

Defence Committee

Oral evidence: Procurement Update, HC 2114

Tuesday 23 April 2019

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Members present: Dr Julian Lewis (Chair); Mr Mark Francois; Gavin Robinson; Ruth Smeeth; John Spellar; Phil Wilson.

Questions 1 - 92

Witnesses

I: Steve Turner, Unite; Steve Kerr, Unite; and Ross Murdoch, GMB and Confederation of Shipbuilding and Engineering Unions.

Examination of witnesses

Witnesses: Steve Turner, Steve Kerr and Ross Murdoch.

Q1 Chair: Good afternoon and welcome to the first of two sessions looking into recent developments in the defence industry, particularly the question of the procurement of the Fleet Solid Support ships, and General Electric's proposal to move certain sensitive work from Rugby to a site in France. We have three leading figures from the relevant trade unions with us today in the first of these two sessions. I invite each of them to say a brief word to introduce themselves.

Steve Kerr: I am Steve Kerr. I have worked for General Electric, in its various names, for the past 25 years, and I am a member of the European Works Council and have been a union convenor for the last 20 years.

Steve Turner: I am Steve Turner. I am assistant general secretary at Unite with responsibility for our manufacturing sectors.

Ross Murdoch: I am Ross Murdoch. I am a national officer for GMB, and I chair the Confederation of Shipbuilding and Engineering Unions' maritime forum.

Chair: Thank you. I put on record the gratitude of the Committee to the relevant unions for bringing aspects of these matters to our attention in the first place, which we certainly think have been well worth investigating.

Q2 John Spellar: How important would you say the contract for the Fleet Solid Support ships is to the UK shipbuilding industry?

Ross Murdoch: There is quite an easy answer to that: it is absolutely vital. To qualify that, if we go back to before Sir John Parker informed the national shipbuilding strategy, he carried out extensive research and there was real, meaningful engagement with all stakeholders. He certainly engaged with all the CSEU unions—predominantly GMB, Unite and Prospect. At the end of that, the report was published in 2016.

I think it would be fair to say that across all those union members there was a real sense of hope that the future was looking bright, because Sir John lauded the success of the carrier programme, and he put it up as a real model of success, and a model that could be replicated in the future. Some of the things that he highlighted were about the shipbuilding employers themselves, and how well the collaboration between different shipbuilding employers went. He talked about a real renaissance in shipbuilding, and a lot of the things that he characterised in that renaissance in shipbuilding were about an entrepreneurial attitude. He talked about an enthusiasm to embrace change. He also talked about the highly skilled workforce, in terms of how flexible they were and whether they were prepared to change.



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As far as the CSEU unions were concerned, all the key ingredients were there for that renaissance to continue, but of course the other point that Sir John raised was that it was conditional on there being a steady drumbeat of orders. That was for a number of reasons. Clearly, from an employer's point of view, if there is a steady drumbeat of orders, that gives them the confidence to invest, whether in technology, research and development, or future apprentices. There was a real encouragement of the industry, the trade unions and the Government to work together to drive that renaissance forward.

The unions—GMB, Unite and Prospect; the CSEU unions—were all absolutely up for that challenge. However, I would say that that hope started to turn to a bit of despair, because although we had the Type 26 contract, which pretty much keeps work on the Upper Clyde yards for a significant amount of time, there has been no steady drumbeat outside of that. The steady drumbeat of orders that Sir John talked about has not materialised.

Then there is the Government's reluctance to restrict the FSS tender. Trade unions were arguing that it was important for our sovereign defence capability and for prosperity. Further to that, the national shipbuilding strategy also moved the offshore patrol vessels out of the category of warship. So not only were they not categorising FSS, OPVs were also taken out.

The despair was realised in March this year when Appledore shipyard closed. That was a real blow to the shipbuilding family—particularly to the north Devon community—because we are not talking about a recent start-up. We are talking about a company with 165 years of defence shipbuilding. I think they had built nearly 200 ships. If you look at situations in other yards, we have had redundancies at Cammell Laird, and Harland and Wolff is up for sale, so the future is unknown at the moment.

One that has probably been missed a lot, with all the headline stuff about Appledore, is that the run-down of the carrier programme has really hit hard at Rosyth boatyard. There have been three phases of redundancies and the total number so far is 550, but because they have come in three phases—250, 150, 150—it has not gone unnoticed but has kind of slipped a little bit. To be honest, if FSS is not going to be done in UK yards, those figures are likely to rise at Rosyth. There will be some dependency on wherever the Type 31e contract is placed. For example, if Rosyth wasn't to win Type 31 and if FSS wasn't in there—if they do not win either of those two contracts—I do not think it is being sensationalist for the workforce up there to say that, from a workforce total of 2,000 in October 2017, they could actually see that go down to at best 1,200.

That is a long way of saying how important FSS is to UK shipbuilding. It is absolutely vital.

Q3 John Spellar: If Rosyth does not get that order and does not have Type 31, what will be the impact on the capability of Rosyth to then be fit for purpose for the carrier refit programme when they come in for a major



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refit?

Ross Murdoch: I think it starts to get very difficult. History has shown that when you start to let staff go, there is never a guarantee that you will get them back. Even if some came back for one of those contracts, if it was only going to be a small contract that might only last a few years, people might make the decision not to bother if they thought they were going to go through the same process again. But if there was certainty there on 31 and FSS, you stand a much better chance of retaining a highly skilled workforce for future refit and shipbuilding work.

Q4 **John Spellar:** You referenced Sir John Parker's report. Ministers seem to hang on to that report for grim life and keep quoting it with regard to this artificial separation between military and non-military vessels. Have you had any engagement with Sir John Parker as to whether that is creating the difficulties, as you rightly said, for the drumbeat of the industry?

Ross Murdoch: Not since he carried out his research and published his report. We have contributed to the all-party parliamentary group investigation. We have also contributed to Philip Dunne's review on prosperity. We have raised this time and again through whatever medium.

Q5 **John Spellar:** He is due to do an update of his report later this year and we need to have a look at that.

Apart from the internal side of it all, when we talk about the bidding process, to what extent would you say that UK shipbuilders are at a disadvantage compared to overseas competitors who are allowed into the programme?

Ross Murdoch: I think the UK is at a major disadvantage if we look at the shortlist competitors for the FSS programme, it is Daewoo in South Korea, Marine United Corporation in Japan, Navantia in Spain and Fincantieri in Italy. This is some of the stuff that we have done previously—I can always send copies of these. The CSEU, GMB and Unite have done research. We have highlighted these competitors. If they are not state owned, they are state subsidised either directly or indirectly, so that that places the UK—Team UK as I like to call it—at a disadvantage in terms of competing. South Korea and Japan have had high levels of indirect subsidies through Government programmes. There were reports that Spain's Navantia had received illegal subsidies around 2010. Generally, Italian shipbuilding tends to benefit from Government policies that reserve the work for their domestic yards.

Although they are not one of the bidders, it was quite interesting recently to see the French defence procurement agency making the announcement in terms of their own four support ships. They have procured those and they will be built in France. Although they are not one of the competitors, it is another example of where other competitor countries very easily make the decision to ensure one way or another that the work is done in their yards rather than going out to, in FSS's case, international tender. There is even some more subjective stuff that some of the members that we represent have been saying recently. Couple the French contract for



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the four ships with recent examples of Spanish incursions, shall we say, into Gibraltar waters. At the moment the media seems to be reporting that Navantia in Spain are favourites to win FSS, and our members are saying to us, "With all this going on in Gibraltar, are we seriously going to award contracts to them?" We have said that it is media reporting at the moment, but you can see their point. You can see the point. Our members have long argued: "Why don't we adopt the same examples as some of the other countries?"

Q6 John Spellar: The point about France is reinforced by the fact that over the holiday period the French Defence Minister announced that they are keeping all their yards open and are allocating orders in order to sustain that.

My final question is on the MARS tanker contract with the Koreans. It was under-priced by all accounts and ended up making sizable losses, which seem to have been covered, but to the detriment of British yards.

Ross Murdoch: Yes, that was well reported. The reason at the time that it was awarded was— Well, there was a capability issue, but it was also going to be cheaper, supposedly. Exchange rates were one of the reasons given. As we were to find out later, that was not necessarily the case. It was late being completed and over cost as well.

In answer to your question about what we can do, I think we adopt the same, and reclassify. The shipbuilding unions have never said at any time, "These should be awarded to us at any cost." We understand the need for financial prudence and so on—we understand that.

Q7 Chair: Steve, do you want to come in?

Steve Turner: Yes, very briefly. Ross is speaking on behalf of the joint unions and the CSEU on this panel. I just wanted to raise a point about some of the difficulty that we have with the Treasury and cross-departmental work. There is a fundamental failure to recognise a multiplier effect when it comes to procured costs.

We did a lot of work and a lot of independent research work on the 36p in the pound that comes back for every pound invested here in the UK, which is not recognised in any bidding process, but of course it is recognised. The social and economic impact of spending a pound, or not spending a pound, here in the UK, is recognised by other nation states, and they therefore invest in home nations to defend jobs and skills, and more than just the skills—the knowledge as well.

You can often replace the skill with a four or five-year apprenticeship and five years of additional work, but 40 years of knowledge and experience is irreplaceable. When the collective knowledge of those workers from Rosyth who were being spoken about goes—ultimately around 900 jobs will leave Rosyth—it makes it impossible for the work to be picked up again in five years' time. It is going to be incredibly difficult for any of those shipyards—for block building on the FSS contract or in a successful



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bid on the 31e—if we don't see a central pipeline of work and a recognition of the benefit of spending a pound here.

Finally, on cross-departmental work, we have the Type 26 being built on the Clyde and all of the steel to produce Type 26 frigates is coming in from Sweden, while we are desperate for work in our UK steelyards. There are 120,000 tonnes of steel—80,000 tonnes on two ship builds with the third option for another 40,000 tonnes of steel, and there is no recognition across Departments in Government that that work should be integrated and that that steel should be produced in UK steel plants. Some 250,000 km of cabling went into each of the two carriers. With all our frigate work and all our defence work that is going on at the moment, and the FSS, some integrated, joined-up, synchronised thinking between Departments would give us an industrial and a defence strategy that worked for UK plc.

The failure to do that is quite frankly a betrayal—a betrayal of skilled jobs and a betrayal of those communities that have supported UK shipbuilding and our defence industries for hundreds of years.

Chair: That was going to be our next but one topic, but as you have brought it up now and we are into the prosperity agenda, we will go to Ruth next and then come back to Gavin.

Q8 Ruth Smeeth: Before I move on to my question, regarding what Steve and Ross were saying, we have been here before with Barrow. It is as though we have learned nothing at all from the loss of skills in Barrow and how much it cost us as a country not to have a steady drumbeat of orders. We need to push that message.

At this point I should declare my interests in GMB and Unite. Do the Government understand the potential contribution to national prosperity by awarding those contracts to British firms? Do you think they get it at all?

Ross Murdoch: I would say no. Whenever a contract is awarded we hear some fine words from Government that indicate that they do, but they certainly do not back that up. There is no serious policy behind them. In the trade unions' view, any Government that put the FSS order out to international competition do not get it at all. The point Steve just made about the return to the Treasury is such a simple thing for our members to grasp, and we cannot see why politicians do not. I do not know whether it is the Treasury or the MoD itself.

Q9 Chair: Based on past experience, is there a massive disparity between the sorts of bids that come in when you put something out to international tender, compared with when you decide to keep them in-house in the UK? Would you say the Government's response to the argument that you make would be, "Well, with a limited defence budget, we simply cannot afford not to put this out to tender, because it would cost a huge amount more if we reserved this for the UK only"? Or would you say that the difference in price, and the savings that might be made, is not nearly enough to compensate the loss of skills and money spent and fed back into the UK economy? Do you have any past experience to guide us?



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Ross Murdoch: There was no bid for the MARS tankers, but there were a couple of reasons for that. We regularly talk to shipbuilding employers about the Type 31 and the FSS. They indicate that they believe they will be able to get close with a bid. Let's factor in the criteria weighting that Steve just went through—the return to the Treasury, tax and national insurance. Plus, it is often forgotten that there is a potential flip side if the jobs go, which is increased welfare benefits if people do not find alternative work because the work has gone. If the bids were close, the fact that you can have something around 30% return is a significant weighting.

Q10 Chair: If the bids were close and we had an international competition but the UK came in second, as it were, and not with the lowest bid, would the UK still have the discretion to be able to award the contract to the UK bid?

Ross Murdoch: I believe they do, because there have been recent examples, certainly on the competition side. The Transport Secretary recently awarded a contract without competition for the Brexit ferries—but the least said about that, the better. When Philip Hammond was Defence Secretary, he awarded contracts without competition.

Q11 Chair: That was not quite my question. If we go to a competition and the British consortium puts in quite a competitive bid but not the cheapest, am I right in understanding that the Government could still go with the British proposal? If that is the case, might they not go down that route to try to get the best and most realistic bid from the British that they can?

Ross Murdoch: That is an interesting question. They could still award it, and there are a couple of arguments that they could use, including the prosperity argument or arguments on sovereign defence capability or future industrial capability and retaining skills. There are a number of key areas where you could easily do that.

Q12 Chair: So all is not lost, and if it does go to competition, there is still a good chance that the British consortium could win, even if it does not come in with the lowest bid?

Ross Murdoch: Let's hope so.

Q13 John Spellar: But only if they take into account local value, which they are able to, even under EU regulations. They seem to put a very low price on local value in that evaluation.

Steve Turner: Just to add to that, our experience in discussions with the MoD about all these issues has been that the advancement of competition is more about ideology than even the economics of it. It may very well be that there are differences in tendered price, but there is a lot of retrofit work being done on the MARS tankers, for instance, down at A&P in Falmouth—there an awful lot that needs to be done, because they were built under-quality. That is the reality of it.

Q14 John Spellar: Would you send us some details on that?



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Steve Turner: I will do; absolutely. We have our people working on them. They have been working on them for a long time, not just fitting them out for military purposes but retrofitting some of the work quality that was done in Korea on the MARS tankers. We are quite happy to do that.

However, there is a failure to recognise—a refusal, really—the multiplier effect, or indeed local value or the impact of not spending a pound in the UK and its knock-on impact on skills, jobs and communities. All those are outside of direct employment as well. For instance, 900 jobs will leave Rosyth as a consequence of the FSS not going to Rosyth, or the Type 31 not being deployed for build in Rosyth and elsewhere. There will be a knock-on impact in the community on all those jobs in the supply chain and the logistics and distribution side of things, the other suppliers that supply components and others into that site, the local pub, the café, the newsagent, the hairdresser, the supermarket or whatever it might be, and none of that is taken into account.

Every time we have had discussions with the MoD about that, there has been an ideological obsession with free market competition. It has not been about the economics of it, although they hide behind the economics. They fail to recognise the social and economic impact of not spending a pound here.

Ross Murdoch: I was just going to add to one point that Steve raised earlier about steel. We in the GMB community have been having regular meetings with BEIS, and we have raised FSS. Sometimes the argument that comes back is that the capability is no longer there. We have always argued that, if you put capacity there, the industry will invest. There is a knock-on effect, and not just to shipbuilding communities and shipbuilding yards. The same applies to steel as well.

Chair: Thank you.

Q15 **Ruth Smeeth:** Just one final question on this: what policy prescription would you like to see? Would you like a formal formula that the Treasury and the MoD have to consider that includes social value? What policy prescription would you actually like to see?

Ross Murdoch: We contributed to Phillip Dunne's review, and I know that a criterion and a weighting that factored in things like return to the Treasury or UK prosperity was one of the potential recommendations that he put to the Government to consider.

Steve Turner: Just to add again, we are alone on this, to be honest. I travel into Europe a lot and I talk to counterparts in Europe, and we really are the laughing stock of Europe, let alone anywhere else, when it comes to—

Q16 **Chair:** So we are the only people who don't do it?

Steve Turner: We don't do it. The French have just issued their instructions on their own FSS vessels. They are going to build them in France, and I do not see the UK Government complaining to the European Union about unfair competition on that one, for instance, let alone the



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French worrying if a formal complaint was put in to the European Commission. They will not build outside of France, just like the US won't build outside the US.

We seem to be the only nation that takes literally some requirement to procure on an open competition basis within the EU procurement regulations. It is false. The capacity is already there for the UK Government to make these decisions. The capacity to take into account the local impacts and the social and economic impact is already there. Whether the Government choose to exercise their discretion in those areas is a political choice, and our experience shows us that they do not choose to do that. That is their choice.

Ross Murdoch: On your earlier question, I do not think competition is some sort of cunning plan to drive prices down. If, at the end of it, they took in that social policy and looked at the criteria and the weighting and actually made a judgment based on all those factors, rather than just choosing the one that is a quid cheaper, you could understand it. However, there is no consideration of that return. That is not just the return on taxation and national insurance, but the multiplier effect that was referred to earlier. If people are working and spending in their own local communities, that generates their own economy.

Q17 **Gavin Robinson:** I guess to complete that point, Ross or Steve, what the Chair outlined would be rather sub-optimal if, at the end of a process, you were saying, "Well, the UK company came second and the international company came first, but we recognise those points." It should be there front and centre at the very start of the process. It should be ingrained in the scoring matrix for any application in its separate elements—national capacity, skills base, social return, and so on. Those should all carry elements of points or scoring for the scrutiny of applications. That is the way that you would rather see it; that is the way that it should be.

Ross Murdoch: Absolutely.

Q18 **Gavin Robinson:** Chair, I should declare that I signed the Confederation's pledge on shipbuilding in October. Ross, you have talked about numbers and jobs. If the contract were awarded to a UK consortium, would that sustain jobs that are already there, or would it allow for the creation of new jobs in the United Kingdom?

Ross Murdoch: I think that it would absolutely create new jobs and new apprenticeships.

Q19 **Gavin Robinson:** Do you have any figures?

Ross Murdoch: We have all—GMB, CSEU and Unite—done research, and certainly, GMB's research on the FSS shows that it would create approximately 1,800 shipyard jobs if they were UK-built. Those figures include steel and wider manufacturing supply chain jobs as well. Those are significant numbers.

Q20 **Gavin Robinson:** So up to 1,800 new jobs. What if the contract is lost to a firm outside the United Kingdom? You have mentioned 800 or 900 jobs



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at Rosyth, but have you modelled any further impact beyond that one yard?

Ross Murdoch: It is difficult to quantify completely how many jobs would be lost. GMB submitted a freedom of information request, which the MoD is considering at the moment. Again, if one of the consortiums that is in the bidding for the Type 31 wins it, that would mitigate some loss. It is difficult to quantify it exactly at the moment. We have touched on Rosyth with what I said about 2000 in 2017, but if they were unsuccessful with either of those two contracts, it could be as low as 1,100 or 1,200.

There were 200 jobs at Appledore; 100 of them have gone through redundancy. At the moment, the other 100 are taking the opportunity to redeploy to Devonport dockyard on a trial basis. I do not think that they will all stay because it is a four-hour round trip, and relocating is unlikely for some people, who have lived in the north Devon area all their lives. Cammell Laird announced 291 job losses. Ironically, that announcement came three days after the Government announced the contract for the RFA ships. Cammell Laird had one or two of those contracts, yet announced 291 redundancies three days later.

Harland and Wolff has a core workforce of about 114, which is topped up by about 100 agency staff. Our latest report from Harland and Wolff is that it has no work beyond the third quarter of this year, so that is another one. It has no apprentices and, at the moment, no plans for apprentices. Ferguson Marine on the lower Clyde has work at the moment, but not long term.

It is therefore difficult to quantify. I think the thought is that if the BAE consortium wins the Type 31, it may well be Cammell Laird that builds it. That is not a given, but has been reported. If the Babcock consortium wins it, however, the view was that it would have been built in Appledore, which has gone, or possibly Rosyth. If the FSS contract does not come, the yards that are not successful with the Type 31 will be vulnerable to further job losses. We hope that there would be no more closures, but I do not think that we can say or guarantee, hand on heart, that there will not be any further closures.

Steve Turner: Some credit where credit is due: I want to put on record that while Cammell Laird announced in a redundancy notice that 291 jobs were at risk, not a single job has been lost. We worked very hard. It is still not over at Cammell Laird, but we are now down to 79 jobs at risk and we are working very, very hard to mitigate those 79 as well. We have saved 220-plus jobs at Cammell Laird already, and are working very well with the Ministry of Defence on bringing forward contracts. For instance, we have brought the RFA work forward, and are working with other contractors as well, including placing jobs out in the wider contractor area.

We put 40 workers on secondment into BAE at Samlesbury, and they will go back into Cammell Laird. That is a really pioneering agreement and skills retention work. It is not really recognised here in the UK, but if you go into Germany, for instance, or other European countries in particular, it



is quite commonplace. There are agreements and even insurance-backed schemes to go to short-time working during the bathtub. That is the problem we find in much of the shipbuilding industry. There are insurance-backed schemes underwritten by the state and we are talking to Government about that, and about a similar insurance-backed scheme that companies pay into—during the good times, of course—so that when there is a difficulty and a downturn in work we do not lose all those skills: we share work, we go on to downtime working, and as the industry picks up we have a ready-built workforce, upskilled during that period as well. It is really, really important that we recognise that.

Q21 Gavin Robinson: I was going to ask Ross about the fear around some of the yards. I think you have fairly addressed that question in advance of my asking it, albeit knowing that my particular interest is in Harland and Wolff in my constituency.

We were talking about figures and the numbers of jobs potentially at risk. FSS was predicated on two with an option for a third—Steve, you have talked about the steel associated with it if there is a third. Are your figures, Ross, based on three ships being built or two?

Ross Murdoch: They were based on—

Q22 Gavin Robinson: If only two are to be built, what impact will that have?

Ross Murdoch: First of all, I would not get the rationale behind the two. I think there was some talk about two plus the option of one. Ideally, we would want three. If you are going to build only two for a start, you have two aircraft carriers and just two supply ships, and if one gets taken out for a refit or maintenance work, you are leaving the carriers light. While we would absolutely want the three, would we refuse the two? No, we wouldn't. There are reasons why the two would not be attractive, I would suggest, for Government. I am not quite sure what measure or what detail the Government would be using in terms of the two, as I said, because of the—

Q23 Gavin Robinson: If they go for two rather than three, is there a material reduction in the jobs figures you gave us earlier? Are they cut by a third?

Ross Murdoch: I think there is an economies of scale argument to that. With any shipbuilding contract, by the time you get towards the end you have usually learned from early on, so you lose some of those arguments about economies of scale if you build only the two. If it is three, the arithmetic is not straightforward.

Q24 Phil Wilson: I declare an interest, as a member of both Unite and the GMB. Do you agree with the Government's refusal to classify the FSS ships as warships? Guto Bebb has actually said that there is no national security interest that requires them to be classified as warships. If you believe that that is a wrong move, do you think it is too late to change the classification?

Ross Murdoch: On the second part of your question, we do not think it is too late. Early reports from the previous Defence Procurement Minister



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suggested that when it was opened up there was no risk of compensation et cetera, so unless something has changed we do not believe it is too late. Therefore, we would strongly argue, again, that the Government rethink this and reclassify. We have already talked about some of the previous competitor countries that have already made decisions to build them on their own. I think the evidence is there from Europe, certainly, that they can be reclassified and single-source procurement restricted. Even in his reply to the Chair of the Defence Select Committee, the Minister as good as admitted that and said that it could be done.

Also, in the Defence Department's own contract, they have actually described the role of an FSS ship, and its primary role is to support war-fighting operations. It has to operate and survive against a capable and hostile enemy threat. It sounds more like warships to me. Even if you look at a support ship contract, we do not have to go back too far in history to the Falklands conflict where the Sir Galahad was bombed. It was an RFA ship. So there is evidence there. I have not seen any legislation that has changed what happened. You can go back even further. In the '80s they were classed as warships. I have not seen anything that has changed that.

Q25 Chair: Is it purely and exclusively rules imposed by the EU that are responsible for this dilemma?

Ross Murdoch: I think it is ministerial decisions in the UK.

Q26 Chair: Yes, but there are no other rules. That is what I am trying to get at. The only rules that we are concerned about are EU rules, so it is either Ministers doing what they want to do and sheltering behind EU rules or it is EU rules, but there is no other third possibility.

Ross Murdoch: I actually wrote to the Minister and the response I got was quite interesting. I will not read the whole letter, but he said: "It is conceivable that other nations have applied exemptions where the UK has chosen not to, but which are still reasonable in their own national security context and wholly compliant with EU law." Again, that suggests it is a ministerial decision or an interpretation of the law. Other countries are interpreting it to suit domestic, whereas we are not.

Q27 Chair: We will have a Minister in in the next session, so we will be able to explore that.

Ross Murdoch: Yes, I look forward to reading his answers.

Q28 Phil Wilson: Steve, do you think that it is a requirement that they are reclassified in the national security interest as well?

Steve Turner: I concur completely with what Ross has just said. I find it perverse that we even go down this route, for all the reasons that we have been through already, to be fair. These are warships. These will operate in war zones. They carry munitions to supply a carrier fleet. They travel alongside destroyers and others. They are incredibly vulnerable. Even in their build they are incredibly vulnerable, but they are protected by a core group of Royal Marines. They have got helicopter landing pads on them and the Army use those—the Navy use those, of course—to deploy troops.



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These are warships. In any other game we were playing around the naming of a vessel, these would be warships. But of course they are not classified as warships and I think that suits a political aim—a political objective, as opposed to a definitive EU piece of regulation.

- Q29 **Mr Francois:** I do not have a trade union affiliation to declare, gentlemen, but everybody seems to have to declare something, so I declare that my father was a naval veteran. To press you, Mr Turner, on this point about whether they are warships or not, they are clearly designed to go in harm's way because they are designed to accompany the carrier; and brutally, the fleet commander, if necessary, would use that as a decoy for the carrier. So are they designed to carry any kind of defensive armament—flares or something? They are going to have a defensive use?

Steve Turner: Absolutely.

- Q30 **Mr Francois:** Do they have any armament? Do they have any anti-aircraft machine guns or anything like that?

Steve Turner: Yes.

- Q31 **Mr Francois:** They do. They are going to have 30 mm cannon or something like that?

Steve Turner: I don't know the technical specifications of their armaments, but they are definitely armed ships. They are light arms for defence.

- Q32 **Mr Francois:** Do they have a command centre in the bowels of the ship? They are not fought from the bridge. They are fought from the command centre. Do they have a command centre?

Steve Turner: I would be purely speculating to say that they do, other than to think that it would be a ridiculous position if they were not controlled by the central carrier command fleet.

- Q33 **Mr Francois:** Yes, but they would be under the command of the carriers. A modern warship has a command centre in its guts, basically. If they have got one of those, that only amplifies the case. Maybe you could look at that and drop us a note about what you consider to be their warlike characteristics, if you follow my line of questioning.

Steve Turner: Yes, okay.

- Q34 **Mr Francois:** Thank you. To move on, is there one UK consortium in the competition now, or two? You have mentioned BAE Systems and Babcock.

Ross Murdoch: That was on the Type 31e contract, where there is a BAE-led consortium, a Babcock-led consortium and a third consortium. They are working together on FSS; it is one Team UK working together.

- Q35 **Mr Francois:** What, in your assessment, is the likelihood of their winning the competition? If you wanted to give us a percentage likelihood, where would you put it?



Ross Murdoch: We have touched on where there is a disadvantage. I don't understand the intricacies and complexities of competition with commercial contracts, but my understanding from previous ones is that there are different timescales in each contract, some of which require money to be put up front to get to the next stage. If the other competitors are all either state-owned or state-subsidised, directly or indirectly, that is much easier and much more advantageous to them than to the UK, because if the UK has no state subsidies it would be down to the employers themselves to put money up, and I would suggest that they would probably need some very understanding shareholders who would give them the green light to put money up with no guarantee of any return.

From what we can gather, Team UK believe they can get a bid close, but if there are timelines built within that contract that mean that additional moneys have to be put up, we can already see a situation where the UK could be at a disadvantage. We would hope that they would stay in the bid but, depending on what that level of outlay is, there is always a danger that UK companies might think—

Q36 **Mr Francois:** Can I push you on this? It is really quite important. The Chairman was questioning you a little while ago about the potential price deltas between some of the bids. To take a ridiculous example, if the domestic equivalent was five times more expensive than one of the foreign bids, it would be unlikely to win, but I am sure in reality it would be a lot closer than that. In the Type 26 competition, a lot of people were saying, a couple of years out, before the Australians and Canadians opted for the Type 26, "She's a fantastic ship, brilliant capability, world class—but she's just too expensive. They'll never go for it because of the price delta." Yet, somehow, BAE Systems, working with the unions, managed to come up with a solution that was price-competitive. While you're here, can you give us some idea of what the unions have done, working with the management of some of these yards, to try and keep the prices as competitive as possible? I understand anecdotally that you have done quite a lot of work like that, and it is only fair that we give you a chance to explain what you have done.

Ross Murdoch: We have had regular meetings. Of course, what we don't know is the prices that the competitors will come in on, so a lot of this is based on what happened previously with the MARS contract, but the companies are saying that they believe that they can get a bid that is very close. If they can get a bid that is very close, then taking in all those other factors—the return, tax, national insurance, no welfare benefits if the jobs don't come—we would argue that that should be weighted in favour of UK yards.

As I said earlier, never at any time have our members said, "We should get this work at all costs—at any cost." Not at all; we understand there is a need to save taxpayers money, but it is a false economy. It is not a level playing field. The only return to the Treasury, if it is awarded overseas, will be to an economy in Japan, South Korea, Spain or Italy. If it comes to the UK and we can come close, then that return, surely—



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Q37 Mr Francois: On this Committee we have had our own run-ins with the Treasury from time to time down the years, so, for slightly different reasons, we share some of your frustrations. Ross, I don't want to be accused of leading the witness, as they say in legal circles, but I do understand that the unions have come up with some agreements with management in some of these yards to try and improve productivity—to keep prices as competitive as possible. I wonder if there is anything you could say about that.

Ross Murdoch: We have always been willing to engage with all the employers on whatever it takes—for the workforce to be as flexible as possible, to improve productivity. We have done that time and time again, and we will continue to do it. If those were the reasons that were looking in some way like they were going to be holding us back, we would continue to do that—absolutely. But the subsidised aspect makes it really difficult. You could put in all the hard work in the world and come up with something—a really good, meaningful, reasonable bid—and then, for some of those reasons that we have set out, you could end up—

Q38 Mr Francois: Are you saying that some of the competitors are offering, as it were, to profile the bid differently, so that they will maybe subsidise some of the costs early on to reduce the MoD's outlay and make it easier for the MoD to afford in the first few years, and that the British consortium would have trouble doing that? Is that what you are telling us?

Ross Murdoch: For the British consortium, it would be the companies themselves who would have to put any moneys up, whereas if the competitors are indirectly or directly state-owned or state-subsidised, they are at an advantage because the state is looking to secure the work, whereas the UK Government is not subsidising in any way. So the onus would be on the employers for any moneys that have to be put up front to stay in the running, shall we say. It would have to be done by the companies themselves. That is a concern for us, because shareholders would be understanding if they thought there was some long-term gain, but to put up money with no guarantees, when they are up against competitors who are willing to basically write a blank cheque—

Q39 Mr Francois: So that might have been a tough call for the chief exec of BAE Systems.

Ross Murdoch: For BAE, yes, with the team. It is a concern we've got.

Q40 Mr Francois: I have one more quick question, and then I think Ruth wanted to come in. You mentioned, Mr Turner, the contract to provide support to the RFAs, and I think it also touches on some survey and hydrographical vessels as well. To what degree will that help to protect jobs and skills?

Ross Murdoch: That is the one I was referring to earlier when I mentioned Cammell Laird, because there were four contracts, and Cammell Laird won the two biggest of the four. As I said earlier, three days after the Government announced that contract, Cammell Laird announced 291 redundancies. Steve is right that the unions have worked



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hard and campaigned to mitigate that, but three days after an announcement on a contract—I remember some of the headline figures that came out from the Government’s release, which talked about 700 jobs over 10 years, covering 17 ships. Well, you have Cammell Laird, which has won the two biggest of four contracts, announcing 291 redundancies from, at that time, a workforce of 480. So, while we would welcome any additional work, that puts things into a little bit of context. If you have the company that has won the two biggest of the four, and they are prepared to lose close to 60% of the workforce—

Q41 Mr Francois: Without those contracts, would Cammell Laird have closed?

Ross Murdoch: I don’t think they would have closed, but there would certainly have been a massive reduction. It has taken the work that we have been doing jointly with the Mayor and the taskforce up there, and all the other stakeholders, because there is a bigger picture here. There are people who have been redeployed to other stakeholders’ companies for the short term, because they know that there will be some work coming in. As I say, whilst we welcome any work, there is a difference between refit, maintenance work and shipbuilding. A refit contract would not sustain shipbuilding capacity in the UK. That is a key difference. They are related trades, but very different work.

Q42 Ruth Smeeth: I have a little question following on from Mark’s questions to both of you. Steve and Ross, with your GMB hat on, what Mark may have really been trying to get at is about working in partnership with the employers to deliver not just efficiencies, but an offering for the FSS that is actually competent. It was about how the union is actually involved in making the consortium viable—your day-to-day involvement in it, so not just you. It is more about the details of your partnership agreement in terms of how you are working together with the employer.

Mr Francois: You put that better than I did.

Ruth Smeeth: It is different language.

Steve Turner: Sometimes we do work in partnership, of course. We do have mutual interests, and securing the FSS contract is a huge mutual interest between ourselves and an alliance of employers, actually—whether it comes from Harland and Wolff or what would have been down in Appledore, of course, so A&P or whatever it might be. There is huge potential, not just for the retention of skilled jobs but the promotion of skilled apprenticeships for the next generation who want to enter into decent jobs.

We will do whatever, and of course we are doing—we sit down every day of the week. When we’re not sitting in here talking to you lovely people, we are of course out there talking to employers about how we can improve the job security prospects of the people that we represent. That does mean looking at how we become more productive, of course. It does look at efficiencies, it does look at shift systems, and we are doing all sorts of work with the employers’ group—the consortium—to make sure that we



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can put in the most competitive bid that we can on behalf of UK plc. We are constantly at work on those agreements.

In fact, it is not me and Ross, of course; it is our conveners and our shop stewards inside those yards who are sitting down day in, day out with the employers' representatives—the local management teams—to make sure that that works. But you are constantly undermined if the risk is being underwritten in other yards by Governments, of course, because that is what they really do. Even if they are not state supporting or state subsidising, they are underwriting the risk associated with up-front costs.

Q43 Chair: Before Ruth starts on our second topic, can I invite Steve Kerr to say a quick word about the background to our second topic, and General Electric and Rugby and what is proposed? We will then go into the questioning.

Steve Kerr: Currently, the Rugby facility of GE Power Conversion is under threat of closure, ceasing manufacture of equipment and transferring that work to Nancy. That was announced to the members of the European works council in November 2017, and we then engaged in a process of consultation, which continues until the end of next month. Obviously, myself and my fellow employees started a campaign to try and bring this to the awareness of Parliament, the Chief of the Defence Staff and the First Sea Lord. Because of our concern for the future of apprentices, we wrote to His Royal Highness the Prince of Wales, knowing what his concerns are for skills and young people.

Q44 Ruth Smeeth: I represent Kidsgrove, which is the former GE site, and our jobs were transferred to Rugby and are now on the verge of disappearing. Were you consulted at all before the announcement to the European works council in 2017?

Steve Kerr: There was no consultation at all prior to that. We were attending a regular meeting of the European works council in Berlin, and were then told that we had to leave early from our hotel location to move to another location, where the CEO was with one of the American bosses, to be told that they had a proposal to cease manufacture in Rugby and at the Berlin facility as well.

Further to what you said about Kidsgrove—I know you were involved in the campaign to save Kidsgrove—I believe that at the time, interestingly, they said to you that whilst it was “regrettable” that Kidsgrove had to close, that would help to secure the long-term future of Rugby. Less than a year later, they now want to cease manufacture and close the factory in Rugby.

Q45 Ruth Smeeth: Yes; “regrettable” was not a word they should have used with me at all at the time. I am interested, just because of the conversation I was having with them at that point. They had a testing facility at Kidsgrove that was being moved to Rugby. Where is that going now, or given that GE is struggling so much, is it losing that capability full stop?



Steve Kerr: No, that testing facility will cease. That will also move to Nancy.

Q46 **Ruth Smeeth:** Will they be able to do it in the same way?

Steve Kerr: No. The equipment they moved from Kidsgrove was more of the civilian-type work, rather than the defence work.

Ruth Smeeth: There was a tiny aspect of defence as well.

Steve Kerr: A small part, yes. They should be able to do it, but it would cause rather a lot of disruption. I would ask the Committee to be aware that when management present their case, they have lots of talk of pitchers and catchers and gatekeepers, and how this will all go seamlessly, but that has not turned out to be the case in reality so far.

Q47 **Ruth Smeeth:** Steve, what was the response to your letter to Larry Culp last year?

Steve Turner: Pretty flippant and quite dismissive, to be honest. We have supplied you with a pack of materials, and those letters and the response are in the bundle as well. In tab C you will find letters from me to Government Ministers. In fact there are a number of letters there that I have written to the Secretary of State in relation to Rugby and, with respect to your direct question, to Larry Culp as the CEO.

On page 4 in tab C, you will find my letter and GE's response, which effectively said, "We're in a consultation phase, and therefore we will be consulting with the unions locally. There will be full engagement with the unions locally, and we will not be making any final decisions until those consultations have concluded." Of course, it is very apparent to us that those decisions have, in reality, already been taken at board level in the United States. We are now in the situation of having to reverse the decision and put forward the political and economic case for retaining that work, not just in the UK, but at Rugby. It is vital that we do that.

The flippant response led to a second letter to Larry Culp from Len McCluskey as general secretary of the union, in which he said that he was very disappointed that he had not responded directly to the points that I had raised—all the concerns that no doubt during the course of this hearing will become apparent. The response back to Len McCluskey as general secretary of the union was in the same vein—directly this time, though, from Larry Culp. Again, it stated that this is in the consultation phase, and therefore until the consultation has been exhausted they will not make any final decisions.

Q48 **Ruth Smeeth:** Have you been kept informed of any conversations between the MoD and GE on this?

Steve Turner: No. I have written to Gavin Williamson as Secretary of State on a number of occasions. I had a response back from Guto Bebb, who then of course decided to leave post. We never managed to meet on this question. I have met Stuart Andrew on this question subsequently, and on other matters, including those related to the FSS, which we

previously gave evidence on. We had a very constructive meeting with Stuart. Very little positive came out of it of course, although it was a positive discussion.

In those letters they are very clear that this is a business decision. We believe that this goes to the heart of the question of the Government's engagement in this. The Government were so concerned at the time of the takeover of Converteam by GE that the deed poll was agreed between Government and GE. You, as the Chair of the Committee, have written to Stuart Andrew, and we completely concur with the comments that you made in that correspondence, about the use of the deed poll to protect national security interests here in the UK and, indeed, the Rugby site.

In the letter to me from Guto Bebb he did not mention that this was a business decision, and that therefore the Government would leave this to business, but very interestingly, in a very similarly worded response to Steve Kerr from a civil servant in the Ministry, he went on to say, "You will understand, however, that the future of the facility is ultimately a decision for the company." That is on page 11 in your bundle of materials.

We fundamentally do not accept that. Either the deed poll was put in place for a particular reason, to defend the national security interests of UK plc, and our naval fleets in particular and the power conversion equipment that is produced in Rugby, and therefore is a meaningful deed poll, and is an enforceable deed poll via Government, or it is not. In that case, various serious questions are raised for the Government about the nature of the agreement, its terms and its enforceability. Perhaps it is enforceable, and the Government are choosing not to enforce provisions of the deed poll agreement.

We believe, as the Committee does, from the correspondence that we have seen between yourself and Stuart Andrew as the Minister responsible, that they have not only an absolute responsibility to defend the interests of the workforce and the product secured at Rugby, but indeed the legal basis to do so under the deed poll. It is therefore our conclusion that the Government, as was the case with FSS, are making political choices about what actions they take to protect UK plc national security interests.

Q49 Chair: At this point I would like to acknowledge and welcome Mark Pawsey, the Rugby MP, who has joined us for this part of the session. In relation to the condition that was undertaken originally when the previous move took place, has there been any comment on that aspect at all coming back to you from the management of GE?

Steve Kerr: Other than the deed poll, no, there has been no further comeback on that. It seems straightforward enough that these undertakings were given by GE, and it is quite clear that, because of the strategic importance of our sovereign capability, the Government would insist on having these things in place when GE acquired us. I cannot understand, as a layperson, why the Government are not now upholding what they put in place at the first point. Mr Pawsey has been involved,



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along much the same lines—"It is a commercial decision, we regret this, but it has to be down to the company."

Q50 Gavin Robinson: Just to be clear, is that the response Mr Pawsey got, as opposed to it being his position?

Steve Kerr: Mr Pawsey has been supportive of the position. I think that is the response he has got back when he has approached Government Ministers.

Q51 Gavin Robinson: Could you spell out for us, Steve or Steve, the consequences if the move goes ahead? How many jobs are at risk? What knowledge is at risk?

Steve Kerr: Originally we were looking at 197 direct jobs going with the ceasing of manufacture. That figure has now dropped to 185, because a number of employees have decided to leave the company because of the uncertainty. An additional 60 people have already left the company.

We are split over two sites: basically, the engineering and commercial aspects and the manufacturing site. To protect the manufacturing site for as long as possible, we engaged in a redundancy process under phase 1, which resulted in 60 jobs going from the Boughton Road site. That was to buy time for work to come in, but we were also waiting on positive news from the BEIS Committee and from central Government on the Swansea Bay project.

Rugby has the world's largest vacuum pressure impregnation tank, which would have been key for the Swansea Bay contract and remains key for the production of the Type 26 motors. I believe that the next largest machine is in China, but hopefully we will not see work for the Royal Navy moved to China.

Those are only the direct figures. We employ quite a number of small, specialist workshops in the immediate area, so there will be a knock-on effect there and in the supply and logistics chain. How you would quantify that will be hard—as I say, I am just a layperson in this—but clearly there will be a knock-on effect in the wider community over and above these jobs.

Q52 Gavin Robinson: Mr Turner, you mentioned some of the relationships you have had and secondments and job opportunities for people to go from one site—shipyards, in that case—to another. Have there been discussions with management about future opportunities, relocations or placements for staff currently involved at Rugby?

Steve Turner: We will always enter into those discussions. It is actually quite a pioneering agreement—it is the first of its kind—that we reached in relation to Cammell Laird and BAE systems, as the prime contractor for Cammell Laird on the nuclear work. That has not been exported elsewhere. It is very much something that we very much like to do and look to do wherever possible, and we will certainly do that in the case of Rugby.



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Our primary point at Rugby is of course that there is no need—in fact, it is a gross betrayal of our national security interest—to allow the Rugby site to close and for that work to transfer to France. A lot of that work is incredibly sensitive, as the Committee will be well aware; it is not stuff that we would necessarily want to even touch on in this forum.

However, it is incredibly sensitive and highly secure work. A lot of it can only be done in the UK. The carrier motors and the power conversion equipment were produced at Rugby, of course, using the VPI tank. There is no other VPI facility. You cannot just pick that tank up and transfer it to Nancy or anywhere else. That tank is an integral part of the fabric of the building, and to lose that facility would be really detrimental to the interests of our Royal Naval fleet.

There is not an in-service vessel in the naval fleet that has not had its power conversion and engine capabilities produced at the Rugby site. The Rugby site is 130 years old. It produced its first stuff for the services in 1914—in the first world war—so it has a huge amount of experience and knowledge. Steve talks about the 185 jobs that are at risk. We lose hundreds and hundreds of years of combined knowledge and experience when we lose employees, and it is irreplaceable. It is very similar to the argument that we had about the FSS—about the loss of jobs, skill and experience. It is not just a five-year apprenticeship that a youngster leaving school will enter into. We will not be able to replace those employees. These are people with 40 years' personal experience and knowledge of working on programmes that are incredibly sensitive to the national interest. To lose that work—for there even to be the threat that that work will be taken from the UK shores and transferred to France—is a dereliction of duty on the part of the Government.

Steve Kerr: The knowledge base was one of the points that was made with central management. I should make it clear that it is central management that we have concerns with. The local UK management have worked their way up through the ranks as apprentices to become managing directors, so they know the business inside out. In the last eight years, we have had three CEOs, because the GE philosophy is that if you haven't moved on after three years, you are a failure.

In one of the European works councils, we noted that on the employee side of the table there was 400 years of experience, while on the management side there was less than 50 years of experience in the industry. We tried to point out that we have always been in a collaborative and working-together phase. More than central management, who flit from one senior position to another continent all the time, we need our companies to be successful, and we want to contribute that. That is where our 400-plus years of experience comes from. We are there to assist them in their decision making. Unfortunately, there appears to be the American attitude that trade unions in particular and employee forums are hostile. They seem to think that it is a confrontational relationship. It never has been prior to the acquisition by General Electric.

Q53 **Chair:** If the Government were to decide to enforce the guarantee that it



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sought before the original takeover was allowed, what would that actually entail? If it says, "Right, we're enforcing this guarantee," does that mean that GE simply could not close this enterprise?

Steve Kerr: Effectively, yes. We have looked at other facilities. The Rugby plant is unique in many ways. As part of the alternatives to closing the site to reduce costs, we looked at smaller buildings and a smaller footprint, but of course that becomes impractical because of the VPI tank, which is a huge piece of equipment. We have one of the largest heavy lift cranes in the UK—it has a 250-tonne capability. Buildings are not built to that height anymore. Once you close Rugby, you will never be able to reopen it. The pylons alone in that building would cost £1 million each today to be driven into the ground.

Q54 Chair: You said that a fair number of jobs have already gone. Do you think there is a process under way to try to make closure inevitable, irrespective of the Government's right to enforce a guarantee that should make closure out of the question?

Steve Kerr: This is a concern that we have had. As a trade union, we have been looking at the skills matrix of employees to retain the most talented ones. The 60 employees who have already gone from the Boughton Road facility were largely people who were coming to the end of their careers and were effectively looking for a form of early retirement, but some people who applied were turned down because of the critical skills that they have. They were not allowed to retire. There is always the fear that it becomes a foregone conclusion—"We would love to have kept the site open, but unfortunately too many people have now been lost."

John Spellar: You mentioned national security and the deed poll. How much of the work on the site is classified?

Steve Kerr: That is not a topic that I would like to speak about too openly in a public forum.

Q55 John Spellar: Substantial?

Steve Kerr: Substantial. I would point out that the Rugby site is on the Government's List X, which, as you know, is for buildings with defence manufacturing capabilities of national strategic importance.

Overall, the Type 26 work we do is officially rated as "sensitive", and there are elements of it that are classified as "NNPPI—UK eyes only"; I am not sure what the abbreviation stands for, but I am sure that you gentlemen will. To give you an idea of how sensitive it is, we have had foreign nationals who have been the site leader for manufacturing but who were not allowed on the shop floor until they gave notice, so that the equipment could be covered up with tarpaulins. They were also excluded from technical meetings at which secret and top-secret information was shared. It is very sensitive, and all the employees have to be security-cleared to work on site.

Q56 John Spellar: If it is UK eyes only, it would, of its essence, be compromised if that work were moved to France.



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Steve Kerr: Yes. This is why we cannot understand GE's philosophy. They said, "It's only the total package that is UK eyes only—if we cut it up into small work packages, it is not top-secret," but they are going to put the whole lot of the equipment together, and it becomes a top-secret piece of equipment.

Q57 **John Spellar:** What is your understanding of the security classification of the Nancy site?

Steve Kerr: Nancy has no UK security classification whatsoever. There was recently a visit by the Ministry of Defence and by British Aerospace, which is the lead partner in the Type 26 programme. When they went round, they were surprised to see Russian contracts on the shop floor. They asked whether that meant that there were Russian nationals there, and they were told, "Oh yes, we regularly have Russian engineers on the shop floor."

There is also a concern that in 2011 two Chinese nationals, who were employees of the company, were detained and subsequently deported from France for having civil nuclear sensitive material on their computers. That involved a raid by the French intelligence services—it was a very serious matter. This is a constant threat. Late last year, at another General Electric facility in Belgium, there were some more Chinese nationals who had obtained information on the latest generation of fighter aircraft engines; I believe that at least one gentleman has been extradited to America to stand trial.

There is also the threat to the infrastructure. The naval facility in Rugby has a completely separate, stand-alone computer IT network, which has to be approved by the Ministry of Defence as cyber-secure, but there is nothing of that ilk in France. One of the IT personnel at work told me that it would take at least 18 months, and potentially two and a half years, to procure, install and test a secure IT infrastructure.

Q58 **John Spellar:** Clearly all of that would be of great concern to the Navy. One wonders whether most of the exchange of correspondence and so on has actually been with the procurement section rather than with the operational side of the Navy—that is something that I think we may wish to inquire about, Chair.

Also, I presume that there would be some concerns for the Australian and Canadian navies because of their involvement with the Type 26 programme. What is the potential impact for them?

Steve Kerr: Those ships were sold to the Australian and Canadian Governments on the basis that they would be built in the United Kingdom at the Rugby facility.

Q59 **John Spellar:** Was that implicit or explicit, as far as you are aware?

Steve Kerr: I am not aware, but I can ask the question for you, or perhaps it might be a better question to ask the management at the next meeting.



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Steve Turner: I would just add that it is not just the Type 26, for which for the first time we have a fantastic export order with Canada and indeed Australia; we are also the procurement source for the Type 31e, which is explicitly being designed for export. And, of course, there is the FSS that we spoke about earlier, and all those in-service frigates and destroyers, including the aircraft carriers. The carrier fleet power propulsion and engine capacity was built at Rugby and will be serviced and maintained here in the UK, of course. That would require a service team, which currently operates in Rosyth and Plymouth, to enable that to take place. That is wholly reliant upon that work and the maintenance schedule and the in-service contract work being done by the Rugby facility.

Q60 John Spellar: My understanding is that one of the attractions of the Type 26 to other navies is the silent motor running, particularly in its anti-submarine role. Is there a danger of that being compromised by this transfer? Might that have an impact on the two main customers of two of the Five Eyes colleagues in Australia and Canada?

Steve Kerr: That's a major concern and you are correct in saying that. These motors are near silent in operation. One of the key concerns is that, if their sonar signature becomes known or the vibration analysis of the ships themselves, these ships become worthless. They are so much target practice for hostile fleets, because you can programme the equipment to seek out that signature and your anti-submarine vessel becomes a victim.

We have mentioned Australia and Canada. There is also another concern. We have provided a number of ships for the US navy. We have done the T-AKE ships, which are the equivalent of the fleet's ports big ammunition carriers. We have done that. We have also provided the US navy with the motors for the stealth destroyers that they have, the Zumwalt class.

We have anecdotal evidence—nothing in writing, unfortunately—that those three Zumwalt ships are shortly due for refurbishment and there are real concerns that the US navy will be reluctant to put that work to France. There has always been an edginess, shall I say—a reluctance—by the US navy to involve the French in any of their military work.

Q61 John Spellar: Moving away from the security side, is there a danger of losing UK intellectual property as a result of this?

Steve Kerr: A key thing is that the intellectual property rights are with GE. However, that work was funded largely by the UK taxpayer. I believe the contract allows that, if it is at risk, the MoD has the right to retain that and give it to another contractor. So they could give that information direct to British Aerospace.

One of the key things is the 20 or 30 years more of experience that the workforce brings to it. It is not necessarily an intellectual patent or something that we have; it is the skills they have in reducing the vibration and the shock hardening of it and of the electrical insulation, which is unique to Power Conversion in Rugby, in the world. It has taken some of the guys the best part of 20 years before they are allowed to work on this equipment because the insulation requirements are so tight.



Q62 Chair: I'm looking at the handy dossier that you kindly brought with you today, which includes some material we have seen before. Looking back at the deed poll, to which General Electric is a party, signed on 13 June 2011, I notice that it says "Security undertakings". Paragraphs 2.4 and 2.5 say: "They shall procure continuity of development and/or supply, including support, of all goods and services for Military Programmes in accordance with the relevant contractual obligations, for which the Ministry of Defence is a Customer."

The other one says: "They shall procure that the originals of all information and material generated by Converteam UK pertaining to Military Programmes shall remain in the UK." It goes on in that vein. Have any of you had any indication of what exactly is proposed, given that they are planning to delete this facility? How is anybody proposing that these very important functions and services continue to be supplied to the defence forces of the United Kingdom? Have you had any indication, either from Government or from GE, of how these services will be supplied in the future, if at all?

Steve Kerr: No, nothing at all. The only reply we have had is the letter from the civil servant at the DE&S, which, as Steve has said, was a dereliction of duty. He said that ultimately it is up to GE what they do with the facility.

When this was first announced, I said to the CEO, Mr Azeez Mohammed, that this would never be allowed—because we were aware of the deed poll agreement—because this was so key to the UK national defence. His view was: "Well, GE gets what it wants. This is just a transfer to another country." They seemed to have a lack of understanding of sovereign nations. They think that moving work from the UK to France is rather like moving it from one US state to another. At a subsequent meeting with another American gentleman from GE, I asked him, "If a project was marked 'Top Secret'—as some of the elements to this are—"would the US Navy or the US Government allow the work to be transferred to Canada?" He said, "Certainly not." I asked, "So why do you think—?" "Oh, well, I'm not involved directly in that project, so I can't comment on that," was the reply. There does seem to be a lack of understanding.

It goes back to what I said previously: we have had three chief executive officers in eight years. They have come from various backgrounds. In fact, I believe all three have come from financial backgrounds rather than engineering backgrounds.

Q63 Chair: Let's just refer to that letter. You fired off a salvo of letters to key people, including the CDS and the First Sea Lord, and you had this reply from Michael Gwyther, assistant head, DE&S Policy Secretariat (Ships), dated 14 November 2018. He says at one point: "The concerns that you raise about the loss of sovereign capability and security are matters the MoD takes very seriously and I can assure you they are being carefully considered." In the next but one sentence he says: "You will understand, however, that the future of the facility is ultimately a decision for the company." Towards the end, he says: "No matter what the company's



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final decision on the Rugby facility the MoD will continue to work closely with GE to ensure that key programmes can continue to be supplied and supported with the equipment they need to support the Royal Navy."

Is there any way that GE could continue in the UK to supply the secret and top secret elements of their services that they are supplying at Rugby at the moment? Is there any other facility they could use to supply?

Steve Kerr: If the Rugby facility closes, no, there is no alternative place in the UK. We have the largest VPI tank in the world, which is key. The height of the building is another prerequisite.

Q64 Chair: I am sorry to ask you to put yourself into the mind of somebody else, but what could they be imagining when they say on the one hand, "We share your concerns; however, it is up to the company," and on the other, "However, they're still going to supply everything we need." How can that be possible if they are going to close the only facility we have got in the country?

Steve Kerr: I don't believe it is possible and when we received that letter, it beggared belief. I shared it with my colleagues. We expected something more than that. We were expecting the deed poll to stand. It is quite clear that the deed poll requires it to be done in the UK.

It was interesting. We had a Trafalgar night dinner. Every year, the company invites senior naval officers along to its Whetstone facility. We had a reply from the First Sea Lord, which was: "Thank you for your letter. I am now passing it on to the relevant department for view." I had an opportunity to speak to Rear Admiral Methven, who was involved initially with the Type 26 programme. Apparently, the letter had gone far and wide within the senior ranks of the Navy, because they were greatly concerned about it. As serving officers, obviously they cannot officially come out and be seen to contradict Government policy, but they had serious concerns about this proposal and could not understand why it was being proposed in the first place.

Q65 Mr Francois: Where actually are we now in the process? What stage have we reached, and what are the subsequent likely timings?

Steve Kerr: At this moment in time, our consultation will close on 31 May. The company has told us that there will be no compulsory redundancies before that date, when the consultation ends. We were hoping to hear back from the Ministry about an earlier release of Batch 2 of the Type 26s, which would enable the site to stay open—admittedly, with a smaller number of people. We have taken the view that it is better to have a smaller number of people involved, and we can rebuild. We have been cut in the past. Once this facility closes, it is gone forever. The line is still that the company will cease manufacture of the Type 26. Other equipment and civilian work—generators and all that work—will move to the Nancy facility.

Q66 Mr Francois: At what time would the work transfer?



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Steve Kerr: It is not going to close the very next day. You are looking at an 18-month time period to wind down the operation and to transfer work and tooling that would need to leave the Rugby facility and be moved to Nancy.

Q67 **Mr Francois:** If a decision—in principle—was confirmed on or around 31 May, the drawdown would effectively take about 18 months.

Steve Kerr: Effectively, yes.

Q68 **Mr Francois:** I am just thinking about how much time is left, if you see what I mean. Type 45 is one of the most capable ships in the world. The Americans admire the capability, but it is not a secret that she had propulsion problems. How involved is Rugby in the retrofit programme to put right the propulsion issues in the Type 45?

Steve Kerr: Rugby has permanent teams at Rosyth and Plymouth that are involved in the refurbishment and retrofitting of the Type 45s. One of the concerns is that will we lose not only the ability to manufacture new equipment for the Royal Navy, but the ability to service our fleet going forward.

Q69 **Mr Francois:** Presumably that programme would transfer to Nancy?

Steve Kerr: That work would transfer to Nancy as well.

Q70 **Mr Francois:** The Committee's worry would be that those ships are absolutely essential to the defence of the carriers and the fleet more broadly. At the moment, they are the only—very limited—anti-ballistic missile capability that we have anywhere in the UK armed forces. Their ability to move is therefore very important. If we move to Nancy, is it likely to disrupt the re-engining the Type 45 destroyers?

Steve Kerr: Yes, it will do. You have to transfer the experience of the guys, which is not going to help. The workforce in France are not used to doing naval projects, so the move will delay that substantially. They won't know the workarounds that have been developed and other key aspects of the jobs.

Q71 **Mr Francois:** Tell us something briefly about the Nancy facility—its size, how many people it employs, and what its core business has been to date.

Steve Kerr: The Nancy facility is a general shipbuilding site. It's interesting—I was having a talk before we came here—that originally it was built by the French state, then sold to the French engineering group Alstom for 1 euro. At the time, we wrote to one of the European Commissioners, who is now Lord Mandelson, to complain that this was surely illegal state aid. The answer that we got back was, "No, no, no—this is key national strategic infrastructure and is allowed." We rolled our eyes, but we had done what we had done. One of the American managers will tell you that the Rugby facility has a leaky roof. It is an old building, whereas Nancy is a state-of-the-art building. I think it may be 15 or 20 years old at the most, whereas the Rugby one is considerably older. However, the equipment is of the same generation to what you will find in



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Rugby. They didn't have brand new equipment. They have a smaller VPI tank, but they use a completely different insulation system. They have a different resin.

Q72 Mr Francois: For my benefit, what is a VPI tank?

Steve Kerr: Vacuum pressure impregnation. When they build the motor, they have to take it and tip it into a huge varnish tank, effectively to protect it from short circuits. The system in Nancy is smaller. They use a different resin to what the Royal Navy is used to. Effectively, you could have two types of equipment in service at the same time on a different design.

Going back briefly to the Type 26, because of the different technology that the French are looking to employ, it could mean a larger motor and the whole design of the ship may have to change to accommodate the larger size because of the poorer insulation qualities of the French process.

Q73 Mr Francois: Have they done any naval military work to date at Nancy, or has it all been civilian?

Steve Kerr: No, none that I am aware of. This was one of the reasons that the Ministry of Defence and British Aerospace went to look at the facility. They have done shipping work before for civilian ships. They have not done work for the French Navy or any military. It has all been civilian work.

Q74 Mr Francois: Point 1, they have done no military work, physically; point 2, they are not used to all the security and other classifications that go with working in a military environment. Culturally they are different and in engineering terms they are different. Is that fair?

Steve Kerr: Yes, that is correct.

Q75 Mr Francois: How many people work at Nancy?¹

Steve Kerr: At the moment, I think there are about 800 employees at the Nancy site.

Q76 Mr Francois: How many at Rugby currently, just to give us an idea?²

Steve Kerr: At the moment, we are looking at 633.

Q77 Mr Francois: So Nancy is a bit bigger, but not much. Have you had any conversations with your French counterparts?

Steve Kerr: We speak on the telephone and we meet regularly. My counterpart is a Grégory Pastor of the CGT trade union. He said he is willing to come over to London and speak to the Committee if it requires it. GE will say that this is a matter of the downturn in the marketplace that has led to this closure. The French workers are of the belief—as is the UK

¹ Note by witness: The correct figure for the workforce at Nancy is 441.

² Note by witness: 633 is the total workforce at Rugby; the figure for the factory at risk of closure is 196.'



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workforce—that this has largely been a failure in investment in R&D and the organisation of GE centrally. It is a highly complex and burdensome organisation. It seems to put delay after delay into the processes.

The French have said that they are concerned that if the Type 26 work, let alone the other work that will be transferred to them, is moved, that will give General Electric the excuse to close the Nancy facility. As you may be aware, it is incredibly difficult to make French employees redundant. Only last month, General Electric gave an undertaking to the French state that they would create 1,000 new jobs, which they failed to do and have had to pay a hefty fine on that basis.

French colleagues are concerned that GE will put that work to them which they have no experience of. That then gives General Electric the excuse: “Well, we tried to fill your factory with this work. Unfortunately, you failed, so now we will have to move it either to eastern Europe or to the United States.”

Q78 Mr Francois: You have managed to convince the Committee of the seriousness of the situation. What is your next move? You have written to everyone under the sun: you have been whacking the postage bill up on behalf of your members—fair enough—but seriously, what is your next move in trying to keep the place open?

Steve Kerr: We have put forward a proposal that if the Type 26 batch 2 work is brought forward early, it would not in itself secure the complete site staying open. But it would secure the core workforce for the medium term. That would mean that the current closure sign that is up across the building would go away, and we could start getting work in again from the commercial side as well. At the moment we have potentially lost customers. Because we do not manufacture equipment that it takes three or four weeks to make—you are talking many months—and if someone sees a potential closure sign they will not come.

Q79 Chair: Has GE indicated that if this work were brought forward it would lift the threat of immediate closure?

Steve Kerr: No.

Q80 Chair: So we still do not know whether that would happen.

Steve Kerr: No. I believe there have been talks between the Ministry of Defence and Mr Mohammed, the CEO, but I have not been privy to those conversations.

Q81 Mr Francois: That is potentially your lifeline. If you are going to stay alive, you need that brought forward. If it is not brought forward, practically that is the end game.

Steve Kerr: That is the end. The factory will close. If batch 2 is brought forward, that gives us a lifeline and we can rebuild again. As I said, it will also give us work. The American Government are looking at a huge fleet for their future frigate programme—I believe they are looking to build 56 ships, and because of the tight timescales involved, only the Type 26



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motor can fulfil that need. Of course when that comes in it will guarantee the success of the Rugby facility longer term, because that programme would be from 2020 to 2029, and it ends fully in 2048. There is also another US naval programme for large combat ships, and the Type 26 motor is the preferred option.

Q82 Mr Francois: Is the decision on whether to bring forward those engines for the second batch an MoD decision or a BAE Systems decision?

Steve Kerr: It is a Ministry of Defence decision. From what I have heard so far, the Ministry of Defence is saying that it does not have the money for it, and it is seeking funding from the Treasury.

Q83 Mr Francois: Right. But is there no way that BAE Systems could ride to your rescue?

Steve Kerr: No, British Aerospace has been supportive. I believe—I am not privy to the commercial details of this—that in headline terms, British Aerospace and General Electric went to the Government and said, “If you bring forward the long-lead items on the batch 2 of Type 26, that will mean programme continuity and it will keep the Rugby facility open. You will then maintain the UK capability”. But the Ministry of Defence has to find the funding.

Q84 Mr Francois: But BAE is not without influence. Has it backed your campaign to keep it open, or has it taken a neutral posture? Has it talked to your colleagues?

Steve Kerr: I know that talks have taken place between very senior management at British Aerospace and our previous managing director, who decided to leave for personal reasons, shall we say.

Q85 Mr Francois: The Committee is not going to get drawn into any of that, but you could see why, particularly with the Canadian and Australian orders, if I were Charles Woodburn—not that I am—I would want continuity. I would not want anything that put those orders at risk. You could see why the company might have a strong incentive to argue to keep you alive.

Steve Kerr: We had hoped that perhaps British Aerospace would look to acquire us. At the moment, everything is up for sale within General Electric, due to its financial position. The share values were about \$36 and are now down to about \$16. It is in the public domain that the new chairman, Culp, has said that everything is being considered.³

Q86 Mr Francois: Have those discussions really gone anywhere, or is that just a theoretical possibility?

Steve Kerr: Discussions are ongoing with a consortium, whether that is about a joint venture or a complete buy-out. I am not privy to the details of that. We hear some information from our colleagues in France, because

³ Note by witness: The current figure for the shares is \$10.



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they have more access to information under French law than we are able to have.

Q87 Mr Francois: I do not want to sound obsessed with BAE Systems, but they are of a size that could practically buy you. No small firm is going to buy you—maybe a venture capital company might try. Have you had any meaningful discussions with BAE senior management?

Steve Turner: We do meet with Charles and the entire senior management team of BAE very regularly.

Mr Francois: Who is a decent man.

Steve Turner: Absolutely, he is a decent man, and I understand that he has made personal representations to the MoD over this. BAE will be incredibly worried about this, because it is not just about the Type 26 or the 45 or other programmes that BAE are involved in, it is about their relationship with the Canadians and the Australians. They are setting up a joint venture in Australia, of course, so the ships will be built in Australia but they will be utilising Power Conversion equipment from Rugby. That was the purpose of the sale. That was the basis under which this was entered into. If that is no longer the case, and this is now going to be built in France, and not only will it be built in France, but it will be a different motor type, and therefore may need ship redesign, that is not just delays in the process but very costly redesign work in the process.

Q88 Chair: We have to bring things to a conclusion, so I want to sum up and make sure we have got it right. What we are saying is that if this factory closes, there is no way in which the motors for all the future frigates can be produced without significant redesign and extra cost. Therefore, there is no way in which what is done in Rugby can just be lifted up and transferred, even conceptually, to Nancy. But if BAE Systems were to buy the facility, which would at least have the advantage of bringing it back into our sovereign control, they would presumably still be stuck, unless the batch 2 work was brought forward, because there would be nothing for them to do in this specialised respect.

Steve Turner: Yes.

Steve Kerr: Yes.

Q89 Chair: So we have all that. One administrative point. We have been seeking to get the Minister to come in, and seeking to get General Electric to come in. We have a date for both of them, which is 21 May. You have said that 31 May is a key date, as I understand it.

Steve Kerr: Yes, that is when the consultation closes.

Q90 Chair: Okay. Is there any particular reason for urgency that means we should try to insist on GE, at least, coming in earlier? Or are you satisfied that nothing irrevocable will happen between today, 23 April, and 21 May, when we are due to have the company and the Minister in separate panels on the same day, that would mean that we urgently need to try to get them in sooner than that?

Steve Kerr: I think those dates would be adequate.

Q91 **Chair:** Okay. I just wanted to check that we were not going to find that we had missed some sort of deadline.

Steve Turner: It is unlikely that they would be making decisions prior to the closure of the consultation. If we are closing, Chair, I would just refer you to the pack of materials that we produced for you. There is a background briefing there, and there are copies of correspondence between myself specifically in relation to Guto Bebb, who is the Minister responsible.

We confirmed some of the points that were made by the civil servant who responded to Steve Kerr earlier around the business case decision, and saying therefore the Government is constrained—we do not accept that, at all. Our belief is that the deed poll does allow the Government to intervene. In fact, it is paramount that the Government does intervene on national security grounds. It is not just about Type 26—as important as Type 26 is—it is about all that in-service maintenance and retrofit work that goes on, and also future build.

The power conversion equipment is integral to the Type 31e, which is open for export, of course. For the FSS, if the FSS build is to come to the UK, it is integral again, in terms of the power mechanisms for the FSS. There is the US navy fleets, and the US will not be doing deals with France, we do not believe, in terms of the supply of engines or anything else—that will go back to the United States.

That may be all very nice for GE, because GE has a record of closing its facilities. In respect of that, I refer you to appendix D, which has a very nice graphic in it, which explains exactly what has happened to Converteam since GE's acquisition of it in 2011 with numerous sites closing and, of course, earmarking Rugby and Berlin for closure.

There is a very nice graphic there, but behind that there is also two slides, and this is a very large report that was done independently for the European works council. It extends to 140 pages, which you will be pleased to know I have not included in the materials, but I have included three pages, because the other two refer to the argument put forward in the report for the maintenance of the Rugby facility. All of the arguments that we have put forward today were put forward by the independent experts to the European works council.

Of course, those arguments were completely ignored by General Electric at the EWC and have been subsequently ignored throughout the consultation process, so we do not have much belief that GE has interests at heart other than its own. It is often referred to as a finance house, as opposed to a manufacturing company. Over 50% of its profit comes from capital finance, as opposed to manufacturing operations, and therefore perhaps it is restructuring itself, but not necessarily in the interests of UK plc or, indeed, specifically the work that we do to support our Royal Navy fleets.



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All of that is in there. There is a wealth of information in there, some of which we have outlined to you directly today; some of which we haven't had a chance to, of course, but it is all there for your perusal, including some recommendations at the end. We do have, at the end of our brief, some recommendations for Government.

Q92 **Chair:** Any last words, Steve and Ross?

Steve Kerr: On behalf of my fellow employees, I would like to thank the Committee for taking the time to take an interest in this. I urge the Committee to use its best endeavours to hold General Electric and, indeed, any other company to stand by the undertakings that they make when they acquire UK companies. I think we all remember what happened with Cadbury.

As a layperson, I can only reinforce what Ross and Steve have said: the Treasury needs to look at the total cost of a project, not just the price. If Rugby closes, we will have UK taxpayers paying the wages of French workers while also paying unemployment benefit to the British workforce.

Finally, when you meet with management, the question that we cannot understand is "What is the benefit of closing Rugby and moving it to Nancy? We cannot see any logical reason for that. Please explain it." They have been unable to do so to us; perhaps they may be more forthcoming to the Committee.

Ross Murdoch: You opened up on FSS by thanking us for the work that we have done, so just to reinforce what Steve said, we equally thank the Committee for the interest you have taken, not just in FSS but in future shipbuilding procurement. Hopefully some recommendations will come out of this, and hopefully they will be taken seriously. We have campaigned long and hard on this here in Westminster. We have taken it to Scotland, Northern Ireland and the regions. We have won the support of all the main opposition parties; we have just got to convince the Government now.

I could not let the day go by—I will not mention the word—without mentioning the heightened tension over how we leave, or if we leave, the EU. I think there are some real easy wins here for UK plc in terms of jobs. Looking at FSS, we talked earlier about 1,800 direct shipbuilding jobs. If you multiply that with the wider supply chain, you are talking about 5,000-plus jobs. Given we also have GE here, there are some real easy wins. I want to give a big thank you for the interest you take; shipbuilding workers and the communities are watching this with interest, so it is very much appreciated.

Chair: Thank you; it has been an extremely valuable session. We will of course be giving the company and the Government the opportunity to have their say on 21 May. No doubt they will be looking at the transcript of these proceedings very closely so that they can have advance warning of the sort of questions with which they will have to deal.