to be excluded.

Valerie Evans: Correct.

- Q7 **Mrs Moon:** Will you keep these two Committees informed where there are problems?

Witnesses indicated assent.

Mrs Moon: There may well be other avenues, where there is a particular capability that is not going to be able to be enhanced to its full extent because of exclusion, that we might particularly want to be aware of.

Stuart Andrew: I should reiterate that point: we are not expecting to be excluded. But if we were, we would be robust in arguing against that. If that were to be the case, I can assure you that we would inform not just both these Committees, but Parliament as a whole.



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Q8 **Mr Francois:** If that were the case, Minister, would we get our money back?

Stuart Andrew: As far as I am aware—I mean, we don't anticipate that happening.

Q9 **Mr Francois:** No, but just in case, unfortunately—

Stuart Andrew: I do not know—I do not think that we will get our money back, if I'm honest. I think this is part of the international obligations that we have made. We have always paid—these are EU commitments. This is coming out of existing EU budgets and is therefore part of the ongoing commitment that we made.

Q10 **Mr Francois:** So they could kick us out, yet still trouser the money?

Stuart Andrew: Well, this is part of the financial settlement that we are arranging, but as I say, I will really emphasise that we will be robust in arguing that that exclusion was unfair and not necessary.

Mr Francois: I am tremendously reassured—thank you.

Q11 **Mrs Moon:** Is there an appeals process? Let us say there was a situation where the development of something was going to take longer than the December 2020 date and Britain was involved—British companies were involved. This is a critical new development—and then we are going to be excluded. Is there an appeals process added into the negotiations that you have been involved in that would allow us to go back and say, "Look, these would be the consequences. This is the damage that would arise. It is not just damage to the UK; it is damage across the Alliance"? Is that a process that you are building in?

Stuart Andrew: Yes, it is. The point that you make, about this being damaging not just to the United Kingdom but to the EU as a whole, is one that we have made very forcefully already. I have certainly, on a recent visit to Brussels, myself made that point on the fact that actually we want the EU, in terms of these projects, to be outward-looking. Collaboration within defence succeeds when it is outward-looking, and that is what we are encouraging them to do.

In terms of an appeal process, I think I am right in saying that there is a joint committee that would look at this. Is that correct?

Valerie Evans: In terms of 127.7(b), which I think is the point you are mentioning there, that process is still to be negotiated.

Q12 **Mr Francois:** Are you talking about the joint committee under the withdrawal agreement?

Valerie Evans: Yes.

Q13 **Mr Francois:** Okay, and you know that if they do not agree, the ultimate decision is taken by the European Court of justice, Minister. Are you aware of that? I think it is article 174.



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Stuart Andrew: As I say, we are making it very clear—and we will be working with our partners; there are bilateral discussions that we have too—to argue the case that exclusion is not within the interest.

- Q14 **Mr Francois:** Quickly, if they do kick us out of Galileo, will there be a flag ceremony?

Stuart Andrew: A flag ceremony?

Mr Francois: Yes. Quite often when you initiate or end a project you have a ceremony where you raise a number of flags on behalf of the partners. When the project ends you have a ceremony when you bring the flags down. If they kick us out and keep our billion quid, will we have a proper ceremony where we formally raise the white flag or not?

Stuart Andrew: I am not aware of one.

Mr Francois: Okay. I am just asking; because if there is, I would quite like to be there.

- Q15 **Dr Lewis:** On a slightly more cheerful note, Minister, would you like to take the opportunity to congratulate the Defence Committee's very own Madeleine Moon on having been elected president of the NATO Parliamentary Assembly?

Stuart Andrew: Dr Lewis, you have reminded me of how remiss I have been, and I do absolutely congratulate her. My fellow city MP Alec Shelbrooke speaks very highly of the visits he has taken with her. I wish her all the best.

Mrs Moon: Thank you.

- Q16 **Dr Lewis:** While I have the floor for a moment, could I ask something? I am not hugely familiar with this programme. Can the assembled experience in front of us give us a thumbnail guide as to what the basis of the programme is, and, in particular, how much we have paid in over the last few years—and what we have got out of it?

Stuart Andrew: I will give an overview. The money, as I understand it, is from existing EU budgets. It is circa €500 million so it will be pro rata the amount that we pay in terms of our EU membership, which I understand is about 14%. In terms of the other specific details, if I could refer to—

- Q17 **Dr Lewis:** In particular, have we got our money back, or have we been paying in more than we have got back?

Valerie Evans: It has not started yet, and so on this we are looking to the future. The first contract will be placed towards the end of 2019 for the work programme for 2019 and then there will be similar calls for proposals from the Commission against a work programme that we are fully engaged in developing. That work programme is not yet complete. Final discussions are taking place this year. It is based on categories of capability—very broad headings; and then proposals can be put forward by industry against each of these categories.



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Q18 **Dr Lewis:** But it is going to subsume things like Galileo? I believe we have quite a few questions about Galileo coming up. Is that right?

Valerie Evans: There is a programme which is Galileo for European defence—that is correct.

Q19 **Dr Lewis:** And how much have we paid in towards the cost of Galileo so far?

Valerie Evans: I am not entirely sure—

Q20 **Dr Lewis:** Can you come back to us on that?

Valerie Evans: This is a complement—the work that will be done under the EDIDP would be additional.

Q21 **Mr Francois:** I am sorry. This is a hearing that took a lot of time to prepare, about European defence, and arguably Galileo is a flagship European defence programme that we are involved in—and you do not know how much we have spent on it. Is there anybody we can talk to who might? Or do you want to text someone back in the Department quickly, and find out?

Stuart Andrew: Our understanding is that it is 14% of the total cost of the project that has been spent on the project. There have been contributions that industry has made as part of it.

Q22 **Mr Francois:** Okay. So if it is 14%, what is that in cash? We will take sterling or euros.

Stuart Andrew: I have not got the figure for you, I am afraid.

Mr Francois: Phone a friend.

Stuart Andrew: At the moment, it is £150 million per annum. It would be 14% of that that we have paid.

Q23 **Mr Francois:** Okay, but over how many years?

Stuart Andrew: The project has been running for—

Mr Francois: Just someone give me a figure, for God's sake.

Stuart Andrew: I apologise, but we do not have that figure. I will come back to you.

Q24 **John Spellar:** Within the EDIDP, looking forward, can we have some idea of the projects that the UK is going to be most interested in? How do you rate our chances of securing participation if the withdrawal agreement is ratified?

Stuart Andrew: I am sorry—I can't hear you.

John Spellar: Going forward, in which projects are we most interested in the EDIDP, and how do you rate our chances of securing participation if the withdrawal agreement is ratified?



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Stuart Andrew: We have full participation in the programme committee at the moment, and as I say they are going through the list of suggested projects at the moment. Of course, we are exploring all those to see which ones will be of interest to the United Kingdom, but among the ones that we would be interested in that I can give you, we will obviously advance the high-altitude pseudo-satellites project, and check whether that comes forward as one of the final projects.

Q25 **John Spellar:** Any others that we might be particularly interested in?

Valerie Evans: Yes, there are some counter-UAS technology ones that we might be interested in. There are also autonomous ground combat systems. The Baltic states, in particular, are keen to take forward some of those proposals, so there are a number of areas where if the industry is interested, we could participate.

Q26 **John Spellar:** You rightly said that the decisions to award EDIDP funding will have to be approved by member states, and those decisions will take place later next year, by which time we will no longer have a vote on that. My understanding is that Norway, for example, has been contributing to the defence research preparatory action, and yet received no funding from it. What steps are you taking to ensure that UK firms are not unfairly overlooked because, frankly, the British Government and the MoD have less influence over the funding process during that transition?

Valerie Evans: To reiterate, we have been fully engaged and involved in the programme committee, which sets the work programme, so that is the first step. In that work programme, there are some programmes that are specifically identified, so we understand what is going on.

Secondly, the evaluation criteria have also been agreed with our full participation, so the process that is going to be taken forward for evaluating those proposals that are taken in is the Commission, aided by independent experts. You are quite right that we would not be able to re-participate as an independent expert, unless in exceptional circumstances. The withdrawal agreement allows for that.

However, because the process that they have to follow is rigid and objective, and those independent experts are taken, agreed and appointed by the Commission, we are satisfied that this will be done on an objective basis, and that they will not be able to indiscriminately reject proposals with UK industry. Another thing I would say is that because these are joint proposals—there have to be at least three industries there—they would also be rejecting the other nations' industries that were proposed within it, so that is another factor making it more remote that that would be the case.

Q27 **Andrew Lewer:** We have touched on a few issues related to this already, but just to put it on the record, the EU has taken the view that article 122 allows the UK to be excluded from the European Defence Fund, and the industrial aspects of Galileo during transition as well. In your view, which other areas of EU activity will fall within the scope of article 122?

Valerie Evans: There has been no suggestion, in all our discussions with the Commission, that any further programmes would be excluded. We cannot rule it out, but we consider that to be entirely remote.

Q28 **Andrew Lewer:** Are you quite confident about that, or is that just as far as you are aware at the moment?

Valerie Evans: Confident.

Stuart Andrew: I should also say that the project awards will be looked at by independent experts, so we can make sure that is—

Q29 **Kelvin Hopkins:** The European Commission's proposal for the European Defence Fund from 2021 onwards provides for what is termed "association" by a non-EU country only if they are a member of the European Economic Area. Are you looking to broaden the criteria for associations, so that the UK could use that option, if it wanted to?

Stuart Andrew: Yes, we are. We firmly believe that the narrow and legalistic approach that the EU is taking to third countries is actually quite damaging to the EU. As I said a moment ago, just to block all those countries that are not in the EU or, as you rightly say, the EEA as third countries really would miss opportunities for greater collaboration and greater working.

The opportunity that exists here is to ensure that we have EU member states working to the objectives of NATO. This is an opportunity perhaps to fill in gaps where that is necessary. If they were to narrow it to just the EU countries, that would be short-sighted. We are arguing for almost a case-by-case basis with the third country definition.

Q30 **Kelvin Hopkins:** So they could be cutting off their nose to spite their face if they are too difficult about this.

Stuart Andrew: That is exactly what I said to them when I met them in Brussels.

Q31 **Kelvin Hopkins:** My supplementary question is this: if association is sought, how confident are you that the final European Defence Fund regulation will allow for association by the UK, even as a non-EEA country?

Stuart Andrew: We are particularly interested in a project-by-project analysis, rather than full association at this stage. We think that that would be of more benefit to the Ministry of Defence. We are looking at those areas where we are interested in that collaboration. Some of the projects that were just mentioned would be of interest to us. That is the line we are trying to go down at the moment with the negotiations that are currently happening.

Q32 **Kelvin Hopkins:** Is there any sign that the EU would be interested in such a pragmatic approach?

Stuart Andrew: I am not in those negotiations at the moment, but that is the pressure that we are putting on. To argue that case, we are also



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working with those countries that we work with collaboratively outside of the EU on defence matters. There are a number of countries that absolutely recognise the points we are making. We hope that we can continue to force that argument, so that common sense prevails.

Chair: We got no satisfactory answers to the questions that Mr Francois asked earlier on Galileo. I think he would now like to ask some questions on the annual budget of the fund. Is that right?

- Q33 **Mr Francois:** Yes, Chair. The proposed average annual budget for the fund is about €1.9 billion. The UK would have to make a contribution under the EU's normal rules for calculating third country payments that will result in a gross payment of roughly £260 million each year. Is that an acceptable sum? What would we want in return?

Stuart Andrew: I think the first thing I would say is to repeat the point I made a moment ago. We would be interested on a project-by-project basis. That is the access we are looking for, so that we absolutely know that it is benefiting the requirements that we have and how we are working with other countries to fill any gaps. Of course we would look at that in terms of whether it delivered value for money for the UK taxpayer. If it does not, and if it does not meet the requirements that we have in terms of the objectives of that individual project, I cannot see why we would want to partake in that.

- Q34 **Mr Francois:** All right. How would the Government seek to influence the European Defence Fund work programme and funding decisions, given that the UK, even as an associated country, would have no voting rights over either?

Stuart Andrew: Again, you are absolutely right: we will not be members of the committee. We will, however, continue to use those bilateral relationships that we have. We have to remember that we are the biggest defence spender in Europe, and I think that brings about a lot of influence. I would expect that we would try to use that influence to ensure that the projects that we want to be involved in are beneficial to both sides and, as I said at the beginning, bring about value for money.

- Q35 **Mr Francois:** Lastly, how many people work at DE&S?

Stuart Andrew: I think, off the top of my head, about 8,000.

- Q36 **Mr Francois:** Approximately 8,000. Okay. Well, we are not meant to give away the questions, Minister, but as you are a nice bloke and we know you, I will reveal that when we get to our question 11, it is all about Galileo. Do you think that someone sitting behind you could contact one of those 8,000 people, so that by the time we get to question 11 you can tell us exactly what the cost of the UK contribution is, and how much money we have put at risk? We are giving you six questions' worth of run-up to do it. Is that a fair offer, Sir?

Stuart Andrew: That is fair enough. I take the point.

- Q37 **Mr Francois:** Thank you very much. Whichever one of the 8,000 is most



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appropriate—we will leave that to you.

Stuart Andrew: I just point out that I do not think that Galileo comes under DE&S; I think it comes under the UK Space Agency. But I will—

Q38 **Mr Francois:** I am so sorry. How many people work there?

Stuart Andrew: I don't know how many people work for that. But I take the point—

Mr Francois: Forgive me. Obviously there must be a different number; maybe we could text them instead. Thanks.

Q39 **Gavin Robinson:** Minister, you have considered association and the UK's desire to achieve associated status. Is that likely to be given? Are you confident that it will be given? Or are there circumstances in which we could seek associated membership and it would not be granted?

Stuart Andrew: I will hand over in a minute for the specific answer to those points. But I emphasise the point, and I tried to emphasise it on—as I said—that visit that we made: as a major contributor to defence spending in Europe, the security of Europe is obviously important to this country and important to the Government, and we think that it would be a very short-sighted decision to exclude the UK from some of these important projects. I feel very confident that we can make that case.

Q40 **Gavin Robinson:** I accept that, but is it a possibility?

Stuart Andrew: Sorry—is what a possibility?

Q41 **Gavin Robinson:** That associated membership would not be granted?

Stuart Andrew: I think associated membership is a possibility, yes, but I think our preferred model at the MoD is the project-by-project basis.

Daniel Drake: I will just add that obviously some of the sort of seed work on a number of these projects is done through the European Defence Agency and one proposal is an administrative arrangement with the EDA after we leave. There are precedents for that, with other countries successfully agreeing administrative arrangements, and then they are able to work on specific projects, as the Minister has said, through the EDA. So there is that option there.

Q42 **Gavin Robinson:** What consideration have you given to UK participation in any future programmes or projects if we do not have associated status?

Valerie Evans: If we did not have associated status, we would have to do that as a third party, which is permissible under the rules.

Q43 **Gavin Robinson:** You would have to seek approval for the UK defence industry to participate, you would have to grant approval, or you would have to seek changes to the restrictions that currently apply.

Valerie Evans: Correct.

Q44 **Gavin Robinson:** Thank you. And in circumstances where the EU



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proceeds and ownership of procurement opportunities falls to the European Commission, do you, Minister, or indeed your colleagues, have concerns around intellectual property rights and the ownership of those? And if we are participating and contributing, what surety is there that we have a stake in the ownership of that intellectual property?

Stuart Andrew: We find the prospect of those IP rights being taken, as it were, from, effectively, contributions from this country to be totally outrageous and unacceptable. That is why we voted yesterday against such a decision. We do not think it is right that the Commission should own the IP rights, and we will continue to make that case.

There was not full consensus in that vote and therefore there will be further discussion. However, there are a number of countries that were open to what we were arguing.

Q45 **Gavin Robinson:** In circumstances where we are precluded from any level of ownership or stake over intellectual property rights, what steps would you take?

Valerie Evans: We could not participate in a programme or a project on that basis.

Q46 **Gavin Robinson:** At all?

Valerie Evans: At all, yes. May I just say—

Gavin Robinson: I think, Mr Francois, that was a clear answer—

Valerie Evans: I just want to say that, under the terms of the treaty, the EU will not own and is not able to own defence equipment or technology. In certain exceptional circumstances, where there is a procurement under a contract, they can own it, and the EDIDP is purely being done for an IT system, so that they can communicate on a secure basis, but that is very, very remote. There is the reasonableness that the EU will not own it; it is just that the industry of the member states that would own it, which is not acceptable either.

Q47 **Gavin Robinson:** So the position of the United Kingdom Government is that in circumstances where we have no say, control or stake in intellectual property of programmes coming forward, we will not participate, contribute or be involved in any way?

Valerie Evans: Correct.

Q48 **Dr Lewis:** Would somebody like to start off by giving the Committee a thumbnail sketch of what you understand by PESCO?

Daniel Drake: I will. It is a permanent enhanced structured co-operation launched by the EU just under a year ago as a political framework through which certain member states could collaborate to build their defence capabilities. The first tranche of projects was launched in March this year—17 projects. The reality is that there has been variable progress among those. The project that I would say the UK has been most supportive of at a political level—of course, we are not a participating member state in

PESCO—was the work on military mobility, which has a clear read-across to NATO and a clear role for the EU and NATO to collaborate. Progress against the other 16 projects has been extremely variable.

At the Foreign Affairs Council defence Ministers meeting on Monday, the second wave of 17 projects was signed up. That meeting did not finalise the arrangements for third-party participation in PESCO projects, and we understand that they may look to finalise that at the Foreign Affairs Council next month, or it may be at a later date.

In a similar way to the EDF, we have made very clear where we think the disincentives would be for any third-party to contribute to PESCO. We are in the process of looking at the second wave of projects to see whether there would be projects that it may in the UK's national interest to participate in.

We have set two very clear conditions. The first is that they should be projects that are clearly complementary to the efforts of NATO—so, for example, projects in areas such as CBRN and co-basing may fall into that category, but we are looking closely at the detail. The second condition is that they must provide a clear opportunity for the UK defence industry at the same time, and we are looking closely at the detail of the projects as they develop, and at the arrangements for third-party participation once they are finalised.

Q49 Dr Lewis: Why do you think that the European Union has set up PESCO rather than working through the structures of NATO?

Daniel Drake: You need to go back a bit, because of course the concept of the EU moving more in that direction has been on the table for a long time and, as the UK, we have always been extremely cautious. Clearly the level of ambition is high and through the EDF and other programmes, the EU wishes to play more of a role in building European capability. Our position is that if those efforts genuinely contribute towards more capabilities and the burden-sharing effort that is integral to NATO, we will be supportive of them.

Q50 Dr Lewis: But PESCO came out of the Lisbon treaty, which itself was a re-run of the European constitution attempt that was voted down by two countries and then brought back, largely in the context of the Lisbon treaty. This whole operation is part of the building of a distinct EU defence identity, isn't it?

Daniel Drake: Of course, these programmes are designed to develop a greater EU defence identity. Certainly, the UK's approach towards it will be very clearly based on whether we think the specific projects that we may want to participate in will be complementary to NATO, as the Secretary-General of NATO made very clear at the Foreign Affairs Council meeting earlier this week, and whether they provide real opportunities for UK industry.

Q51 Dr Lewis: I will not push this too far, but I have been looking at the membership lists of the EU and of NATO. As far as I can see, there are 22



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countries that belong to both organisations; only six belong to the EU without belonging to NATO. Those six are Austria, Finland, Sweden, Ireland, Malta and Cyprus. With the greatest respect to those six countries, they are not really in the vanguard of the defence effort to protect Europe. So I ask again: why is it sensible for all this effort to be put into trying to improve defence capabilities for Europe, in the context of an organisation that excludes our main ally, the United States, but includes only a small number of small countries that do not really make a lot of difference to the defence effort?

Daniel Drake: I think the way that the NATO Secretary-General put it at the Foreign Affairs Council this week is exactly right. Where these efforts contribute to fairer burden-sharing within NATO, we should support that, and it can complement NATO. However, EU efforts must not compete with NATO—must not duplicate NATO—because NATO remains the bedrock for European security. That is absolutely the UK's position. Of the 22 that you mentioned, you hear a number of others taking exactly the same position in EU discussions as well.

Q52 **Dr Lewis:** These are well-informed answers. Thank you. I will ask the Minister directly: do you accept that there is a political risk through this development of a counterweight to NATO, as it were, coming into being, and that it requires a considerable amount of caution on behalf of our Government before we sign up to it on anything other than an ad hoc or project-by-project basis?

Stuart Andrew: Absolutely, and that is exactly what our position is. NATO is the cornerstone of our security and we are working with our European partners to encourage them, if they are members of NATO, to get up to that 2% spending, as they are supposed to. We want to ensure that that happens, where there are opportunities to make that happen quicker through these funding schemes, and that is why we are doing it through a project-by-project basis.

Q53 **Dr Lewis:** Can I take it for granted, then, that there is no question of our signing up to this organisation in any institutional way, and that it is only a matter for consideration whether as a separate, outside country we would, on a case-by-case and project-by-project basis, sometimes participate?

Stuart Andrew: Yes.

Q54 **Chair:** Are you ruling out an EU army?

Stuart Andrew: I am personally ruling out an EU army.

Q55 **Chair:** I am glad to hear it, because there is a lot of talk at the moment. Can you give us an insight as to your thinking on this question, because there is a great deal of pressure?

Only two years ago, I took part in a conference on these questions and a motion was put by the German delegation, saying that they would insist on an EU army. We defeated it, as it happens, but they said, "You've defeated it this time, but it is coming back." Can you tell me what the



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position is at the moment?

Stuart Andrew: We continue to argue that we want to maintain our own sovereign capability. That is what we want. We know that other member states want to have the same in terms of defence. I do not think there are any serious proposals for an EU army on the table at the moment. If there were, we would resist them.

Q56 **Chair:** You saw the article by Mr Coughlin in *The Daily Telegraph* today, did you?

Stuart Andrew: I have not, but I have heard about it.

Chair: I strongly recommend you have a good look at it.

Stuart Andrew: It has been recommended that I read it and I will ensure that I do after this meeting.

Q57 **Mr Fysh:** Just to follow on from that, before I come back to PESCO, Minister, do you think that our strong alliance with the US and involvement with it on various defence industrial projects puts our people in harm's way more than you would like?

Stuart Andrew: No, I don't think so.

Q58 **Mr Fysh:** That is good to know. Is that a consistent view across Government?

Stuart Andrew: You will have to ask all the individual Ministers, but I can speak fairly confidently from the Ministry of Defence that that view is shared.

Q59 **Mr Fysh:** Let me come back to PESCO. People obviously have concerns about the degree to which we might choose to go into that relative to our existing alliances. On the defence industrial part, my understanding is that the co-financing rate—the availability of finance—for PESCO projects is 10 percentage points higher than the standard rate of 20% if a nation is a member of the PESCO system. What is your view of whether the UK would have to be a formal participant to get funding from the EU defence funds?

Daniel Drake: Through the EDIDP, the Commission proposes to incentivise industrial co-operation by funding a minimum of 20% of development costs for co-operative programmes. PESCO projects could then receive a further 10% bonus. But of course because the negotiations on the rules for third-state participation in PESCO are still ongoing, the question whether a PESCO third-country entity could bid for EDIDP funding is still to be determined.

Of course there is a risk, given the fact that PESCO projects can receive additional funding, that some projects may be branded as PESCO projects even if they should not necessarily fall under that banner. It is quite a technical set of talks, which are linked to the question of third-party participation in both EDIDP and PESCO.



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Q60 **Mr Fysh:** What are the terms of the funding? Is it significantly cheaper than other ways of industrial firms raising capital for their projects?

Daniel Drake: I think it is a case of having this 20% of development costs plus another 10% for PESCO. That is the advantage of a project being a PESCO project.

Q61 **Mr Fysh:** But what is the structure? Is it in loans? Are they cheap loans or—

Valerie Evans: It is just that it is the EU providing the money, as opposed to a Government.

Q62 **Mr Fysh:** Sure, but how is it providing the money?

Valerie Evans: It is member states' contributions to a fund—it set up a fund for that.

Q63 **Mr Fysh:** So it is equity in the project without a cost associated with it? It is a 20% or 30% equity stake in the—

Valerie Evans: Yes. The EU has two mechanisms. The main mechanism is providing a grant to industry, so it is grant-based, if you like.

Q64 **Mr Fysh:** So it is free money—0%?

Valerie Evans: Correct.

Q65 **Mr Fysh:** How would you respond to concerns that UK participation in PESCO might limit our autonomy in defence matters? For example, do we need to stay part of the co-ordinated annual review on defence? Is that going to create obligations for us to explain how we spend our defence budget?

Stuart Andrew: Clearly, as I said a moment ago, we would not support initiatives that were going to undermine our sovereignty in the defence area, and neither would other member states, frankly. There are other member states that have said that. Our participation would be on a voluntary, project-by-project basis, on projects that were of mutual benefit to us and to allies.

Q66 **Mr Fysh:** My understanding from firms in my constituency with European links is that they think that would be a perfectly acceptable way of engaging with it. They do not foresee problems with our taking that position.

Stuart Andrew: I think I am coming down to your constituency next week, so we can have that conversation when I am there.

Q67 **Chair:** Of course, the question of financial contributions and co-operation in intellectual property and industrial projects is one side of the problem. The other side is control and command. You ruled out a European army as far as the United Kingdom is concerned, but of course there is a lot of pressure—we know that from the statements that have been made by some of the leading figures in Europe that they want to go for it. If you participate in the project management, you are taking steps towards



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control and command—for example, who runs a particular division, brigade, battle group or whatever.

Can you throw some light on the connection the two? Quite clearly, we are engaged in the process that gets fairly close to being involved, perhaps merely assimilated. Where do you draw the line so that you say, “We’re prepared to help in terms of co-operation within a NATO framework, but we are just simply not going to get involved in command and control, because that’s a sovereign question”? You raised it quite rightly. Control and command in military matters is about sovereignty. Perhaps you could elaborate on that, then Mrs Moon will come in shortly afterwards.

Stuart Andrew: To be absolutely clear, we are not going to give control and command to the EU. That is not what the UK is proposing or even contemplating. That remains sovereign, and we are not alone in that viewpoint. I think the issue that was mentioned a moment ago, the military mobility project, is one that would be ensuring that, should the need arise, the Armed Forces are able to mobilise across countries where there are restrictions and issues at the moment. That is part of what this mobilisation project is about—to reduce that. It will ultimately help NATO. In those sorts of projects, there is obviously a clear benefit for us, but that does not give control of our Armed Forces to the EU. That will not be anything that we consider.

Q68 **Mrs Moon:** May we clarify? There is a certain skew in the questions, and I appreciate that this is about a particular development that is happening across the European Union, but the command and control issues and the intellectual property rights issues equally apply if we participate in and buy from America. Is that correct?

Stuart Andrew: My understanding is that if we are buying, we always look—industry looks, obviously—at who has the intellectual property rights. They will also want to see whether they are going to take part in any of those arrangements. Industry—

Q69 **Mrs Moon:** We are not talking about some bizarre plot against the UK. This is part of defence development initiatives.

Stuart Andrew: Yes.

Mrs Moon: Thank you.

Q70 **Darren Jones:** On Galileo, my questions will be broadly on industrial consequences. To answer the question put by Mr Francois, my understanding is that under the draft work programme of the EDIDP, €35 million is the answer, in terms of positioning navigation and tracking under the Galileo system, which is about 7% of the budget. For businesses in north Bristol and elsewhere in the country, that is a lot of money, as you can imagine, Minister, so the question about whether the UK can be thrown out by the EU in a transition period under the withdrawal agreement, article 122, is important.

Today, Minister, you have said that you don’t think that that will be an



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issue for us—that the EU won't throw us out—and your colleague Sam Gyimah in BEIS said a similar thing to my Committee: that it shouldn't apply. These are assumptions. Have you had confirmation from the European Commission or legal advice to suggest that that is the case?

Stuart Andrew: Specifically on Galileo?

Darren Jones: Yes, under article 122.

Stuart Andrew: On Galileo, yes, we have had indications that they wanted to exclude us—[*Interruption.*] We are excluded from Galileo, but we have been making the point—

Q71 **Mr Francois:** Sorry—we are excluded?

Stuart Andrew: Yes. A statement has been made to the House about this.

Q72 **Darren Jones:** During the transition?

Linda Dann: The Secretary-General wrote to the Government in January this year to say that they were excluding us from it. That is the exception to the points that are being discussed. We have been in discussions with them to try to understand their position and their concerns, but at the moment that remains their position. The consequence of that has been that our industry is not bidding for future contracts. The point is that we have access to the programme, but not to the secure military part of it—

Stephen Kinnock: We are excluded from the PRS.

Mr Francois: Which is the point.

Linda Dann: Indeed, yes.

Q73 **Darren Jones:** But British companies have been building the PRS, haven't they, to date, and they are now excluded from future contracts?

Linda Dann: They have been involved in that; so they will have been paid under their contracts. There is no question of them being out of pocket; but for the future they will not be interested in bidding for future contracts, because—

Darren Jones: They won't get them.

Linda Dann: They won't get them.

Q74 **Darren Jones:** And is that reflected in our contribution to the EDIDP? If there is a 7% €35 million bracket of work on PRS under Galileo, has that been reflected in an equivalent reduction to our contribution to that project, now that we are excluded?

Valerie Evans: My understanding is that it is a sort of complementary programme to the Galileo—so it is additional funding, not taking away from them.

Q75 **Darren Jones:** But we are paying into EDIDP for positioning, navigation



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and tracking, in terms of PRS under Galileo. My question is, if we know we cannot bid for those projects, which you just said, have we therefore had an equivalent reduction in the amount we are paying in?

Stuart Andrew: Yes, this is all part of the withdrawal negotiations on the budget payments that we will be making.

Valerie Evans: There will always be, in any full programme, things that interest us, and things that don't interest us.

Q76 **Darren Jones:** I understand that. Let me ask the question slightly differently. Before we were told we were excluded, we must have agreed to £x as a contribution. After we were told we were excluded, did that change to a different figure, or is it the same figure?

Linda Dann: The payment we would be making is a per cent. So we pay in a lump sum figure.

Stuart Andrew: Ours is about 150 million per year.

Linda Dann: Yes so the contribution, as far as it is possible to assess, is 14%, which equates to, currently, 150 million per annum.

Q77 **Mr Francois:** Over how many years?

Linda Dann: I was just going to say, that is currently. Over previous years, the overall figures will have been different, so the percentage element of it will also vary. So in relation to 2017, for example, our estimate of the proportion attributable to this programme was €898 million. The following year it was slightly less—€808 million—because it is a percentage of the whole.

Q78 **Mr Francois:** Forgive us; I think we have probably mastered that. I think what we want to know—I am looking at my colleague here—is, in simple English, how much money the UK has spent on this programme to date, and, if it is 14% of whatever the annual total was, over how many years. In other words, what is the gross sum that we have paid in? It is a fairly straightforward question. And how much more, if anything at all, are we on the hook for? Or, now that they have told us we are excluded, does that mean we pay no more money—yes?

Linda Dann: The first stage of the programme was 2003. The first satellite was launched in 2005, so that just gives you an indication of the programme.

Q79 **Mr Francois:** So 15 years, in fact.

Linda Dann: Yes, and that was maybe a bit before, I should say, because there would have been the planning up to the first stage, so that in terms of the detailed estimate of what that proportion would be I am afraid I do not have the figures. MoD is not the lead, of course, on the Galileo project. The UK Space Agency is. We have an interest in one part of it, which is the secure bit.

Q80 **Mr Francois:** Which is the whole point. That is partly why Galileo was



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developed in the first place—because there were people within the European Union who were no longer prepared to rely on continued access to the US GPS signal; so they argued that Europe had to have its own signal. We agreed to participate in this, although there was a row because many people said, if the Americans are ever going to turn it off, we will be the last country on earth they turn it off for, so why do we need to do this?

Anyway, we decided that we would, and we spent quite a large amount of British taxpayers' money paying into this project, for which we have now been told "Thank you very much. You are excluded from the key point in the project." So the bit I think I and my colleagues are desperately reaching for—let's have yet another go—is how much money Britain has spent on this project to date. Minister?

Stuart Andrew: We just said that we haven't got the total figures for the full project. I will happily write to you with that. It has varied over the years.

- Q81 **Mr Francois:** Okay, but with respect, we gave you notice about half an hour ago that we were going to come back to this. What would normally happen is that one of the bright young things behind you would nip out, make a phone call, or send a text, and say, "Crumbs—we are under pressure here. What is the answer?" You have had half an hour for your team to do that. What, please, is the answer?

Stuart Andrew: I have just explained to you that I don't have the answer and I will get it to you and write to you.

Mr Francois: Forgive me, Minister, but that is completely unacceptable. That is disrespecting a parliamentary Committee, in my opinion.

Chair: It is not as if you hadn't known for some time that you would be coming to this Committee.

Mr Francois: Correct. What were you all doing last night? Were you all down the pub? Come on, Stuart—you should know this. It is your job.

- Q82 **Mrs Moon:** Minister, can I ask a different question? In terms of PRS, it can feel as if it is an "us and them" situation that we are discussing here. My understanding is that a number of members—France, Spain, the Netherlands and the Baltic States, for example—have actually been very supportive and are insisting that the UK remains part of PRS. It is not a case of everybody saying no to the UK's involvement; there is also a recognition from many states that our involvement is extremely helpful and is something that would be missed.

Is this an ultimate and final door closed, or is it an ongoing discussion that is happening even as we sit here, where people are saying that this is not a good idea in terms of future capability, and, given the risks that we all know satellites are now at risk of from satellite-destroying weapons, that a second satellite with this capability should be available and the UK should remain involved? Is that currently the situation?

Stuart Andrew: We will continue. I repeat what I said. This is a very short-sighted decision. The contribution that UK industry makes to this project is significant.

Q83 **Mrs Moon:** And there are many who think it is a short-sighted decision.

Stuart Andrew: Absolutely, and we will continue to use wherever possible those bilateral relationships that we have to argue the case—but it has to be said that if we are not going to have sight of those secure elements, then this is not going to serve our national interest, which is why we have now begun this 18-month programme, putting in the £92 million, to explore the options through the engineering, design and development of our own global navigation network, to see what options are available to us should all of those discussions come to a complete end.

Q84 **Mrs Moon:** But they are still ongoing.

Stuart Andrew: Yes, absolutely.

Q85 **Dr Lewis:** By way of background, on some briefing material here, it says that initially the UK Government also opposed the project but that in recent years, both the US and the UK have become more supportive of Galileo as the UK has been successful in securing contracts, particularly related to the public regulated service, worth more than it invests.

That shows that there are two dimensions to our involvement with this project. One is the question of whether we get the benefit of the system being up there and working and doing its job—as it were, as a consumer of the product—but the other is obviously that there is revenue for British companies to be involved in the creation and possibly even the maintenance of the project.

Can you differentiate between those two elements? First of all, is it being proposed that we would be excluded from benefiting from the product of the system when it is working and also—am I right?—that our companies would be excluded from the second dimension as well, which is being able to participate in the building of the programme? Is that right?

Stuart Andrew: My understanding is that there would be elements of it on the civil side that could be used, but we have to look at this as a whole. For MoD specifically, not having that sight of that secure element does not give us the confidence to continue with the project.

Q86 **Dr Lewis:** I understand that we are excluded from using the product, but are our firms also being excluded from bidding for contracts in building the project?

Stuart Andrew: Yes.

Q87 **Dr Lewis:** Right. How capable do you think the remaining EU countries would be of continuing to build the project without our very significant contribution towards building it? I note that they have already been removing various headquarters; I think there was even one place in the Falkland Islands that they have now started to relocate to another country. To what extent will they be able to go it alone without us, and to



what extent will we be able to go it alone without them?

Stuart Andrew: You have hit the nail on the head. That is why we think this is such a short-sighted decision: because there is an enormous amount of capability within British industry that has contributed to the Galileo project that they will miss. We have continued to make the case to them that it is a short-sighted decision. In essence, by making the decision, they have created a problem not only for the UK but for themselves. You are quite right that the base in the Falklands is an area that they are having to actively look at if they are going to get complete and accurate service from their own Galileo project.

- Q88 **Dr Lewis:** The problem that I have with this, Minister, is that it all seems to come back to what we were saying about PESCO, which is that if you are not part of their grand project to build a European defence identity, they don't want to know. The purpose of having European defence should not be to defend ourselves against each other, but to defend ourselves co-operatively against external threats. This is where we seem to struggle all along, do we not? The primary aim is not defence, but to build a European defence identity for its own sake or as part of a wider political project. Is that not what is at the root of this?

Stuart Andrew: I have a lot of sympathy with what you are saying. That is why we have been arguing in each of these elements that in any aspect of defence that it pursues, in the first instance the EU has to not duplicate any work that NATO is doing. It should be complementary, to help NATO in its aims. It also needs to be outward-looking if they want to have a successful defence collaboration. Our experience has been that keeping it to those EU countries will not get the best benefit.

- Q89 **Dr Lewis:** Finally from me: doesn't it amount to cutting off their nose to spite their face?

Stuart Andrew: Yes.

- Q90 **Chair:** Would it not also be grandstanding? We heard President Macron saying some rather insulting things to the United States. They tried to mollify it because they saw that Mr Trump was extremely cross—with justification, in my opinion—at their lumping America together with China and Russia. That grandstanding is a real problem. As Dr Lewis has just indicated, and you seem to have accepted, the real problem is resolved if people work together with the objective of one another. Bearing in mind that no two democracies have ever gone to war with one another, that is a very important central principle and practice.

What is the Government actually going to do with respect to Ascension Island, for example? The Commission last week announced that the EU intends to move the infrastructure—we have mentioned that in relation to the Falklands, but you have Ascension Island as well. How do you deal with people who operate in this extraordinary, erratic fashion? How do the Defence Secretary's comments that the EU could not run Galileo without using the British Overseas Territories actually work in practice?



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Stuart Andrew: The Secretary of State made that very clear, but we will continue to argue that the outward-looking approach is the one that is of most benefit to all. We will also use those bilateral relationships, as I keep saying, to emphasise the point that this will not be in the interests of other sovereign nations.

Chair: That's the point.

Stuart Andrew: We really need to make that point very clearly to them, and we are doing so.

Q91 **Chair:** And not to compete with NATO.

Stuart Andrew: Not to compete with NATO.

Q92 **Chair:** And to provide enough money to make NATO work properly.

Stuart Andrew: Absolutely.

Chair: Darren would like to ask a question, followed by Marcus and Stephen.

Q93 **Darren Jones:** I would just like to finish my first question, actually, Mr Chairman. To bring us back to the question of industrial policy, I have not heard anything today that tells me that it is incorrect to say that 7% of our contribution of British taxpayers' money to the EDIDP will be going to the Galileo PRS system, which British industry is now barred from being able to bid for. Regardless of your view on Brexit, that is not a good outcome. The point on multinationals that play in this space, to answer Dr Lewis's point, is that they will just move their capability to Europe to be able to bid for these contracts, which is a loss of specialism to British industry.

The question I would like an answer to, Minister, is this: for those companies in the UK today that have this expertise, that have for a long time worked towards building these systems for Galileo and that are now blocked from being able to bid for future contracts, what will the British Government be doing to ensure that we keep that expertise and those industries in the UK, whether for a domestic system or for a partnership with Galileo? What reassurance can you give them?

Stuart Andrew: We are constantly engaging with industry—on a regular basis. Some issues like this will come up, and we are obviously giving those reassurances. I think this is why—

Q94 **Darren Jones:** Which reassurances?

Stuart Andrew: Specifically, the 18-month plan that we have in place at the moment—this £92 million for engineering and design—to then look at all the options. I hope that they would wait for us to finish that report, so that we can then decide whether or not we are going to embark on our own individual process, which would then create a lot of opportunities for industry within this country.

Q95 **Stephen Kinnock:** In the same vein, on Galileo, we have established that



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the UK has been a net beneficiary of the programme. We of course put in the membership fee but, because of the expertise and capability of British firms, we have got more out of the programme than we put in. This is very similar to Horizon, of course. We are the most successful country in the entire EU in terms of getting far more out of Horizon and scientific co-operation than any other member state. Can you just give us the net beneficiary figure? What is the difference between what we have put in, in terms of membership fee, and the value of the contracts that we have got out of the programme?

Mr Francois: Stephen, if they don't know what we've put in, they can't know what the net figure is.

Stephen Kinnock: I just want to see whether there is a—

Stuart Andrew: The approximate total for Galileo—*[Interruption.]* Yes. The approximate total for the Galileo project has been 10 billion pounds over the period. The UK's contribution to the end of last year is approximately 1.15 billion since 1999, based on our percentage contribution of the total budget, paid out of the Government's payment to the EU.

Q96 **Mr Jones:** For clarification, is that the figure in euros?

Stuart Andrew: Yes, in euros—I beg your pardon. Sorry if I said pounds.

Q97 **Mr Francois:** So, very roughly, £1 billion sterling.

Stuart Andrew: Yes.

Mr Francois: Thank you.

Q98 **Stephen Kinnock:** Are you able to say how much we have got out of it in contracts?

Stuart Andrew: I can't. I will write to the Committee.

Stephen Kinnock: If you could, that would be helpful.

Stuart Andrew: I will try. It is obviously quite difficult, because we are talking about industry, really. Without getting the specific figures from them about how much they have got individually from it and invested in it, it is quite difficult to get the exact figure, but I will at least explore it.

Q99 **Stephen Kinnock:** If you could, that would be helpful. The methodology might be similar to what we have with Horizon, where we have quite a specific figure for how much more we have got out of Horizon than we have put in.

Stuart Andrew: I will certainly explore that and come back—

Q100 **Stephen Kinnock:** It would be useful to know. In terms of the game of poker, almost, that has been going on around whether we need Galileo more than they need us to make Galileo work, it seems pretty clear that the EU has come to the conclusion that they don't need us, because they would not otherwise start the process of moving installations from the



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Falklands Islands to other places. So they have made a decision on this, haven't they? So why do you think the Secretary of State for Defence said, "They need us more than we need them"?

Stuart Andrew: I am not sure that they have actually secured a site yet, in terms of removal from the one in the Falklands. That was an operational advantage that we gave. There is also a tremendous amount of expertise within British industry in this space. I just think that, to go back to the point we made a moment ago, if we are really going to be successful in making sure that we secure European defence—I mean that in terms of the continent—we should work together collaboratively. This idea of pulling up the drawbridge on a project like this is incredibly short-sighted. We are missing out on some expertise and knowledge that UK industries—

Q101 **Stephen Kinnock:** I am very sorry, Minister. I absolutely see what you are saying, and we regret the decision that has been made. However, the fact is that the Commission formally announced on 13 November that, by February 2019 at the latest, it is bringing forward proposals to relocate the ground stations currently in the Falkland Islands and Ascension, we presume to French, Portuguese or Spanish island territories. Again, why do you think that we seem to think that they need us more and would never do anything without us, when they have clearly taken a decision to go ahead?

Linda Dann: On that point, there are other places where they could put those ground receivers, but they would not necessarily have the same coverage as we could offer. Another example of the Commission taking decisions that are not necessarily in the best interests of European security is that, over the summer, we heard that one of the Galileo work packages, which relates to a big ground segment contract of around €200 million, has gone to a small, untested Spanish company. That is a major risk to the Galileo project. The company is relatively small and does not have specialised experience of priming or the annual revenue back-up. As someone said earlier, there is a degree of their cutting off their nose to spite their face.

Q102 **Stephen Kinnock:** There is a degree of risk, but it is clearly a risk that they are prepared to take. I just think that it might be better to just accept that the decision has been made and that the investment of £92 million is to explore whether we can develop our own capability. It would also be useful to have a calculation of the difference between what continuing in the programme would cost us going forward and the net that we make from the programme, because of British companies winning all these contracts, compared with the £92 million that it will now cost us. In the round, I have to ask the panel, overall and in the context of this discussion, do you think that Brexit will be good for our national interest?

Stuart Andrew: We have sufficient capability within the UK to develop this. I am very impressed with what I have seen as I have gone around the country looking at industry and the tremendous amount of work going on, particularly in adapting to the space threat. It is disappointing, but I



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think that we have gained enough knowledge to be able to look at our own project with confidence.

Chair: I know that Marcus Fysh is anxious to come in, and I can see that Madeleine and Mark Francois are too. I call Marcus Fysh first.

Q103 **Mr Fysh:** On state aid, what is your understanding of the backstop provisions within the withdrawal agreement and whether they will apply? Will there be a state aid exclusion for the defence industry under the backstop provisions, as there is in the current EU treaties?

Stuart Andrew: I am afraid that I do not know that. I will have to come back to you.

Chair: I do not think that the Minister of Defence is up to speed on backstops, Marcus.

Mr Fysh: As I read it, the EU's exclusion from state aid provisions for defence projects is not carried over in the backstop provisions of the withdrawal agreement. We would be prevented from aiding our defence industries. It is one to look into.

Stuart Andrew: I will look into that, certainly.

Chair: That is really what I was wondering.

Q104 **Mr Francois:** Minister, now that we have the figure, for which we are grateful, the summary is that we have paid in about £1 billion of British taxpayers' money over more than a decade to contribute to this project. In return, they have locked us out of the key system that was the whole point of investing in it in the first place. Did I get that right?

Stuart Andrew: Yes.

Q105 **Mr Francois:** Thank you. That is a very clear and direct answer. As a British Minister, are you not rather irritated, in the way that a number of colleagues and I clearly are, that we have been taken for £1 billion?

Stuart Andrew: Yes, and I have made that very clear, as I said at the beginning.

Q106 **Mr Francois:** Forgive me, Minister, but you did not say anything as clear as that, because we did not know we were talking about £1 billion at the time.

Stuart Andrew: No, but I have made it clear that there had been a significant investment and that is frustrating, and that we consider this to be a short-sighted decision.

Q107 **Chair:** It is more than that, surely. It is a disgrace. They simply walk all over us. As I have said repeatedly through these negotiations, we are not robust enough in going back at them. This is a good example. They tell us what to do and we go along with it. It is outrageous. This is not the way negotiations should be conducted. We have left lawfully under the treaties. In the balance of liabilities and obligations, it is completely



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unacceptable for the United Kingdom to be treated in this way. Mr Francois is completely right. You seem to agree but are doing nothing about it.

Stuart Andrew: With respect, one of the first meetings I had was with the Commission to talk about Galileo and to express how we felt this was a very short-sighted decision. I do not want to repeat what I keep saying.

Q108 **Mr Francois:** You have said to Mr Cash and to this Committee that you are unhappy with the decision. I asked if we have been had and you said, "Yes, I agree with you." What do we do now? I think they have treated us appallingly, which is why I made the white flag analogy. We are now looking at unilaterally developing a system of our own. Why can we not just rely on the American GPS signal, which militarily is what our Armed Forces have used for decades?

Stuart Andrew: That is more secondary—almost a back-up. The space threat is becoming more and more dangerous. We are just making sure that we have the reliability we need for our Armed Forces.

Q109 **Mr Francois:** This is important internationally: there is no question that we do not trust the Americans.

Stuart Andrew: No.

Q110 **Mr Francois:** Just so we are clear, the reason we are contemplating doing this unilaterally is in case it came to war and the US signal were lost, although the Americans would do everything they could to maintain it and they have lots of contingency plans to maintain it even if it is attacked—I know that from a previous life. You want to create a unilateral British system as a backstop in case we lose the American signal. It is not a matter of trust.

Stuart Andrew: No.

Q111 **Mr Francois:** Good. You know more than anyone how much pressure the defence budget is under. It is already massively over-programmed—we are committed in theory to buy far more equipment than we have money to purchase. That is partly why we are going through the Modernising Defence Programme, to try to rationalise the two and square the circle. How much more would this add to the gap? Presumably we are talking billions of pounds for a unilateral British system.

Stuart Andrew: It would be an estimate—

Mr Francois: I appreciate that.

Stuart Andrew: About £3 billion to £5 billion over a 10-year period.

Q112 **Mr Francois:** Thank you. We can't expect any more detail at this stage. Which Department would pay for it?

Stuart Andrew: It would be right across. There would be an element for MoD, which will be needed, but we are working closely with BEIS too. We will be reliant on a whole host of Departments.



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Q113 **Mr Francois:** So a number of Departments would have to put into the pot.

Stuart Andrew: Yes, but I couldn't give you a breakdown at this stage.

Q114 **Mr Francois:** No, I wasn't approaching that. In theory, it is £3 billion to £5 billion over 10 years, and a multi-departmental contribution to afford it.

Stuart Andrew: Yes.

Q115 **Mr Francois:** Do you have a rough idea of how much of that might be the MoD's, or is it too early to say?

Stuart Andrew: It is too early to say at this stage, because we are in the middle of this 18-month development.

Q116 **Mr Francois:** We have paid £1 billion of British taxpayers' money and the Europeans have basically pocketed it and said, "Thank you very much, you mugs. We are now going to lock you out of the system that you paid a lot of money for." Rather than rely on the Americans, who we have relied on for this for decades, and partly because we are embarrassed by what the Europeans have done, we have now come up with the idea that we are going to build our own. You are saying that it might cost £3 billion to £5 billion over 10 years to do that, when the Americans have a perfectly reliable signal that they have given us access to for decades. Isn't this just a vanity project to cover the fact that we are embarrassed about the fact that they have stuck this programme right up our backside?

Stuart Andrew: No, I don't agree with that assessment. I think there is a growing threat in the space and cyber area, particularly. It would be irresponsible of us not to look at that threat very seriously and ensure that we have robust systems in place. Of course the American system is something that we can rely on, but it would be sensible and prudent for any Government to ensure that we have resilience in an area that is changing at a rapid pace.

Q117 **Mr Francois:** And how on earth are we going to afford it?

Stuart Andrew: That is exactly why we are in the middle of this 18-month assessment. That is why we are looking at what the costs will be.

Q118 **Mr Francois:** Stuart, isn't the truth that this assessment is basically a fig leaf to cover the Government's embarrassment about what a disaster this has been? We have been completely legged over by our "European friends," and the Government are so embarrassed by that that they have got to be seen to be doing something about it, so they have come up with this idea of a study for a £3 billion to £5 billion programme that everyone in the defence industry knows will never be built.

Stuart Andrew: I am not sure it is a true assessment to say that it will never be built.

Mr Francois: We will never be able to afford it.

Stuart Andrew: I said a moment ago that UK industry has benefited a tremendous amount from the Galileo project and stands to benefit from any future UK project that we may have.

Q119 **Mr Francois:** Which major defence programmes will be cancelled to be able to pay for this?

Stuart Andrew: I can't give that assessment at this stage, because obviously—

Mr Francois: But clearly we will have to, right?

Stuart Andrew: I don't even know what figures we are talking about at the moment. I don't know what our share of that £3 billion to £5 billion is. To try to give you an answer about which projects we would have to cancel would be irresponsible.

Q120 **Mr Francois:** But we would have to cancel some, wouldn't we?

Stuart Andrew: We will have to wait and see what the assessment says. As you quite rightly said, we are going through the Modernising Defence Programme at the moment, and we have got an ambitious equipment programme. This will have to come into the mix, but we are working hard on it at the moment.

Q121 **Mr Francois:** Lastly, the Defence Committee, which makes up half of today's merry band, has been constantly pressurising the Ministry of Defence for a long time—since long before I got to serve on it—to balance their books. They can no longer, as a Department, carry on living in this fantasy land of pretending that they have got more money and can afford more shiny equipment than they know they can realistically pay for. The F-35 is a classic example of the dilemma that the Department faces. What you are proposing to do now is to make that challenge even greater by adding, at the very least, some hundreds of millions of pounds to the MoD budget over the next 10 years, at a time when you are already massively over-programmed and desperately trying to shrink the gap. This programme would only extend it, right?

Stuart Andrew: As I said a moment ago, we are making a full assessment of our needs for our Armed Forces. The cyber and space area is an important part of that. The growing threat is there and is feeding into the MDP. We will make that full assessment at the time. I cannot give you an answer at this stage about whether we are going ahead with our own programme.

Q122 **Mr Francois:** I will give you an answer. You will never go ahead with it. You will never do it.

Stuart Andrew: Okay.

Q123 **Mrs Moon:** I wonder, Minister, if there are not alternative ways of looking at some of this. At the end of the day, the British Government and the political parties did not advise the public of the financial risk of many contracts on which we jointly collaborate with the European Union. It is not so much that the European Union pocketed it, but that we threw it



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away, in some respects.

In terms of your responsibilities for defence and defence procurement, would you agree that there are growing threats to space capability and satellite capability from electromagnetic pulse weapons, space debris and the capability of, for example, China to blow up a satellite, and that the future probably will be of multiple systems, not simply one system? There will be multiple systems.

My third question, which is the one I have to come back to over and over again, is that we have a common Galileo satellite that we have worked on together and that Britain has had a huge level of capability in bringing to fruition. We are at a point where many of the companies that have provided the skills and the capability may well, as we are sitting here discussing this, be considering their options to move out of this country so that they can remain engaged and involved and maintain that capability.

We are talking about a self-build. I do not disagree with the assessment of my colleague Mr Francois about how likely we are to take that to full fruition, but can I have some clarification? We have talked a lot about the European Union and about the Commission, but how great is the ongoing discussion and debate within NATO about the NATO capability?

Let us face it: the majority of Europe relies on NATO for our collective defence, and collective defence ultimately has to be our priority, not a petty squabble over who gets what, who was responsible for what and who has ripped off who. Quite honestly, our collective defence is what we are talking about here. Can I have some sort of assurance that that collective defence issue and argument remains one that the Ministry of Defence are actively engaged in with allies across the Alliance?

Stuart Andrew: Absolutely. We are always looking at how our equipment is interoperable—a word I struggle to say—and we will continue to do that. Obviously, there will be times when we are working together as allies, and we need to ensure that our equipment works in that area. I can assure you that we continue to have those discussions over and over, and ensure that we are working to make sure that all that equipment is aligned, as it were.

We are looking at alternatives. You mentioned other technologies that we could explore in terms of the Galileo issue. We are looking at the alternative technologies for navigation, a lot of them land-based, but they may not be ready in the timescale in terms of their abilities. That will go into the mix in terms of that engineering, design and development phase that we are in at the moment with regard to UK navigation systems.

Q124 **Chair:** Mr David Jones has a question to ask, and Mr Fysh would like to come in too, but before they do, I want to ask one thing. Could you write to the Treasury and suggest to them that, in the light of the discussion that we have had here and the information that has been elicited, they go back and knock £1 billion off the amount of money that we are supposed to be paying for the divorce bill? Would that not be a rather simple thing to do? Why do you not do that? I would like an answer.



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Stuart Andrew: It is a valid point, and I will raise it with my Treasury colleagues.

Chair: If you would.

Mr David Jones: You have bemoaned the short-sightedness of the European Union in excluding the United Kingdom from Galileo. Of course, we have the withdrawal agreement coming to a conclusion fairly shortly, and that will be coupled with a political declaration. Are you expecting to see the Galileo project reflected in the political declaration?

Stuart Andrew: My understanding is that those are still part of the negotiations, and I cannot give you a definitive answer on that at the moment. It is literally being discussed as we speak.

Q125 **Mr David Jones:** Galileo is being discussed?

Stuart Andrew: In the whole mix of our future arrangements, we have been looking at whether this is something that is still worth pursuing. My view would be that it is always worth a try, but ultimately, we would have to make a—

Q126 **Mr David Jones:** You think it would still be worth pursuing, notwithstanding, as we have heard from Mr Kinnock—

Stuart Andrew: No, I should make very clear—

Mr David Jones: Let me finish the question. Notwithstanding, as we have heard from Mr Kinnock, that the EU is actually withdrawing its infrastructure from the Falkland Islands, and, we think, also from Ascension?

Stuart Andrew: My understanding is that they have not started withdrawing that infrastructure at the moment. That is not the case. The discussions are still ongoing about that.

Q127 **Mr David Jones:** So the infrastructure is still in place?

Stuart Andrew: It is still there.

Mr Francois: We can use it for our system.

Mrs Moon: The one we're not going to build.

Mr Francois: The one we're not going to build.

Stephen Kinnock: To clarify what the Commission has said, on 13 November it formally confirmed that by February at the latest, it is bringing forward specific proposals to withdraw the infrastructure. That is just to be clear.

Q128 **Mr David Jones:** That seems a very clear indication from the Commission that the infrastructure is being withdrawn. Are you suggesting that that is another—?



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Stuart Andrew: I thought you were saying that it was literally being withdrawn as we speak, and I am just trying to say that it has not been yet, and we are still—

Q129 **Mr David Jones:** No, but we have a clear commitment from the Commission that it will do so. Are you saying that notwithstanding that announcement that the Commission has only just made, there is still the hope that British participation in Galileo may be resurrected?

Stuart Andrew: Look, what I am saying is that in the meetings I have had, I have been trying to make the point—made repeatedly here—that this is a short-sighted decision. I accept that it is unlikely that we are going to continue in the Galileo project, but I think that is a terrible decision—not just for the UK, but for the EU as a whole.

Q130 **Mr David Jones:** I think we all understand that point, and I think we all agree with it. Given your view that it is a bad decision, is this something that the British Government are negotiating on in the current negotiations over the political declaration?

Stuart Andrew: Yes.

Q131 **Mr David Jones:** It is. Therefore, you are hopeful that Galileo would be reflected in the political declaration.

Stuart Andrew: Yes.

Q132 **Mr David Jones:** How much weight can we place upon the political declaration?

Stuart Andrew: A significant amount, I would hope.

Q133 **Mr David Jones:** Yes, but it is not to conclude a treaty; it is something far short of that. Could you explain what the British Government's view is of the weight that can be placed upon the political declaration?

Stuart Andrew: Yes. As I said a moment ago, a lot, because it is basically setting the framework for our future relationship.

Q134 **Mr David Jones:** Well, it is setting an outline, in terms of aspiration, but it is not a concluded treaty.

Mr Francois: And it is not legally binding.

Stuart Andrew: No, of course it is not legally binding at the moment, but it does set out the framework for that future relationship.

Q135 **Mr David Jones:** Is it hoped that the £1 billion or so that we seem to have lost will be recovered by continued UK participation being reflected in that agreement?

Stuart Andrew: I want to come back on this idea that we have lost £1 billion. Let us not forget that British industry has gained a lot from this project.

Q136 **Mr David Jones:** British taxpayers lost £1 billion.



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Stuart Andrew: But a lot of industry and jobs have been secured through this work. I think it is important to make that point.

Mr David Jones: I understand that, but the taxpayer, as Mr Francois pointed out, has actually given £1 billion to this project, in which the United Kingdom is no longer participating, so that looks like a loss. Is it hoped that you will be able to, if you like, recover that loss by continued participation post Brexit?

Stuart Andrew: I would want us to continue in that project, so long as we have sight of the secure aspects that we need for our defence.

Q137 **Mr David Jones:** What level of involvement for British firms would you hope to see being achieved as a consequence of whatever may be agreed in the political declaration?

Stuart Andrew: I would hope the same, because there is an awful lot of expertise out there within the UK industry.

Q138 **Mr David Jones:** How likely do you think that is?

Stuart Andrew: I am afraid I do not have a crystal ball in front of me.

Q139 **Mr David Jones:** No, but you can give a tenor of the way the negotiations are going.

Stuart Andrew: As I said, those negotiations are literally happening as I am sat in this room, so I cannot give you a definitive answer on that, I'm afraid. I am not going to speculate.

Q140 **Mr David Jones:** What would the implications be for the Government of loss of access to the PRS if we cannot agree a new arrangement for access with the EU?

Stuart Andrew: If we cannot have the PRS, it will not meet the needs of our defence. We are not going to rely on a system where we have not had the oversight of the secure elements of it. We want to be absolutely sure that this is something that we can be dependent on and rely on. The whole point of it is that it is resilience that we are building in to our defence.

Q141 **Mr David Jones:** It is the case that no non-EU country has ever managed to negotiate access to the PRS.

Stuart Andrew: That may be the case, but it does not stop us at least trying.

Q142 **Dr Lewis:** Would it be wrong to rely on a system based on the other side of the Atlantic, when there is one based in frontline countries? Bearing in mind that this is the system control of which presumably is based in frontline NATO countries, would it not be more sensible for us simply to go back to our original position and rely on the US system, which is much more likely to prove invulnerable in the event of a serious conflict?

Stuart Andrew: As I say, this is being developed because the threats that are developing are significant, as I obviously do not need to say to you. We need to ensure that we are adapting. Those threats are changing



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rapidly. It is right that we are sensible and make sure that we have that resilience in that space environment. That is exactly why we are doing this.

Q143 Mr Fysh: This has been a really interesting session. We have heard how important it is for our military to have access to these systems. We have heard that the political declaration is not a legal contract, whereas the withdrawal agreement is permanent. It is an international treaty, so it is not something that we can pull out of. We have heard about the uncertainty on Galileo. We are waiting for decisions on how PESCO works and our access under that, potentially. We know, I think, that the Prime Minister's intention is for a common security and defence policy to be negotiated with the EU during the transition period—early in the transition period, I think.

By that time, if we have signed the withdrawal agreement we will have given away £39 billion. It seems, from what I was talking about earlier on state aid, that we will also have given a hostage in the further negotiations during the transition period by excluding defence from the state aid provisions that could help our defence industry. Is the UK's contribution to defence, which should be an asset in these negotiations with the EU, about to be surrendered because we sign the withdrawal agreement, and should not our allies all over the world, like the US, be extremely worried by this development?

Stuart Andrew: When it comes to defence, as I have made very clear throughout, our sovereignty is paramount. We will continue to be sovereign in terms of our defence capability. NATO is the organisation with which we have the cornerstone of our defence strategy. NATO is the organisation and the Alliance that we work closely with in terms of European security.

The point that I am trying to make is that each of these projects, in essence, if you like, is not the most important thing happening in defence in Europe. Far more is going on in terms of bilateral work between individual nations and allies; there is all the work that is happening in NATO, which is far more extensive and far more important to European security and defence than the subjects that we have been talking about here today.

Q144 Darren Jones: Just a clarification, Minister, further to Mr Jones's questions. We have been excluded from Galileo PRS, the secure system, but we have just heard that we want Galileo to be in the political declaration for the future. We have also heard that we think that we might spend £3 billion to £5 billion on building a domestic sovereign capability. I do not understand how those things connect. Are we suggesting that in the political declaration we will have access to Galileo for non-defence matters, and pay into the system for that while paying for a defence satellite system of £3 billion to £5 billion?

Stuart Andrew: No; sorry if I have not been clear. What I am trying to say is that I cannot give a definite—I don't know whether Galileo will be in



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that political declaration, but we will not be using Galileo just for a civil area and then looking at something for defence.

Q145 **Darren Jones:** Fine. We are either in Galileo or we build our own.

Stuart Andrew: Absolutely.

Q146 **Mr David Jones:** Forgive me, may I come back to that point? You said that you don't know whether Galileo will be in the political declaration. I had understood that you were seeking to negotiate its incorporation in the declaration. Is that right?

Stuart Andrew: Yes, but on our terms—

Mr David Jones: Yes, I understand that; I am just attempting to get clarification. The Government are seeking to include Galileo in the political declaration—they are negotiating on that basis.

Stuart Andrew: So long as we have access to those secure elements. If we don't, then no.

Q147 **Darren Jones:** Which we have been excluded from to date—

Stuart Andrew: Yes.

Q148 **Darren Jones:** So it is unlikely to be in the political declaration.

Stuart Andrew: Absolutely. That is why I say we are already working on this other project.

Chair: I think this has to be the last question—or one as well from Mrs Moon, then that is it.

Q149 **Mr Francois:** The last question—

Mrs Moon: The penultimate one.

Mr Francois: Yes. Minister, this has been a far more lively session of the Committee than I anticipated when I saw it in my diary. We should say thank you for finally coming up with a figure that we were after—you have provided it, and thank you.

We have heard how weak the Government have been on all this, and how much we have given away for nothing in return. As you will know, one of the beauties of the Committee Rooms in the House of Commons is that they contain portraits of famous politicians. Someone had a sense of humour when they booked this Committee Room today, didn't they? The portrait looking down on us is of Neville Chamberlain. Do you agree?

Stuart Andrew: I am not going to comment on that, Mr Francois.

Q150 **Mrs Moon:** May I move on to my questions? In terms of the PRS and the whole access to Galileo, we have agreed that our future defence and security relies on our engagement with NATO. We have sovereign capability, most of which we dedicate within the Alliance, and we operate within the Alliance.



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Will you tell us what the impact would be, in terms of Britain's willingness to engage its personnel in any future conflict, if the information that we were given was coming from Galileo and we did not have access to those PRS codes? Would it make any difference in terms of our willingness to engage and deploy our platforms and our people?

Stuart Andrew: That is exactly why we would not go through Galileo if we did not have the PRS.

Q151 **Mrs Moon:** What you are saying is that we would go back to what we would be doing anyway if we were in there, which is to double-check the information coming from other ally satellites and Galileo, to confirm the data and information on which the decisions would be ultimately made, in part—because it is not just satellite capability that would be used in making the decisions. We would be triangulating information, some of which we might have a lower trust in if we were getting it from the Galileo system, but we would also have information coming from other satellites that would also influence the decision—not just from Britain, but across the Alliance, as to whether or not we would engage militarily. Is that the correct assessment?

Stuart Andrew: What I would say is that we are not going to use any system where we do not have that technical detail, of course. We need to be absolutely confident and understand the system.

Q152 **Mrs Moon:** But we don't have that technical detail in other nations' systems.

Stuart Andrew: We have come to rely on very close allies whose systems we use, and we would use that.

Q153 **Mrs Moon:** So we have a degree of trust with other allies where we do not have access to that data, but we are making a decision that we never rely on not just a single-source data material. Is that correct?

Stuart Andrew: I think so, but I would have to check. It is technical, but I will get there.

Chair: On that note, thank you very much for coming. Mr Francois referred to the portrait of Neville Chamberlain behind me. I referred to the Munich agreement when we had Olly Robbins in front of the Committee a few weeks ago, so there seems to be some degree of comity between the Defence Committee and the Chairman of the European Scrutiny Committee, at least.

I will simply say thank you for coming; we still have a lot of questions, because a lot of the things you have said have caused a considerable amount of concern to members of the Committee, but thank you for coming.