

Defence Committee

Oral evidence: Procurement Update, HC 2114

Tuesday 21 May 2019

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Members present: Dr Julian Lewis (Chair); Martin Docherty-Hughes; Mr Mark Francois; Johnny Mercer; Mrs Madeleine Moon; Gavin Robinson; Ruth Smeeth; John Spellar.

Questions 93-301

Witnesses

I: Andy Cooper, Managing Director, GE Power Conversion UK Ltd, Rugby, and George Kunder, Chief Operating Officer, GE Power Conversion.

II: Stuart Andrew MP, Minister for Defence Procurement, Sir Simon Bollom KBE CB, Chief Executive, Defence Equipment and Support, Air Marshal Richard Knighton CB, Deputy Chief of Defence Staff (Financial and Military Capability) and Rear Admiral Paul Marshall CBE, SRO Fleet Solid Support Programme.

Written evidence from witnesses:

[General Electric](#)

Examination of witnesses

Witnesses: Andy Cooper and George Kunder.

Q93 Chair: Good morning and welcome to this special session on defence procurement. It will deal with a small number of quite significant current procurement issues. The session will be divided into two. The first 25 minutes or so will deal specifically with the management of GE Power Conversion UK Ltd in Rugby. I invite our two witnesses to introduce themselves. Exceptionally, as I believe you have some good news for us, we have agreed that you should make a short initial statement. Please introduce yourselves and go straight into that.

Andy Cooper: Good morning. My name is Andy Cooper and I am the managing director for GE Power Conversion in the UK and I am based in Rugby.

George Kunder: Good morning. My name is George Kunder and I am the chief operating officer for GE Power Conversion. I am based in Berlin, Germany.

Chair: Thank you. I should also acknowledge the presence of your local MP, Mark Pawsey, who is here today. Who would like to make the opening statement?

Andy Cooper: I will. As the Committee knows, GE Power Conversion announced its global restructuring plans back in December 2017, which covered a number of countries, not just the UK. As part of that plan, a proposal was put forward to close our Leicester Road site in Rugby, which manufactures large electric motors and generators. That closure would have affected up to 197 jobs.

The consultation on the proposal at a local level was delayed until autumn 2018 to allow the site more time to win new contracts, but unfortunately not enough business was forthcoming, so we opened a local consultation on closure in October last year. At the same time, we continued our discussions with the Ministry of Defence, DIT and BEIS, and other customers and stakeholders, to see if a way forward could be found that would keep the site open.

Having personally worked at the site for 35 years, I am very pleased to say that last week, we reached an agreement with the Ministry of Defence that will allow the Leicester Road site to remain open. We therefore closed the consultation yesterday and I informed all our employees.

The agreement with the MoD is focused on bridging the gap between the low volume of work that we see today and expected future orders. While the nature of the agreement is a confidential matter between GE and the Secretary of State, I can inform the Committee that it provides acceleration of the Type 26 batch 2 order to allow us to start manufacturing in January 2020. We expect the order to be confirmed in



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Q1 next year. To achieve that, we will require some level of advance funding. The first part of that is already in place. The second part of the agreement is a package of related work, the scope of which is confidential because it affects operational warships.

Reaching this agreement ensures that the site will remain open and, importantly, key capabilities and skills will be retained in the UK. This is a significant step forwards. It will secure jobs that would otherwise have been lost. Unfortunately, some commercial work will still transfer from Rugby to Nancy in France in order for us to remain competitive. We estimate that approximately 80 jobs may need to be removed. I assure the Committee that GE recognises the value of Rugby and the value of the facility there.

Finally, we would like to thank the UK Government, the Ministry of Defence, DIT, BEIS, Mark Pawsey MP, and members of the Labour party and Unite, the union, for their help in reaching this point. Where we have landed is, in our opinion, in the best interests of the defence industry in the UK, and we look forward to moving forward with the agreed programme of work.

Q94 **Ruth Smeeth:** Hi, and thank you for coming. While welcoming some of the content, I find the timing of your announcement politically quite interesting given your position in front of us today. It seems awfully convenient. Can you tell us how we got to this point, given that people's lives have been left hanging, and given the impact on the workforce and on Rugby? How did we get quite this far, with GE leaving it this long and engagement happened only a week before you were due in front of this Committee?

Andy Cooper: First of all, when this was originally proposed at a European level back in December 2017, we looked at how we could solve the problem in a different way. We took a very proactive stance and we talked to customers and the MoD, DIT and BEIS to see whether a solution to the problem could be found. We first engaged with the MoD in December 2017. We started our discussions with DIT and BEIS I think in January.

In the briefing pack that we shared with the Committee, I think the last page has a timeline of all the various meetings and discussions that we had. They progress right the way through 2018. We had something like eight meetings with the MoD and countless phone calls, and three or four meetings with DIT and BEIS. We have entertained a number of visits from people, including the right hon. Jeremy Corbyn and other members of the Labour party. Mark Pawsey has visited the site at least five times in the last year, all to try to find a solution to a complex business problem. That ultimately led to us reaching this agreement last week. The fact that we managed to sign this agreement last week is purely coincidental with this meeting.

Q95 **Ruth Smeeth:** Of course. Can we step back then? You are saying that Leicester Road will remain open for the foreseeable future. How long is



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that?

Andy Cooper: How long can any business predict that they are going to stay in business? We have a very viable and clear pipeline of work. I would say that we have a pipeline of work that is more visible now than we have ever had in the past. If we look at some of the naval programmes that are going ahead, not just with the UK Navy but overseas navies, including America, we can see a pipeline of work going out into the 2030s, so I am very confident.

Q96 **Ruth Smeeth:** You are confident even with the reduction by 80 of your manufacturing workforce, which leaves you a manufacturing output of 82 that you are retaining.

Andy Cooper: Approximately 80 roles will be removed.

Q97 **Ruth Smeeth:** And about 80 will be retained doing some of this work, so you are cutting your workforce in half.

Andy Cooper: Close to, yes.

Q98 **Ruth Smeeth:** What about the sustainability of the site in terms of skillset, given that your workforce will be cut in half? Is that feasible?

Andy Cooper: The Rugby site is effectively two sites. We have 625 people across the UK involved in a variety of industries, and then of course we have that manufacturing facility as well, so we are talking about 12% of the total UK—

Q99 **Ruth Smeeth:** We are talking about the long-term viability and sustainability of the Rugby site. You are removing 80 of the workforce. You will have to forgive my cynicism; it is just that I had the Kidsgrove site in my constituency, which you closed, promising that work would be redeployed, some of it to Rugby, and some of it to Berlin. It is now being moved from Berlin to France. There seems to have been no continuity of workforce planning in the past three years. I would like reassurances about the long-term viability of the site.

Andy Cooper: I can reassure you that we are refocusing the business at Leicester Road. With some of the commercial work that we have done in the past, we have struggled to compete, and we are not the only company; we have seen one of our competitors move manufacturing to the Czech Republic. We are very good at building the sort of speciality machines that few companies are able to build. That is how we have managed to get ourselves into this world-leading position with naval propulsion machines. Our focus for the future will be more on those specialist, large machines, and innovation.

Q100 **Ruth Smeeth:** GE has had to sell significant parts of its UK businesses in the last 18 months, including, I should declare for the record, my soon-to-be ex-husband's; he worked for part of GE. Is Power Conversion up for sale?

Andy Cooper: I don't know whether you want to answer, George, but this is speculation in the press.



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George Kunder: There has been speculation in the press about the sale of Power Conversion for 18 months or two years. GE continuously evaluates the portfolio, but for now, it is all speculation.

- Q101 **Ruth Smeeth:** You will understand why many of us would be concerned, when we are talking about long-term sustainability, about the promises that you are making about the pipeline, if there is the potential that GE will not be responsible for some of these contracts.

George Kunder: We understand. To add a little to what Andy said about the sustainability of the site, fundamentally, what we have agreed to still aligns with the broader global strategy that Power Conversion embarked on a few years ago to address systemic overcapacity in our manufacturing and in our production facilities around the world, and to refocus our portfolio around a couple of key market segments. What we agreed to on the Leicester Road facility is still maintained in that strategy, and it has allowed us to refocus the site so that it is a naval and special machine factory. That retains the skill sets and capabilities needed to execute on those production machines, but allows us to address our global overcapacity issue.

Ruth Smeeth: I have several more questions, but I'll get lynched by my colleagues if I go on.

- Q102 **Chair:** Before I bring in Johnny Mercer, may I get one point clear? Has it been your position all along that you would have stayed open to the extent that you are intending to stay open if this Type 26 business had been brought forward in the way that it now has been?

Andy Cooper: A number of things have changed since the original proposal in 2017, not just to do with batch 2. The success of BAE's global combat ship with Australia and Canada is a key change. Also, President Trump's US shipbuilding policy helped to give us visibility; Type 26, batch 2, added to that.

- Q103 **Chair:** What I am trying to get at is: did the MoD offer you the opportunity to do this business earlier, in the way that it now will do this earlier? When did it first make that offer to you? Or was it willing to bring this work forward all along?

Andy Cooper: As I said earlier, we have been engaged in discussions with the MoD since December 2017. One of the conversation topics has been around whether it is possible to accelerate batch 2. Then there has been a lot of discussion of the business case around that, the value for the taxpayer, whether it makes sense—

- Q104 **Chair:** We do not have a lot of time; we don't need to embroider it. All I am trying to ask is when the MoD first offered to accelerate the batch 2 work.

Andy Cooper: In terms of an offer, that is going back a few weeks and months, but ultimately it all came together in an agreement that we signed last week. Until the agreement was signed, it was not clear whether it would be acceptable either to Government or to GE.



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Q105 **Chair:** But had it always been your position that if they brought forward this work, you would be more likely to keep the factory open? If so, when did they confirm that they would be willing to accelerate this programme?

Andy Cooper: The MoD has been open to looking at this for some time, but it needed to come together into a final agreement that resulted in a business case that could be taken to the Minister to get approval.

Q106 **Chair:** Right. So it is not that the MoD has refused to consider bringing this work for some considerable time.

Andy Cooper: Absolutely not. The MoD has been engaged and we have had positive discussions for the 17-month period.

Q107 **Johnny Mercer:** George, I think you answered a question from my colleague Ruth about whether GE Power Conversion was up for sale. It is quite a straightforward question: is it up for sale or not? You sort of said that it was speculation and you are re-evaluating your business, as every business does in this country on a daily basis. It is quite a simple question. Is it up for sale: yes or no?

George Kunder: No.

Q108 **Johnny Mercer:** Thank you very much, that's very helpful indeed. What will happen if the Type 26 order is not confirmed in the first quarter of 2020? What will the knock-on effect be for you?

Andy Cooper: The agreement we have reached is very clear on timing. As I said, we have the first order already, to allow us to start ordering components to start manufacturing in 2020. We have absolutely no reason to believe that the times agreed in that agreement will alter. We have certainly acted on that agreement; that is why we closed consultation yesterday and told everybody.

Q109 **Johnny Mercer:** Obviously I do not anticipate this, but what are the potential outcomes of it being delayed? What are the possibilities? Obviously we do not want it to be delayed, and we do not want that Type 26 order not to be confirmed, but what would happen if that did happen?

Andy Cooper: I think the key thing is that the UK Government have stepped in to support British industry, have done the right thing for the defence industry and have made clear commitments about the timing of the order. It is clear to us that—

Q110 **Johnny Mercer:** Okay but I am asking you to entertain the possibility that the Type 26 order is not confirmed. I understand what Government are doing and what the intention is. Separate from that, what would happen if the Type 26 order was not confirmed in the first quarter of 2020?

Chair: Would the future of the site be at risk again?

Andy Cooper: No. We have said clearly now that the consultation is closed. We have told everybody that the site is staying open. If something were to go wrong with this agreement, clearly that would be an issue and



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we would reassess the business and look at other work that we are doing. As far as the site is concerned, the future is clear.

Q111 Johnny Mercer: Brilliant, thank you. How much preparation do you need to be ready for the Type 26 work?

Andy Cooper: We are already manufacturing the first batch—we have already built the first two ships, pretty much. We still have some of the motors in the factory and some of them are on a land-based test facility. This is very much a cut and paste of what we have already done.

Q112 John Spellar: Taking the naval part that will be basically what the site will be doing, once you have completed that process, how much of the work in the factory will be classified?

Andy Cooper: The naval work that we do for the Royal Navy is all classified, with varying degrees of certification—some of it is official sensitive, some of it is secret and some of it is UK eyes only. We will do other work there as well. It will not be just about Navy; as I said, we will be focused on some speciality machines in certain niche markets that we see opening up and that are attractive to us.

John Spellar: But most of it will probably be classified.

Andy Cooper: A good portion of it will be Navy work.

Q113 John Spellar: You also mentioned earlier the very welcome success with orders in Canada and Australia and the potential with the US navy. All those are Five Eyes countries of intelligence.

Andy Cooper: Correct.

Q114 John Spellar: Is it not extraordinary to want to move work of that classification out of a UK environment?

Andy Cooper: We have to remember the global situation that we were in. There was a downturn in the oil and gas market, and the commercial marine market had collapsed—there was a 50% overcapacity in shipping. Those were very much markets that we were involved with. At the time of this proposal, Australia and Canada were not visible—the timelines were not visible—and the US shipbuilding policy had not been produced. Quite honestly, we had seen Type 26 batch 1 being delayed, and we had entered into a prolongation agreement on that. The timing around batch 2 wasn't clear and we suspected that we wouldn't get our orders until 2022, or maybe beyond that. We therefore started thinking about how, faced with that reality, that work could be transferred to another unit.

Q115 John Spellar: But it has been quite clear for some time. The Australian deal was signed several months ago, and Canada's was signed shortly thereafter. It seems slightly strange, given the very specialist and secret nature of it—with good reason; it is such good kit—that you would move it out of a Five Eyes-classified environment.



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Andy Cooper: That was one of the key developments since the original proposal—the timing around those and BAE's success with those two programmes.

Q116 **John Spellar:** Doesn't that run counter to the deed poll that was signed between the company and the Ministry of Defence when the company came into GE ownership, which said that no transfer or disclosure by whatever means of UK-protected material should be made outside the UK companies or outside the UK?

Andy Cooper: This would have been one of the challenges that we would have discussed with the Ministry of Defence and our prime contractors had this agreement not have been reached.

Q117 **Chair:** You say that it would have been discussed, but, with respect, you had signed a legally binding agreement that said that all this classified work and material had got to be in the UK. We haven't time to go into all the rest of it—it is all about security clearances for staff. You were proposing to close the factory, take all that and put it down in Nancy, where there were significant security issues, to put it mildly. That would have been a breach of the agreement, wouldn't it?

Andy Cooper: No, it wouldn't have been a breach of the agreement.

Q118 **Chair:** Why not?

Andy Cooper: Because the agreement was clear about the conditions that we were obliged to comply with, one of which was maintaining the capability. We always anticipated that the design would remain in the UK. The IP would remain in the UK, in accordance with the deed poll. What we were talking about was manufacturing the machine in Nancy. Had we gone ahead with this, we would have had to have complied with the various cyber-security and security regulations that the MoD would insist upon. That includes how drawings were managed on the shop floor as the machines were made to ensure that the security was not breached.

Q119 **Chair:** I'm sorry, but the deed poll says that there will be no transfer or disclosure by whatever means of UK-protected material.

Andy Cooper: Correct.

Q120 **Chair:** Are you saying that no protected material would have been transferred to Nancy?

Andy Cooper: Correct. That's right.

Chair: Okay. It will be interesting to see what the definition of that is. Any more, John?

John Spellar: No.

Q121 **Martin Docherty-Hughes:** You talked earlier about the 80 jobs that were lost by moving commercial work to Nancy. Are you able to redeploy them at all? Could you also say a bit about how you define commercial work, which John spoke about earlier? Does it include anything defence-related



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or classified?

Andy Cooper: In terms of redeployment, we would of course look to see whether we could redeploy staff to other GE units or assist them in getting jobs elsewhere. We have already transferred 20 people to other GE units around the Rugby area.

Q122 **Martin Docherty-Hughes:** Is that out of the 80?

Andy Cooper: No. It is out of the original 197.

Q123 **Martin Docherty-Hughes:** I assumed that you would have done the work to redeploy them by now.

Andy Cooper: No, we will continue to do that. There are something like 400 open positions in GE businesses in the UK. We will continue to support our employees if they are suitable for those roles. We also work with an external outplacement company that comes in and helps them write CVs and fill in job applications, and organises job fairs. We got those in last week to start with an introductory meeting with anybody who was interested, to understand what services they offer. This is something we have done in the past.

Q124 **Martin Docherty-Hughes:** And about the commercial work? Is any bit defence-related or classified?

Andy Cooper: No. It is oil and gas-type applications—generators for offshore production units, or other oil and gas-type applications. Maybe commercial marine, such as generators that you see generating power on an LNG tanker, for example.

Martin Docherty-Hughes: Thank you.

Chair: I have got Mark, and then Ruth to wind up.

Q125 **Mr Francois:** We were told last month that more than 70 people had left the company recently because of the uncertainty about your future. What are you doing to get them back, and/or to replace the skills and experience that have walked out the door?

Andy Cooper: We recruit apprentices into the company to build the skill base. We are very fortunate that we are located directly opposite the technical college in Rugby. As a former apprentice, I trained at that college. It was in a different location then, but that is how I came into the company. My job as the managing director, now we have reached this agreement, is to grow the business, focusing on the specialised machines. Hopefully, some of the 80 people who, unfortunately, we need to let go will come back into the business at some point in the future.

Q126 **Mr Francois:** Very quickly, Mr Kunder has given a direct answer to my colleague Mr Mercer's questions, saying that the business is not up for sale. That will be reassuring. If that is the case, what is the most positive thing that you can say to this Committee and all the employees—and, indeed the Royal Navy—who rely on you about the future of your company and the Rugby site?



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Andy Cooper: Having been there myself for such a long period of time, I am incredibly proud of the things that we do and the position we have got ourselves into in the naval business. We produce the world's leading electric propulsion motors, not just for the Royal Navy but for other navies, including the US Navy on their new Zumwalt-class DDG-1,000 machines. It is extremely positive that so many navies around the world want to come and talk to us. As far as I am concerned, the future of the Rugby site is extremely positive, not just for the factory that manufactures machines, but also for the engineering officers involved in our other industries.

Q127 **Mr Francois:** So you believe the future is set fair for Rugby?

Andy Cooper: There are tremendous opportunities for us in the UK in the markets that we serve.

Q128 **Mr Francois:** You have had tremendous support from your local MP; we all know that. Lastly—then Johnny may have one more—are you bidding for the fleet support ship contract, and if that is awarded, do you get that work whoever wins it, or do you only get work if the UK consortium gets it?

Andy Cooper: We are bidding for the FSS programme, and I very much hope that we will be the provider for the electric motors, and that we will build them in Rugby.

Q129 **Mr Francois:** Is that on all the different consortia, or are you only part of the UK bid?

Andy Cooper: That is a commercially sensitive discussion that I wouldn't want to entertain in this open forum, but we are bidding in the programme, absolutely.

Q130 **Chair:** Can I confirm another point? If you had moved this work to Nancy, you wouldn't have been able to provide engines on the same specification as you are providing now, would you? There would have had to be a change in the type and size of the engine, and the UK would have no future capability to make large engines for naval shipping, would it?

George Kunder: On our strategy with moving the work to Nancy, we would have been able to deliver an equivalent machine that would be produced today. The reason that I am able to say that is because the original timing of the delivery of the batch 2 Type 26 motors was far enough into the future that it would have allowed us to transfer the capability and know-how to Nancy, and to get the appropriate permissions and qualifications from the MoD, BAE and other customers to be able to support that. What has changed is now the timing of batch 2 has accelerated. That does not require us to make that change, but—

Q131 **Chair:** You said it would have been an equivalent engine, in the sense that, once built and fitted, it could do the same job, but it would have involved considerable redesign to the frigate, wouldn't it?

George Kunder: No.

Andy Cooper: No.

Q132 **Chair:** Weren't the dimensions different?

George Kunder: No.

Andy Cooper: No. I understand where you are going, because in the previous meeting there was some discussion about the vacuum pressure impregnation tank. In Nancy they have VPI tanks for their machines. We have tanks in the UK. The Type 26 motor that we design and build in the UK would fit inside the tank in Nancy. However, the motors that we have made for Type 45 and the QEC aircraft carriers are larger than the tank in Nancy, so we would have had to have procured a new tank and installed it in Nancy so that we could manufacture the identical machine.

Q133 **Chair:** Ah. So it is not the case, as we were told in a previous hearing, that because of the different technology that the French were looking to employ, it could mean a larger motor, and the whole design of the ship would have to change to accommodate the larger size.

Andy Cooper: No.

Q134 **Chair:** That was never going to be the case.

George Kunder: That was not the case.

Chair: Okay. We will take it as that.

Q135 **John Spellar:** Mr Cooper has given us a positive view of the future of the site. Mr Kunder, is that view shared by you and indeed by GE corporate?

George Kunder: Yes, it is, very simply and directly. I say that because what we have been able to achieve here in the last week and formalise with MoD is a rejuvenation of the facility. The site will be converted into a naval and UK service shop that is going to be very focused, and it matches well with our future strategy around getting our footprint to be the right size for the broader global business. I am quite pleased with the result. We are happy about that.

Q136 **Ruth Smeeth:** A final question, Mr Kunder, on your answer about whether Power Conversion is up for sale. Bloomberg is reporting that it is up for sale for \$1.5 billion, which would be half what you paid for it in 2011. Are you categorically saying that that is not true?

George Kunder: What I am saying is that there has been speculation in the global press for the last 18 to 24 months about Power Conversion, just as there is a lot of speculation about other GE businesses. We are evaluating different options, but nothing has been formalised and no decisions have been made. Our main focus right now is to continue on with our overall business transformation at the Power Conversion level within GE. This decision with Rugby is part of that. It is different from what we proposed, for sure, but we also feel that where we are going now is fully aligned with our transformation strategy. In the background, we continue to evaluate all the options available—



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Ruth Smeeth: That is not quite the “no” you gave us earlier on, but thank you very much.

Chair: Thank you. That concludes the session. I thank you both, gentlemen. We will now change over to the next panel.

Examination of witnesses

Witnesses: Stuart Andrew MP, Sir Simon Bollom KBE CB, Air Marshal Richard Knighton CB and Rear Admiral Paul Marshall CBE.

Q137 Chair: Welcome to the new panel of witnesses, including the Minister. The running order will involve a couple of brief questions about the A400M and the Wedgetail procurement. We will then have a few more questions about General Electric and Rugby, and will then proceed to the fleet solid support ships issue. Please briefly introduce yourselves.

Air Marshal Knighton: Air Marshal Richard Knighton. I am Deputy Chief of Defence Staff, military capability.

Stuart Andrew: Stuart Andrew, Minister for Defence Procurement.

Sir Simon Bollom: Simon Bollom, chief executive, Defence Equipment and Support.

Rear Admiral Marshall: Rear Admiral Paul Marshall, senior responsible owner for Type 31, Type 26 and fleet solid support.

Q138 Mr Francois: Minister, as a warm-up we have a quick-fire round for you on the A400M. In February 2019, I tabled a number of parliamentary questions on the programme. From that, we know that the Ministry of Defence are ordering 22 A400Ms, all of which I think have now been delivered to Brize Norton, or have nearly been delivered. The procurement cost of those 22 aircraft was £2.6 billion, and the total cost over the life of the programme is estimated as being £6.7 billion. I take it you are not contesting any of that?

Stuart Andrew: No, that is correct.

Q139 Mr Francois: Good, so we start on the same page. Of those 22 aircraft, on average how many are operationally available at Brize Norton on any one day?

Stuart Andrew: Can I say that I welcome the Committee's interest in this? I have a partner nation meeting in a couple of weeks' time. As you know, this has been a challenging project, and the interest of this Committee will be useful for me to lay it on thick to industry, because, frankly, availability has not been good enough.

Q140 Mr Francois: We are happy to oblige. The question is: how many?

Stuart Andrew: At the moment, there are five in retrofit, because some of these were the earlier models that were produced. Two or three are in maintenance, so there are 13 aircraft, but six of them are serviceable. You will, of course, be aware that considerable pressure has been put on Airbus to improve the availability of these aircraft. The main issues include the engine gearbox, the engine itself and the heat detection systems.



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Of the 20 aircraft we currently have—the other two will be delivered in 2020 and 2021—16 will be improved with those systems. That will involve a six-month period. The other issue is the electronic data system, and that has been an availability issue. We are hoping that by the end of 2019, seven or eight aircraft will be available.

Q141 **Mr Francois:** Right. There is a point here about terminology. You said that six were serviceable out of 20. That is less than a third. With respect, I did not ask how many were serviceable; I asked how many were available. How many are available on an average day at Brize Norton?

Sir Simon Bollom: At the moment, they are working on the basis of four task lines, and between six and seven aircraft support those four task lines.

Q142 **Mr Francois:** How about if I tell you that I have it on very good authority that, on any average day at Brize Norton, two are actually available and able to fly? Two out of 20, or 10%. Isn't that a disgrace?

Sir Simon Bollom: I do not recognise the two. I have the statistics over the past six weeks—

Q143 **Mr Francois:** I have that from engineering aircrew who work on the aircraft, Sir Simon. Presumably they know what they are talking about, because they service the aircraft, don't they?

Secondly, how long does it take from cold to start up the aircraft? As you say, it has a very complex computer system. Minister, if you start it from cold, how long does it take to prepare the aircraft for flight?

Stuart Andrew: Personally, I do not know the answer to that question.

Sir Simon Bollom: Neither do I.

Q144 **Mr Francois:** You don't. Does anyone know the answer? On average, it takes three hours, because of all the problems and complexities of the computer system, which Airbus has never fixed, despite years of trying. Three hours to get the aircraft in the air. Airbus has lost a vast amount of money on the aircraft, and has still not got it right. Have you ever attempted to recover liquidated damages from the company because of the aircraft's chronic unavailability?

Sir Simon Bollom: The liquidated damages clause in the contract applies to late delivery. In terms of aircraft availability, we do not have an availability service with Airbus, as I am sure you know, and therefore claiming liquidated damages against a contract that isn't there is not what we can do.

Q145 **Mr Francois:** So we have no legal recourse. The aircraft can be delivered on time but not work, and we have no legal comeback.

Sir Simon Bollom: We do not have an availability service on this aircraft. That is not untypical of the way we have procured aircraft in the past. We have got an unstable technical baseline with this one. As the Minister has



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pointed out, aircraft are going through a retrofit programme. We have separate support arrangements to the procurement contract.

Q146 **Mr Francois:** I promised the Chair that I would be brief, so I have only a handful more questions. The Committee often gets quite irritated that on the one hand, the MoD permanently pleads penury, but on the other hand, it spends vast amounts of taxpayers' money from a very tight budget on kit that does not work properly. Why have you spent £2.6 billion on an aircraft that is about 10% available? Why did you do that?

Air Marshal Knighton: Shall I take that, Minister? What the Government decided in the 2000s was that we were going to extend our air transport fleet, and A400M was the product that we went for, alongside sustaining the C-130s and the C-17s. You may recall that back in the 1990s, when C-130J first came into service, it had very similar problems to what we have seen with the A400M. We had problems with its ground maintenance system and some of its maintenance manuals, and some of the stuff didn't work. So the point you make is absolutely right—that the performance we are getting out of this aeroplane is not acceptable, is not sufficient and does not meet our requirements—but I think there is good evidence to suggest that the situation is going to improve, and I am confident that this aircraft will prove to be world-beating. We would like it to be world-beating today, but more work has to be done on it.

Q147 **Mr Francois:** Is it true that pilots on the A400M squadron are attempting to transfer to the C-130J or the C-17 squadron, or to leave the Royal Air Force, because they rarely get an opportunity to fly?

Air Marshal Knighton: I am not aware that that is true at all, no.

Q148 **Mr Francois:** Well, I think it is, because a pilot told me.

So, £2.6 billion from a hard-pressed Defence budget on an aircraft that is, in my humble opinion, a total dog. What are you doing to put it right?

Stuart Andrew: May I say that I have had contrary conversations with many of the pilots. They actually recognise the ability of this aircraft, when it is working properly—

Mr Francois: That is the whole point—

Stuart Andrew: Absolutely, and I get that. That is exactly why, as I have mentioned, we are having a partner nation meeting. There is a plan in place, and we are starting to see improvements in it, but we need that to speed up so that we can rely on this.

The pilots I've spoken to have said that the aircraft has great capability. It has supported operations, particularly in terms of the hurricane in Mozambique. It has been able to land in very difficult circumstances. They do recognise the ability of this aircraft and are quite pleased with it. What we have got to do is put pressure on to get the availability better. Now, by the middle of next year—

Q149 **Mr Francois:** Minister, there is a difference between the theoretical



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capability of something and what it can actually reliably do. They may theoretically be highly capable, but most of the time they are unavailable. The computer system doesn't work properly, and there are issues with the gearbox, as you have already mentioned. Can we please learn lessons from this ridiculous procurement and, hopefully, do a better job next time than we have done on this? Can you at least give us that assurance?

Stuart Andrew: Of course—absolutely. This has not been a project that has been easy to handle. It is presenting a lot of difficulties, but I want to make it clear that there is a plan in place to make the changes that we need to see and to improve the availability of the aircraft. Certainly, by the end of this year, we will have seen an incremental improvement and, by next year, even more improvement.

Chair: Martin, very briefly. You wish to come in now.

Q150 **Martin Docherty-Hughes:** I know you won't be able to answer this straightaway, Minister, but you might want to write to the Committee. Over their lifetime, these planes will need to be repainted, I assume. Most systems for controlling corrosion in military aircraft use an organic coating system, which of course includes hexavalent chromium. Could you write to the Committee explaining why we might still be using that material, and whether it will be used in future for these aircraft? That will be much appreciated.

Stuart Andrew: I will certainly undertake to do that.

Q151 **Chair:** Is there any last word on this?

Sir Simon Bollom: I would like to reinforce that this is not just a hope that the availability improves. The computer system that you referred to is the off-board maintenance data system computer, not the aircraft itself. It is true to say that that is an essential interface with the aircraft and it has not worked properly. That means that the ground crew have to use a paper-based system, which is one of the causes of the unavailability for operations. Those problems will be fixed by the end of October.

A number of the modifications will be embodied by the end of this year. I am very confident—I am quite happy to come back on that—to say that the availability of these aircraft will have improved by the end of this year. I do not accept that it is a dog. I have got some availability statistics, Mr Francois, which I would be happy to share with the Committee.

Chair: Perhaps you would like to reflect on various lines of questioning we have had today and write to us afterwards. We will duly publish that correspondence. Let's move on to Wedgetail. Gavin, please.

Q152 **Gavin Robinson:** Good afternoon, Minister. You know that we have been in dialogue with you quite considerably around Wedgetail and the concerns of the Committee around single-source tender. Could you indicate to the Committee why, as procurement Minister, you are paying Boeing to buy their own aircraft second hand, rather than procuring them yourself?



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Stuart Andrew: The reason for that is that it became an opportunity for us to have these two aircraft, which means we can get on with the acquisition as quickly as possible. There is an urgent need for this. Last Thursday, I was at RAF Waddington and met crews on the existing flights that we have. It is clear that this is a platform that really needs updating to support our armed forces and improve the capability that we have.

Those two aircraft that are available are still under negotiation, I should say. There is a limit to what I can say about the purchase of those two, but it is so that we can get on with the process of procuring them quickly.

Q153 **Gavin Robinson:** It would be incongruous if we were paying Boeing to pay this price that we could pay ourselves.

Stuart Andrew: As I say, the negotiations are still going on at the moment.

Q154 **Gavin Robinson:** But you will bear that in mind.

Stuart Andrew: Of course.

Q155 **Gavin Robinson:** How confident are you that modification will take 24 months?

Stuart Andrew: Very confident. We have gone through a rigorous process with Boeing to test this. It will be very thorough, but we are very confident that it can be delivered in the 24 months.

Q156 **Gavin Robinson:** What is the difference between modifying new aircraft and the second-hand 737s? Is there a timescale for those?

Sir Simon Bollom: It will be pretty much the same. As part of the process, Boeing will take these aircraft in and give them a thorough overhaul—a C check—and restore them to the same configuration baseline as the rest of the fleet.

Q157 **Gavin Robinson:** Sir Simon, you knew the Minister knew that answer; he could have given it to us himself.

Sir Simon Bollom: I was just giving some support.

Q158 **Gavin Robinson:** Minister, as I referred to, this Committee have had difficulty around this contract. When you were before us on 6 November last year, you indicated that, in your meeting with the president of Boeing International, you had stressed the need for UK content and benefit for the UK supply chain. Why are we relying on the good will of Boeing to deliver that?

Stuart Andrew: I do not accept that we are just relying on good will. There is a tremendous amount of work going on to hold Boeing's feet to the fire to make sure that they are doing everything they can to maximise the opportunities for the UK supply chain. Very recently, 40 UK businesses went over to the United States to get significant training by Boeing in how to compete in many of the competitions they will be running.

Q159 **Gavin Robinson:** With respect, Minister, that is a generalist approach



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across the whole panoply of their products. We are talking about this single-source contract and the consternation that this Committee has had about the way it was entered into, and about the firm commitment that there would be UK content and benefit for the UK supply chain as part of it. On 25 April, you wrote to the Committee: "Sub-contract competition will be maximised and Boeing are already actively engaged". What have we learned so far?

Stuart Andrew: These sorts of contracts are still ongoing at the moment in terms of what is being bid for, but we have seen a significant announcement in terms of the work that will be going on at Marshall, and I expect to see benefits equal to, if not greater than, those we saw with the P-8. That has brought significant investment to Lossiemouth; we have seen the support network that will be available up there. In addition, we expect that Marshall will benefit from future exports that they will make for other countries.

Q160 **Gavin Robinson:** Minister, I do not intend to go into specifics, and you and I have both had the opportunity to have private conversations about aspects of this contract. Do you agree that he who pays the piper calls the tune?

Stuart Andrew: Yes.

Q161 **Gavin Robinson:** Will you commit to this Committee that, as the negotiations proceed, you will be robust in defending UK interests, defending UK industry and ensuring that the UK benefits when we are spending our taxes on this contract?

Stuart Andrew: I will not commit that I will be; I already am. I make sure I meet regularly with—

Q162 **Gavin Robinson:** But it is a work in progress.

Stuart Andrew: It is a work in progress, absolutely. This is an ongoing dialogue; it is not just a one-off.

Q163 **Gavin Robinson:** And Boeing should be in no doubt as to your position, as the person who is paying the piper.

Stuart Andrew: Boeing were left in no doubt in the meeting I had just last week.

Gavin Robinson: Thank you.

Q164 **Mrs Moon:** I have two questions. When you were here before and we discussed Wedgetail, we pointed out that the production line had stopped on building this particular aircraft. You said that was not true and that it had not stopped. Why are we now having to buy second-hand 737s for modification if the production line is still in place?

Stuart Andrew: That line is fully operational. This is just providing us with an opportunity to get these aircraft, which we need urgently, quicker. I will bring in the Air Marshal, who perhaps can expand.



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Air Marshal Knighton: Just a couple of things. I think we got ourselves slightly confused about the definitions of the production line when we came to you before. The production line for 737 Next Generation—NG—aircraft is continuing. That has not stopped. The modification of those aircraft to turn them into E-7s is something that has not been done for several years, but, having done it several times before for several different customers, we have a great deal of confidence in the ability of Marshall in the UK—in Cambridge—to do that work with Boeing and Northrop Grumman to deliver the capability on time.

Q165 **Mrs Moon:** I see. The production line to do the modification has not been in production for seven years, so, clearly, nobody has been buying this for seven years.

Air Marshal Knighton: I said several, not seven, years.

Mrs Moon: Okay—for several years, then.

Air Marshal Knighton: The modification has not been done on 737s to turn them into E-7s for several years. As I said, we are confident, because it has been done multiple times before, that we understand the situation. The design of these modern aircraft is all done in three-dimensional models using computer-aided design. With modern technology, it is much easier than it used to be to ensure that we are able to implement modifications that have been done previously. We are very confident in the ability of Marshall, with Boeing and Northrop Grumman, to deliver on time.

Q166 **Mrs Moon:** You are aware that this Committee is not happy or confident in this decision, and we will monitor this closely. Given what we just heard in relation to the A400M, it could be said that you do not have the best history in this area, so this will continue.

Can we have from you a rundown of the value of all contracts currently held by Boeing with the Ministry of Defence, and the value of offset work on each contract? Can we have that updated on a bi-monthly basis please, given you say you are in these very confident negotiations with Boeing? Quite honestly, many on this Committee think this is a rip-off company that is ripping off the British taxpayer. We are not happy and not confident in the quality of its promises. Can we be given regular updates that might hold its feet to the fire in relation to offset, so that it does not carry on its current practice of ripping off the British taxpayer?¹

Stuart Andrew: I am happy to provide that to the Committee. I have always tried to answer any correspondence that we have had from the Committee. There are certain things that I want to try to get across, as a starter, and that I want to see even more—that is a message I continually put across to Boeing. Boeing invested over £250 million in the UK on infrastructure alone in 2018. That is 22 times more than it did in 2016.

Q167 **John Spellar:** What do you mean by infrastructure?

¹ The MOD does not use offsets as these are illegal under EU/UK procurement rules.



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Stuart Andrew: We have the stuff that is going off up at Lossiemouth.

Q168 **John Spellar:** Of course, but any contractor would have to build that in Lossiemouth. That is not new capacity or particular manufacturing—it is a maintenance facility that it has to have. This is double counting.

Stuart Andrew: If I could carry on, I was going to say that we now have the factory in Sheffield, which is the first that the company has in Europe. The company now has the most advanced hangar anywhere in the world at Gatwick and, as I say, the strategic facilities for the new P-8s up at Lossiemouth. We know it has added at least 600 direct jobs to the UK over the last four years and directly employs 2,400 people today.

Q169 **John Spellar:** Where?

Stuart Andrew: All over the country.

Q170 **John Spellar:** By new venture or by acquisition of existing capacity?

Stuart Andrew: Those are directly—

Q171 **John Spellar:** New or just taking over companies and taking over responsibilities, but not bringing in new work?

Stuart Andrew: I will have to double-check that because I would not want to give the wrong information. It has also been independently verified that it supports more than 75,000 jobs in the UK. That said, I recognise the importance of ensuring that there are maximum opportunities for UK industry. That is why we are working with UK industry, so they can take on those opportunities. Also, we want them to be competitive enough to be able to win many of those contracts.

Q172 **Mrs Moon:** How can they be competitive when you are doing single-source contracts and there is no competition?

Stuart Andrew: I think we explained that this is about the capability and availability.

Q173 **Mrs Moon:** But you prejudged! You have already decided—it does not matter what anybody has.

Stuart Andrew: A deep analysis was made of what is available for the work that the E-7 will be doing. There was nothing that was tried and tested that was able to match it, and it is an urgent requirement. When I was at RAF Waddington last week, I met a member of the aircrew who had just come back from serving with the Royal Australian Air Force. He was of the view that we have certainly made the right decision, because he has flown on the E-7. He has seen its capability and contrasted it with what we have at the moment.

It is not an easy decision to go single source, and it is further down the list where we choose to do that, but it is only because no other viable option was there for us to use, given the capability that is needed. At the end of the day, our responsibility is to provide the right equipment for our Air Force.



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Q174 Chair: I don't think we want to go too far back into history, but I remind you gently that we had representations from Saab, for example, who had an alternative system. Their complaint was not that they did not win, but that they never felt they were truly allowed to compete. I remember them saying to me at the time that their feeling was, "If you're not going to let us compete properly, for goodness' sake tell us and we won't waste our time." There was an awful lot of feeling that the thing had been sewn up for Boeing before the process got under way. You have got to try to dispel that perception.

Stuart Andrew: I understand that completely. What I think I spoke about at the time, and what I spoke about just now, was proven capability. The plan that Saab came up with was for two radars on the aircraft—that was the platform they were suggesting. That has never been done before. Just as with the A400M that we were talking about, we do not want to find ourselves in a situation where we have to spend more and more money because we are trying to make something work that has not been proven, given the urgency of the capability we need.

Q175 Mr Francois: The E-7 does work; the A400 doesn't.

Stuart Andrew: That is my point. The E-7 does work. The Australians have gone through the pain of getting it to the position it is in now. That is why, broadly, it is more of a benefit for the UK taxpayer and, more important, for our armed forces.

Chair: The last question on this topic comes from Ruth.

Q176 Ruth Smeeth: This would not have been an urgent contract if we had had the steady drumbeat of orders that this Committee has been arguing for for over a decade. We knew years ago that the E-3 needed to be replaced, yet that was delayed and delayed and delayed. That does not work as an argument, because if your predecessors had actually started the process, we would not have had this urgent need for something that I'm not convinced will even arrive in 24 months—we will see.

What I do not understand about your argument, Minister, is what you say about all the new jobs that Boeing has delivered or is delivering. Let's be clear: if anyone else had been awarded it, there would be new jobs associated with the new contracts. Just because it was Boeing does not mean that Boeing has invented new jobs and brought new contracts here that someone else would not have brought. That is another argument that is not valid.

Stuart Andrew: Of course people would have benefited whoever we had gone through, but we are trying to maximise the potential for the UK industry in the supply chain. I cannot speak for my predecessors about why they did not update the existing aircraft, but one observation that has been made is that those nations that have done that do not now have the sort of capability that the E-7 will be able to provide us with.

Q177 Ruth Smeeth: But by your own admission, you would have been using a better capability for the past three years, so I am not sure that that is an argument. If, instead of the cuts in SDSR 2010, you had actually invested



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when you should have done, you would have had this new capability on the ground already. It would have been manufactured at the same time as the Australian model, it would currently be flying and we would not have the issue that we have in terms of capability with the E-3. We would also have gone out to competition and other companies could have seen what capabilities they could have developed. This would have been a normal contract.

I do not understand why Boeing, especially with the P-8 and Wedgetail, seems to be exclusively getting single source, when that is not the case for everybody else, including, as we are about to talk about, with the fleet solid support ships, where we cannot even implement our own policy in terms of ensuring British jobs for British businesses. This is absurd.

Stuart Andrew: I go back to the point that it is about the capability that is available. The decision that I have had to make and that we have had to make as a Department is what capability exists—what proven capability exists. The only real, viable option that was proven was the E-7.

Q178 **Chair:** We must move on to General Electric in Rugby. Minister, you referred, quite rightly, in your earlier remarks in this other context that we have quite a lot of correspondence going back and forth between the Committee and yourself. We appreciate the promptitude with which you reply to our inquiries. But you will know that when it comes to GE and the proposed move to Nancy, that correspondence, as I recall it, seemed to be rather accepting of the fact that it was going to happen. Luckily, and by happy coincidence, it was announced just yesterday—24 hours ahead of this hearing—that we have a deal and a good outcome, and the Royal Naval part of the business has been secured, largely because of the acceleration of Type 26 motor orders.

I have a couple of initial questions, and then John in particular will explore how we got to this state where even though we appeared to have a legally binding agreement to ensure that this important capability was secure in the UK, we very nearly lost it. When did you first hear about GE's plans to move the work to Nancy? Were you consulted—forewarned, in other words—about that before the announcement was made that they were planning to close down and move?

Stuart Andrew: Both Simon and I will need to answer this question, because he has been dealing with this prior to my appointment. But pretty soon after my appointment this issue was raised with me, not least by the local Member of Parliament, Mark Pawsey. I have to say, as I said in the House yesterday, he has been extremely persistent in making sure that we are doing all that we can for this.

As soon as that issue was raised with me, I arranged for a telephone call with GE to discuss what the options were. I understood there had been previous discussions, but the plan seemed to be, from their point of view, that they would continue with the decision to move to Nancy.

Q179 **Chair:** Right. Just to pin down this bit—I have a couple more questions to follow—and I appreciate that this was before your time, Minister, but can



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anybody be clear: was the MoD properly consulted before GE announced that they were planning to close down this plant and move the work to France?

Sir Simon Bollom: I have been running this issue since December 2017, which was the point at which GE notified us of the intent to go into consultation about moving the RMR capability to Nancy.

Q180 **Chair:** Was that notification made to you before it was made public?

Sir Simon Bollom: I think it was in parallel.

Q181 **Chair:** So really they came to you and said, "Well, we are planning to do this. And, by the way, we just put it out on the wire."

Sir Simon Bollom: They advised us that they were going to go into a consultation.

Q182 **Chair:** It doesn't sound as if there were any serious, in-depth discussions about the implications of all this before the consultation process was announced and got under way.

Sir Simon Bollom: I became aware of it in December 2017, and they launched the consultation process early in 2018.

Q183 **Chair:** Were there intensive discussions before it went public?

Sir Simon Bollom: There has been some very intensive conversation with GE on not just the rotating machines but the test facility and the engineering capability.

Q184 **Chair:** I know there has been ever since. I am asking—this is a fairly straightforward point. If you are not sure, and I appreciate that you would not want to mislead the Committee—

Sir Simon Bollom: I will need to go and check the timings.

Q185 **Chair:** Will you check it and let us know? All we want to know is how seriously this company was taking its obligations to the Ministry of Defence and this country before it came out into the open with this proposal, which seemed to fly in the face of all the assurances that the Ministry of Defence and the Government had been given by the company when it acquired the plant in the first place.

Sir Simon Bollom: I understand the point and I will confirm the timings.

Q186 **Chair:** That is fair enough. So why did it take so long to reach agreement with GE about bringing forward the batch 2 Type 26 programme to help maintain the Rugby site? In the correspondence we were having, there was not much sign of any progress being made. Was it that you would always have been willing to bring forward the batch in order to save it, or was it that they were asking you to do this and you were reluctant to do it? Who blinked first?

Stuart Andrew: I will let Sir Simon go into greater detail, but I think I am right in saying that right from the outset the offer was to bring forward the Type 26 motor work.

Q187 **Chair:** So it was always the position of the MoD that, if it would help, you would accelerate.

Sir Simon Bollom: Let me put it another way, Chair. We were notified of an intent to go into a negotiation over a move to Nancy. That is when we intervened. To us there seemed to be a real economic benefit in terms of retaining the capability at Rugby. It kept engineering, test and rotating machines together. Clearly, it is a very important part of support to our current warships and indeed our future aspirations: Type 26, potentially Type 31, and FSS. So we entered into a negotiation that essentially was one about the programme assurance that GE was seeking in terms of keeping that viable. You will be aware of the pressures the company is experiencing not just in this country or in Europe, but across the US in a heavy rationalisation programme. We sought to find a deal that was value for money for us and provided us with the right level of capability for the Royal Navy, but equally provided them with a viable business. That process takes time. As part of the deal, we brought forward an undertaking to commit to the batch 2 motors, subject to our internal approval scheme.

Q188 **Chair:** When they were making the offer to take all this to Nancy, were they proposing, as far as you knew, to build one of these special tanks that is such an intimate part of the process? We have a much larger one here than they have in Nancy.

Sir Simon Bollom: That is the test facility.

Q189 **Chair:** That's right. Were they undertaking to build a new larger one there, or were we going to have to get a different sort of motor?

Sir Simon Bollom: No, they would effectively build to pattern the motors that were then being built at the Rugby facility. So the test facility is more of a development, an investigative capability. It is not just for our ships. It encompasses submarines as well. So that is very much a part of UK freedom of action, but in terms of the manufacture of the motors, it is essentially built to a pattern.²

Q190 **Chair:** So it would have been exactly the same motor.

Sir Simon Bollom: It would have been the same motor, but—

Q191 **Chair:** We would not have had to redesign the ships.

Sir Simon Bollom: No, we would have had to go through acceptance testing again, which was one of the arguments that we put forward. We argued very strongly that we had a capability that we understood at Rugby. We did not want to go through extensive qualification on a new manufacturing capability.

Q192 **Chair:** But we would have lost the ability to build motors of this sort in the UK.

² The Chair was referring to Vacuum Pressure Impregnation equipment (special tanks), which are situated at the manufacturing facility at Rugby. General Electric stated that the equipment at Nancy would have been adequate for the T26 motors.



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Sir Simon Bollom: There are other competitors, but certainly at this scale and to that fidelity we would probably have lost that.

Q193 **Chair:** Okay. Finally from me, what discussions did you have with your Australian and Canadian opposite numbers, Minister, about the proposal, because it would have affected them as well?

Stuart Andrew: Most of the discussions that I have had were with the company itself. As I said at the beginning, we had the initial telephone call and then I asked them to come in to meet with me, and then officials had more detailed discussions at which we brought up the potential opportunities that would exist with both the Australia and the Canada campaigns.

Q194 **Chair:** Were you ever worried about the discovery by the trade unions of Chinese espionage fears in relation to the Nancy site?

Stuart Andrew: No, I wasn't personally.

Sir Simon Bollom: I had heard that there was a concern. That was not really a key determinant in the decision, which was a business and economic one.

Chair: Hmm. What does that remind me of? Mentioning nothing about Huawei at all, Martin, would you like to take the next question?

Q195 **Martin Docherty-Hughes:** What are you proposing to bring in the Type 26 programme for, and what impact will that have on those programmes?

Sir Simon Bollom: Currently under order are the batch 1, so three ships—the motors for those. What GE sought, entirely understandably, was a continuous production capability and they were keen for us to make a commitment for the batch 2—the next five ships. To achieve continuity, they really needed to start those by the end of 2020. This has been a deal that has been constructed with the prime contractor, BAE Systems, here. BAE Systems has lent into this as well and there will be some long lead time orders that were placed to keep that continuity going. We hope to secure formal approval from the Treasury to procure batch 2 motors by the end of this year.

Q196 **Martin Docherty-Hughes:** Will there be any effect on the procurement budget?

Sir Simon Bollom: No, it is exactly in line with the current budget.

Q197 **John Spellar:** You said just now that you were aware that there may have been a compromise of security at the site. Did you ask our security services for an evaluation of that?

Sir Simon Bollom: No.

Q198 **John Spellar:** Why not?

Sir Simon Bollom: As I said, at the time, I thought there were clear business and economic drivers that would lead us to retaining the capability in this country. At the forefront of my mind was ensuring that



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we had a good deal with GE. We just weren't handing them an opportunity without us—the Government—getting a fair return.

Q199 John Spellar: But that clearly runs contrary not just to the intention but also to the explicit wording of the deed poll that was signed, the legal agreement that was signed between the Ministry of Defence and the company when it took this over. It was obviously a matter of concern. You had "no transfer or disclosure by whatever means of UK Protected Material shall be made outside the UK Companies". It also talks about "only personnel with appropriate UK security clearances shall have access". It is quite extraordinary in the light of that that we did not inquire as to whether this was a secure site. Quite apart from the fact if we are looking at pitching in for work from the United States Navy, let alone the Australians and Canadians, with whom have already secured agreements, it is quite extraordinary that we were not concerned about the security of the site.

Rear Admiral Marshall: Can I help Sir Simon there? From a military capability perspective, what is important for Type 26 is that we have a really good anti-submarine warfare capability. We are looking for quiet motors. In our judgment, protecting that was about the design, which would remain in the UK, and the testing and evaluation of the signatures, which would also remain in the UK. For the manufacture, the understanding was that, before any movement of the manufacturing capability to France could take place, the company would need to satisfy our security regulations. Obviously, that has been overtaken by events.

Q200 John Spellar: But there were question marks over it. You said they needed to satisfy. There were question marks over it in open source and yet we did not inquire from our security services as to whether this should be a matter of concern. Talking just about manufacture, that presumes the Chinese cannot reverse engineer, which they actually seem to be rather good at.

Rear Admiral Marshall: I think the deal that has been done has overtaken that sequence a little bit.

Q201 John Spellar: I am talking about how, at the time we were considering this, we had a legal agreement, which the Department— perversely, I would argue—would not undertake to enforce on the company to bring them to the bargaining table. Yet they did not even make the basic inquiries about matters that they had clearly envisaged were necessary because of all the security elements they wrote into the deed poll, which the Government previously felt necessary to get signed before they would okay the takeover of this British facility by GE.

Rear Admiral Marshall: Those discussions were ongoing at the time and, now that a satisfactory outcome has been concluded, that is no longer an issue.

Q202 John Spellar: Sorry, what discussions were ongoing?

Rear Admiral Marshall: That the move of the manufacturing facility to Nancy would have to satisfy our security requirements.



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Q203 John Spellar: But it didn't. Why would we want to move from a site that is contained within the UK and has UK security classification, which would also be helpful to satisfy our Five Eyes partners? Why would we contemplate letting that move to a site where there were serious question marks that we did not see fit to explore?

Rear Admiral Marshall: I think we were exploring them.

John Spellar: I don't think you were.

Sir Simon Bollom: There are two ways of doing this. We could have come up with an argument, I suppose, for why they absolutely could not move it, and then stood to risk being in a negotiation where we would carry all the risk in terms of retaining that onshore capability. Instead, as I said, we looked at the business and economics of that, and I think we have come up with a value-for-money deal that benefits us and them. It is really important to point out that the deed poll that you referred to was not a guarantee that GE would retain that capability onshore between us and GE; the deed poll was between GE and Converteam, which was the predecessor to GE in using that plant.

Q204 John Spellar: But didn't the Ministry of Defence sign that off as well?

Sir Simon Bollom: No. As far as I know, we did not.

Q205 John Spellar: There was no involvement by the Ministry of Defence in that?

Rear Admiral Marshall: As I said earlier, the Ministry of Defence would absolutely need to be satisfied that the security requirements for the transfer of protectively marked material had been met before the move of the manufacture to Nancy.

Q206 John Spellar: The operation will be maintained in line "except in so far as the Ministry of Defence has separately agreed otherwise in writing". That seems pretty explicit to me.

Stuart Andrew: The point is that we were trying to get to a position where we did not need to get to that stage. We were trying to secure the plant by looking at all the options in front of us. We have now reached that point. Had we not been successful with that, that stage would follow the stage of looking at the security arrangements. We were trying to work with the company to see what we could do to safeguard the Rugby site, and that is what we have managed to achieve.

Rear Admiral Marshall: That would not have included any transfer of material protectively marked UK Eyes Only .

Q207 Chair: All that I can suggest is that if you think you have had a bit of a rough ride over this today, it would have been a heck of a lot worse if you had not just managed, coincidentally, to reach an agreement 48 hours before this hearing. We are very glad that you did.

Stuart Andrew: I think that was more coincidence than backward judgment.



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Q208 John Spellar: There are heightened security concerns with Russia. Does the plant not also undertake contracts with the Russians and are the Russians not regularly on site?

Stuart Andrew: Which site?

Chair: Nancy.

Stuart Andrew: My point is that we had not got to that stage.

John Spellar: You don't need to. You should have just played your card on that.

Stuart Andrew: This is important. We were trying to secure the future of this site. That was our primary aim, and that is what we have managed to achieve. If we had not been successful with that, of course all of those elements would have been looked at.

Mr Francois: Providence has been kind to you, Minister.

Stuart Andrew: And, in fairness, a tremendous amount of hard work by officials, who have been working really hard on this. I have put in personal time on it, but the officials have worked incredibly hard.

Mr Francois: Fair enough.

Q209 Chair: We acknowledge that. We look forward to more coincidences of happy outcomes shortly before future Defence Committee hearings.

Stuart Andrew: I wish that I could be so lucky, Chair.

Chair: Let us see. It happened once before on the closure of IHAT, which was announced 48 hours before our embargoed report on the need to close IHAT was published. Let us move on to the fleet solid support ships.

Q210 Ruth Smeeth: Minister, does any other nation agree that fleet solid support ships are not warships?

Stuart Andrew: A number of other countries do, such as Australia and Norway, which procured their ships from abroad.

Q211 Ruth Smeeth: They procure them, but in fairness, Minister, that was not the question. The question was not about where they procure them from; it was about their classification.

Stuart Andrew: I do not know whether they classify them as that, but it is for those countries to make that determination.

Rear Admiral Marshall: I think it is a really good question, and the Royal Fleet Auxiliary is slightly unique in the UK. We are very proud of the Royal Fleet Auxiliary and it enjoys that sponsored reserve status. There is the United Nations convention on the law of the sea. The definition of a warship effectively says that they are clearly marked as warships of a nation and commanded and crewed by regular service personnel of that nation, which the RFA is not. In the case of France and Australia—and



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many other nations, actually—their support shipping and auxiliary shipping is crewed by regular service personnel.

Q212 **Ruth Smeeth:** Okay, I understand that, but how they will operate with the aircraft carrier—that is slightly disingenuous, in terms of the role that they will fulfil. If we did not have the Royal Fleet Auxiliary, they would be operated squarely under your auspices.

Rear Admiral Marshall: That is absolutely correct, but there is the policy matter, which I think Air Marshal Knighton will pick up on, that for the purpose of the national shipbuilding strategy we define warships as frigates, destroyers and aircraft carriers.

Q213 **Ruth Smeeth:** If it is going to war—if a ship is going to be part of our defensive capability and could be targeted as part of the British Navy—it is a warship. That would be fundamental to who we are, where we are, and why it should be built, and why it should be viewed as sovereign capability. My actual point is that I and several other members of the Committee believe we are hiding behind definitions. This is a warship. It should be built by sovereign capability, because it is a warship.

I have one further question before handing over to Martin. There has been a recent FOI request about the number of jobs that the FSS would guarantee in the UK. It is between 11,600 and 16,400. I think, not just in terms of our defensive capability but our sovereign skills capability, when we are talking about the number of British jobs that would be linked to this project, it is perverse that we are not considering that in our decision making—or are we? Are you about to give us more good news at a Select Committee hearing about decisions that we will be making about who is actually going to be awarded the FSS?

Air Marshal Knighton: There are a couple of things that I would mention. The first is that there is still a UK consortium that is in the competition for fleet solid support, so if team UK win they will clearly secure that work in the UK. I am afraid that we do not have with us the details about where those estimates came from, in terms of those numbers.

The second thing is that I brought with me a copy of the Treasury's Green Book, which sets out the rules and processes by which the Government decide in a competition how they should choose the winning competitor and what factors they should consider. The policy is very clear about the national value framework, as it is described. That allows us to consider a whole range of factors associated with the procurement and working out which of the potential competitors we should choose.

However, what is quite clear in that policy, which has existed over many years across Governments of different colours, is that a straightforward question about UK jobs does not equate itself to the long-term prosperity of the UK, necessarily, so that straightforward demand-side labour force requirement is not a factor that the Government consider in any of their procurements.



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Q214 Ruth Smeeth: The Government are wrong not to consider that within their procurement. If you look at military aerospace, and at all the other issues we touch on in terms of procurement, every pound that we invest in defence aerospace equates to several pounds back to the Exchequer. There is a direct correlation between British jobs and British investment, and British defence capabilities. It is not an argument that is going to stack up with this Committee in terms of jobs, but much more importantly it is about the retention of sovereign skills as we seek to leave the European Union. By potentially outsourcing these jobs to another country, we are undermining our sovereign skill base. Minister?

Stuart Andrew: First of all, we have a significant shipbuilding order for UK shipyards. Over the next 10 years we are spending £60 billion on ships and submarines, which is going to enable us to keep many of the skills and capabilities that we need—quite rightly, as you say—in the United Kingdom. What we are trying to do here is to make UK industry even more competitive; not just to win UK orders but also looking at some of the international competition. They have to be so, because part of the strategy is very clear that they can't just rely on the MoD for orders. If these yards are going to be successful and sustainable, we need them to be competitive in other markets too.

Q215 Ruth Smeeth: Minister, why are you so interested in competition for this project but not for Wedgetail? Why does competition work for one sector and not for another?

Gavin Robinson: Or P-8?

Ruth Smeeth: Or P-8.

Stuart Andrew: As I think I said at the time, those two are proven capabilities when no others existed. That is why we went with those single source. I think I made that point.

Q216 Ruth Smeeth: There are proven capabilities on nearly everything you buy, but some you are choosing to put out and some you don't.

Stuart Andrew: But not on E-7. As I say, the first starting point for us, in terms of procurement, is a competition. That is what we will start off with first, but if we find ourselves with varying circumstances, such as the proven capability that is available and the need for the Armed Forces, in terms of how quickly we need it, then we will have to look at other options. That is why we took the decision on the two that you just talked about.

Trying to secure the long-term future of our UK shipyards is something that the shipbuilding strategy is all about. I think we all want the same thing; it is just how we get there. It is trying to look at how we can make those shipyards more competitive, so that hopefully, with competitions such as the Type 31, if we are able to make a really good product that will be exportable, there will be future opportunities. The shipyards and the UK defence industry need to be as competitive as possible, so that they can win those international orders as well as UK orders.



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Q217 Ruth Smeeth: Given that everyone pulled out of the Type 31 round last time, and we are just starting again with the Type 31, the idea that things can only be competitive if you actually settle on a price that is deliverable, there has to be a level of engagement here. I am more concerned that we seem to be looking at each of these in isolation and not at the overall picture. We do have a shipbuilding strategy, but I am not sure that we are taking this seriously.

From my perspective—and, I think, from the Committee's—it comes back to the E-7. We need a steady drum beat of orders, rather than the fits and spurts of what we are doing. That is why we need the FSS to take us through this period from the end of the Queen Elizabeth type to, hopefully, the Type 31, because otherwise people are going to be made redundant in the middle. Keeping our sovereign skills so that there is a steady drum beat is incredibly important. The skillset at Barrow is different from that on the Clyde for this; we are talking about very different skills. I am going to pass over to Martin before I get into trouble.

Q218 Martin Docherty-Hughes: It is like Goundhog day. Minister and members of the panel, do the examples of France and Italy show that there is a choice over the classification of fleet solid support ships as warships? I would note that they have both already built and exported the FREMM frigates, which are the principal rivals to what will be the Type 31e. Both have diversified shipbuilding bases, which can literally turn their hand to anything, whether it be what we used to do on the Clyde—being a son of Clydebank, I know that we built ocean-going liners and warships at the exact same time, even though we have absolutely nothing left now—yet BAE Systems in Clyde has been told that it can't build a Type 26 and a Type 31 at the same time. With the confusion around the fleet solid support, we also have an industry that says it wants to do something. Why doesn't the MoD support it and the taxpayer, in the same way they have done in France and Italy?

Air Marshal Knighton: I am not quite sure who has told BAE Systems. You said that BAE Systems had been told that—

Q219 Martin Docherty-Hughes: I was led to believe that it had been told that it can't bid for both the Type 26 and the Type 31 at the same time.

Sir Simon Bollom: That is not true.

Air Marshal Knighton: That is not true.

Q220 Martin Docherty-Hughes: So you are making it quite clear that they can do it at the same time?

Sir Simon Bollom: Absolutely, and they are.

Air Marshal Knighton: BAE Systems is one of the consortia.

Martin Docherty-Hughes: That gives some clarity on that, at least. Thank you.



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Air Marshal Knighton: On your question about FSS and whether there is a choice, there clearly is a choice. The UK has made a choice that we should run an international competition for its build, on the basis that we recognise that international competition drives higher productivity and better innovation.

Q221 **Chair:** Can I just clarify this? You are saying—there is an argument to be made for this—that you classify fleet solid support ships as not being warships not because you have to but because you are taking up the option that you have of classifying them as not being warships; you are not being forced to do that. Is that right?

Air Marshal Knighton: Ms Smeeth made the point that you can make an argument for classifying them as warships. The Government clearly said that they are not classifying them as warships for the purposes of the national shipbuilding strategy, and therefore it is open to international competition.

Q222 **Chair:** Yes, I know what you decided. I am saying that you are not saying that you have been forced to make that choice but that it was a free choice that you chose to make? Is that right?

Air Marshal Knighton: Yes.

Q223 **Chair:** You are not saying that you might have liked to have classified them as warships but could not; you are saying that you could have classified them as warships but decided, for good reasons—competition and all the rest of it—not to classify them as warships. Is that right?

Air Marshal Knighton: The policy is clear: we decided that we would not classify these as warships. That is clearly a choice.

Q224 **Chair:** Why are you resisting? The policy is clear: you have decided not to classify them as warships. I am asking whether you made that decision solely because you had to, because there are rules that mean that you cannot classify them as warships, or whether you had the option of classifying them as warships and chose not to. Which of the two is it?

Air Marshal Knighton: The admiral explained the rules around the UN convention on the law of the sea. If you interpret that with regard to the use of Royal Fleet Auxiliary ships, you can come to the conclusion that they are not warships. Like all these things, there is a degree of judgment.

Q225 **Chair:** I am sorry; this is too much detail. It is a very simple point: are you making this classification because you have chosen to do so or have you no choice in the matter?

Air Marshal Knighton: The Government have chosen to do so.

Q226 **Chair:** I know the Government have chosen to do so, but have they chosen to do so because they have to choose this option, or could they have chosen the other option? It is very simple. Was it a voluntary choice or was it something on which you really had no choice? I don't understand what is so incomprehensible about this question.



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Stuart Andrew: My understanding is that the judgment that has been made is that the exemption from the procurement regulations of article 346 could not be made because we could not argue that it was a warship, for the reasons we have explained.

Q227 **Chair:** So you are saying that you had to choose this—

Stuart Andrew: That was our legal interpretation of the procurement regulations.

Chair: So you think that you had no choice. That is all I wanted to get at.

Q228 **Martin Docherty-Hughes:** Let us take this a wee bit further. If the Minister in the Department does not think there was a choice, why does the Department say in a formal response to an e-petition that “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”?

Stuart Andrew: The reason we made this decision—

Martin Docherty-Hughes: Choice.

Stuart Andrew: This is the interpretation, because of the national security—

Q229 **Martin Docherty-Hughes:** Why is no one else in the European Union interpreting it?

Stuart Andrew: I cannot answer for other European countries on the decisions they make. All I can say is that we had to look at this very carefully. To ensure that we adhered to the national security exemption, we had to make a decision on this. For frigates and aircraft carriers and so on, we can argue that their design features—the complex weapons, the sensor fit and so on—are important for operational advantage. I cannot say why other countries have made that decision about their fleet solid support ships.

Q230 **Mr Francois:** So you are hiding behind article 346?

Stuart Andrew: It is part of the regulations that we have to adhere to.

Mr Francois: This is ludicrous.

Stuart Andrew: We are in the EU.

Chair: We are at the moment.

Mr Francois: If you are using 346, that is utterly ludicrous. The French didn't; all the other European countries didn't; so how is it that they interpret it differently from you?

Stuart Andrew: I think we have just explained—

Q231 **Mr Francois:** You haven't, actually.



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Stuart Andrew: I tried to explain that how our fleet solid support ships are crewed is an element of this. The sensors and weapons that they have on them are defensive; they are not attack weapons. This is the sort of decision that we make—

Q232 **Mr Francois:** Minister, article 346 refers to “warlike stores”. There has been European case law about whether or not a parachute constitutes “warlike stores”, for instance, or a medical kit, if it is likely to be deployed on a battlefield. Are you telling me that a Royal Fleet Auxiliary that goes to sea to support the Royal Navy at war is not a warlike store?

Stuart Andrew: As I have just tried to explain—

Mr Francois: I know the article.

Stuart Andrew: As I have tried to explain, that is the interpretation that we have made. This is not just about the definition of the warship. There are multiple factors that we are working towards to try and make the whole of the industry even more competitive.

Q233 **Mr Francois:** I have never heard you try to hide behind article 346. You can make other arguments, but to try and rest your argument on article 346 is dangerous.

Stuart Andrew: It is not just 346. We have just heard from the Rear Admiral about—

Mr Francois: I will wait, but then it’s my go.

Rear Admiral Marshall: I was just going to say, Mr Francois, that countries such as Germany have competed their support shipping in Europe. Other countries, such as Norway and Australia, have also competed their support shipping. I have highlighted the ones that have.

Mr Francois: I’ve got that. Presumably the French can read too, right?

Q234 **Chair:** The point we are trying to get at is simply that some countries have chosen to class it as a warship; some have chosen not to class it as a warship. We have chosen not to class it as a warship but we are trying to pretend that we had to not class it as a warship—but that seems to stretch our credulity.

Rear Admiral Marshall: I think you have very clearly pointed out the importance of achieving a drumbeat of orders; and the current competition is being run under article 346.

Mr Francois: Cheer up, Sir Simon; it’s nearly over.

Rear Admiral Marshall: Therefore we need to continue that competition under article 346 in order to place the orders.

Chair: Martin, did you have any more to ask?

Q235 **Martin Docherty-Hughes:** Just to clarify for the record, you are saying that BAE Systems in the Clyde can build a Type 26 and Type 31 at the



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same time.

Sir Simon Bollom: BAE Systems is bidding in this competition. They then have a choice of where they can build that ship. They are partnering Cammell Laird in this instance.

Q236 **Martin Docherty-Hughes:** What if they both chose to build it in the Clyde? Would you say that they could not build it in one ship yard?

Sir Simon Bollom: It is up to them—we will be laying a contract off on them and we would want sufficient assurance that they have got a robust plan to deliver it within cost and time.

Q237 **Martin Docherty-Hughes:** You have made it quite clear that it is nowhere in your thinking to say to them that they can build neither of those two ships at that yard in the Clyde.

Sir Simon Bollom: It is not for us—on the earlier conversations, we are very clear that we have got a prime contractor here. We expect them to take risk to sort out the supply chain underneath and make sure it is robust. That would be the arrangement with 31.

Q238 **Gavin Robinson:** Minister, I will say this for you: the decision in the national shipbuilding strategy that declared the fleet solid support ships not to be warlike ships predates your time as Minister, and you are being admirable in standing over something that every Member of this Committee believes to be indefensible. If anything should be taken from this session, and those that predate it, to officials that give you such woefully inadequate advice, it is to push back. Because we have just spent the last hour in this Committee discussing our preponderance of single-source tenders to Boeing—a company that operates on an “America first” policy; which is not embarrassed about its “America first” policy; and which nearly wiped out 4,000 jobs in my constituency in Bombardier because of its “America first” policy. Yet Ministers such as you are sent in to defend them, to suggest that their provision of staff in this country is some sort of corporate generosity. It is not. We are paying, and they should act.

When I sit as a constituency representative for Harland and Wolff, for example, and hear that £60 billion is to be spent over the next 10 years on ships, vessels, I wonder how much of that will go to my constituents and my constituency. Or will it go to support shipyards outside this country? Minister, I would love to know how you ensure that foreign shipyards are not given an unfair advantage in the process when we do not take into account national sovereign capability, skills, wages and Treasury return.

Stuart Andrew: You rightly point out that we are governed by the Treasury Green Book. I dare not say to the Committee whether they want to challenge Treasury Ministers on the Green Book, but it is about the wider economy. I must make that clear.

Q239 **Gavin Robinson:** The Green Book is there, and Air Marshal Richard Knighton has mentioned it. Who drafts the scoring matrix for MoD

procurement contracts?

Sir Simon Bollom: We do, in DE&S.

Q240 **Gavin Robinson:** Do you include, in that matrix, any issues around skills and sovereign capability or any interests around economic benefit or job creation?

Sir Simon Bollom: You said, correctly, that we draft it. We have to get approval for that, and we have to demonstrate that the matrix is in accordance with the Green Book, which essentially means that the consideration in terms of the economic appraisal has to be that which is inside the contract.

Q241 **Gavin Robinson:** Do you include in the scoring matrix any weighting for sovereign capability, skills or economic benefit?

Sir Simon Bollom: No. They are—

Q242 **Gavin Robinson:** Why not?

Air Marshal Knighton: We would consider the capability of an organisation in the context of the operational advantage it might deliver the UK Armed Forces and our freedom of action. When we talk about freedom of action, we mean our ability to change and modify a capability over the life of it. So we do—

Q243 **Gavin Robinson:** With respect, nobody on this Committee is going to suggest that we purchase something that gives us less operational capability just because it is made in the UK. That would be nonsense. But why are we not scoring and giving weight in that matrix to the maintenance and growth of sovereign capability, the development or retention of skills, and the economic benefit to our wider economy?

Air Marshal Knighton: The system that is set out, as we describe in the Green Book, does allow you to consider the implications of skills—

Gavin Robinson: So why does it not form part of the scoring matrix?

Air Marshal Knighton: It allows you to consider the implications of skills only if you can measure the capability, and it goes beyond the macroeconomic considerations of the overall advantage it gives to the UK economy. So it will depend on what the particular investment decision is and whether that should be considered in these cases.

Q244 **Gavin Robinson:** Sir Simon says that it does not feature.

Air Marshal Knighton: In this particular—

Sir Simon Bollom: It depends on the economics.

Q245 **Gavin Robinson:** When you are scoring a tender application, you told me it is not there.

Sir Simon Bollom: As I said, it is the scope of the contract.

Q246 **Gavin Robinson:** I do not know why we are dancing around the head of



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the pin. It is either there in the scoring matrix or it is not. You said that it was not, Sir Simon. Is it, or is it not?

Rear Admiral Marshall: Can I agree with Sir Simon in terms of the economics and with the Air Marshal in terms of the—

Mr Francois: Answer the question about the scoring matrix.

Gavin Robinson: With the greatest respect, I asked a question of Sir Simon, and I feel Sir Simon should have the opportunity to respond.

Sir Simon Bollom: And I will answer it. The investment appraisal is inside the contract. So it is the scope inside the contract. We will look at the economics of the value associated with the capability that we are purchasing. There are other factors: it has to be compliant technically and in terms of programme management, safety and so on. It is not just about money.

Q247 **Gavin Robinson:** Stop. Do you score tender applications?

Sir Simon Bollom: Personally?

Q248 **Gavin Robinson:** No. Does the process require the scoring of an application?

Sir Simon Bollom: It does.

Q249 **Gavin Robinson:** What score is put beside retention of skills? What score is put beside sovereign capability retention? What score is put beside economic appraisal? If the answer is that there is no specific score, then your answer is: no, it doesn't feature.

Sir Simon Bollom: I do not have the scoring matrix in front of me now.

Q250 **Chair:** Are you able to supply that to us?

Sir Simon Bollom: I would have to take advice on that.

Q251 **Chair:** Why wouldn't you be able to supply it?

Sir Simon Bollom: Because it is a commercial document.

Chair: Is it confidential?

Q252 **Gavin Robinson:** Was the tender application that was out there in the *European Official Journal* and so on publicly available?

Sir Simon Bollom: The scoring matrix will not be in the *Journal*; it will be in the invitation to tender.

Q253 **Gavin Robinson:** And you are refusing to share that document, or you are going to establish—

Sir Simon Bollom: Not at all. I am offering to co-operate with this Committee and provide whatever I can to help you.

Gavin Robinson: What we struggle with fundamentally is that there are choices being made but those choices bear no resemblance to what is in



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the national interest—what is in the interest of our industry or in the interest of our country. We cannot work it out. We have gone over this point, and I do not want to—

Q254 **Chair:** Yes. I will give Richard the chance to have the last word on this.

Air Marshal Knighton: I just make the point that the Ministry of Defence will apply the policy. That policy is a Government policy. It is set out by the Treasury. The case you make is one that we hear frequently. It is a case that needs to be made to those who set the policy, not to those who apply the policy.

Q255 **Gavin Robinson:** And do you do that? When was the last time the Ministry of Defence went back to the Treasury and said, “See this Green Book policy? It doesn’t fit our needs. We would like to be able to score retention of sovereign capability, retention of skills and economic benefit, but we can’t, according to your guidance”? When was the last time you did that?

Air Marshal Knighton: I will come back to that, but just to explain the process, what Sir Simon was talking about is when we have decided to go for a competition and we have set out a tender. At that point, there is a scoring mechanism. The process allows us, at the longlist stage, when we are trying to work out what the broad potential options are, to consider exactly the factors that you just described. That enables us to narrow down where we intend to go, in terms of what kind of competition and what key issues are associated with that.

Q256 **Gavin Robinson:** Is the Treasury guidance guidance, or is it binding advice?

Air Marshal Knighton: It is guidance, but it is part of our policy. As Sir Simon says, depending on the scale and size of the procurement, we would have to get that signed off by the Treasury. The last time that I personally know we had this debate was in the discussion about the future combat air strategy, which includes some characteristics along the lines you describe. We had that dialogue with the Treasury as that was developed.

Q257 **Gavin Robinson:** So it is possible and it is permissible, but you do not explore that potential option on every occasion?

Air Marshal Knighton: As I say, at the longlist stage it is perfectly feasible to consider those options, but I come back to the starting point: we want the best capability we can get for the UK Armed Forces, and international competition, which has been a broad policy of this Government and all its recent predecessors, secures more productive, more innovative industry. That is the basis of the policy, and it is from there that we step forward.

Q258 **Gavin Robinson:** Minister, I started by asking you how we ensure foreign shipyards do not have an unfair advantage. Do you agree that further consideration of these issues would be a step in the direction of ensuring that foreign shipyards do not get an unfair advantage?



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Stuart Andrew: Obviously there is the benefit to the taxpayer, which is an important element of what we are trying to achieve here. I understand many of the points you are making. Of course, the new Secretary of State made a speech last week. I can inform the Committee that she is looking at a range of these issues in detail. That is something for the future, but it is something that she is taking a keen and active interest in. I cannot say any more than that at this stage, because she has just—

Q259 **Chair:** Can I just highlight one sentence, with which I hope everyone in this room would agree, from her speech? She said: “To get the ships we need, we need the shipbuilding.”

Stuart Andrew: She also made the challenge to industry that they need to be competitive. She is absolutely right about that. We have to ensure that the choices we have enable us to get the maximum capability we can, with good value for the taxpayer. Those are exactly some of the pieces of work she has asked to be looked into.

Chair: That is a very fair point.

Q260 **Mr Francois:** Gentlemen, if I had to summarise your evidence over the last 20 minutes, I would describe it as a train crash in slow motion. This is a very serious issue, but you are treating it like a game. The game is as follows. If you declare the ship a warship, under the national shipbuilding strategy, you have to build it in a UK yard, but you are worried that you will then be over a barrel in terms of the price you have to pay. To prevent that, you insist that it is not a warship, so you can try to compete it internationally to bear down the price that you have to pay, even though the Secretary of State in her speech at RUSI, when I was sitting directly in front of her in the front row, effectively gave the contract to the UK consortium, if you read her speech carefully, and I looked her in the eye when she was doing it.

The Mars tankers went to a South Korean yard, and the Department would argue that it got a slightly cheaper price, but the yard almost went bust trying to fulfil the contract. So you have to pretend that it is not a warship to try to beat down the price, and the whole game goes on, which leads to the farce we have just witnessed.

Let us decide quickly whether it is a warship or not. It is designed to go in harm's way and to be in close company with the carrier at sea. Correct?

Rear Admiral Marshall indicated assent.

Q261 **Mr Francois:** It carries a defensive armament. Correct?

Rear Admiral Marshall: Defensive.

Q262 **Mr Francois:** It carries a defensive aid suite, chaff and other devices that we will not talk about in public to protect it, particularly against an air-breathing missile attack. Correct?

Rear Admiral Marshall: Correct.

Q263 **Mr Francois:** Does it have a combat information centre?



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Rear Admiral Marshall: No.

Q264 **Mr Francois:** It does not. So she is fought from the bridge.

Rear Admiral Marshall: From an annexe to the bridge.

Q265 **Mr Francois:** When you say an annexe to the bridge, what do you mean?

Rear Admiral Marshall: A small room. It is not an integrated combat system, as you would understand in complex warships. It integrates those sensor suites and the distractive aid.

Q266 **Mr Francois:** Okay, so there is a room just off the bridge where you integrate all the sensors to defend the ship.

Rear Admiral Marshall: Yes.

Q267 **Mr Francois:** So she has that, which I would call the poor man's command system from the way you have described it, she is armed, she has defensive aids, she is designed to operate in close company with the carrier and, if necessary, the taskforce commander would use her as a decoy for the carrier, if he had to—and she is not a warship.

Rear Admiral Marshall: I disagree with the last statement about using our high-value units as a decoy.

Q268 **Mr Francois:** I am not disrespecting the crew of FSS, but I am saying that if it is a choice between the carrier being missiled and the fleet support ship being missiled—clearly, you would not want either—tactically, you have another big lumpy target near the carrier, which could attract a small missile attack, could it not?

Rear Admiral Marshall: Our whole military—

Mr Francois: Despite all that, you are telling the Committee that it is not a warship.

Rear Admiral Marshall: I am telling the Committee what definitions we are acting under for the procurement of—

Mr Francois: Under article 346, it is armed, it has a defensive aid suite, it has a poor man's command system, but it is not a warlike store.

Rear Admiral Marshall: In times of war, the Royal Fleet Auxiliary are absolutely integrated into the naval service. They are in training and they are in operation.

Q269 **Mr Francois:** They go to war with the Royal Navy, don't they?

Rear Admiral Marshall: Absolutely.

Mr Francois: And have done heroically down the years, yes?

Rear Admiral Marshall: Proudly.

Q270 **Mr Francois:** Quite right too. The blue duster is respected around the world. But it is not a warlike store, Minister.



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Stuart Andrew: As I have tried to explain, it does not have the complex weapons systems, and the other systems that you were alluding to a moment ago, and therefore it is not a warship.

Q271 **Mr Francois:** The Chairman wants me to move on, so I will just say—

Stuart Andrew: You said at the beginning that we are treating this like a game, and I want to take you to task on that. I take this really seriously. I recognise how important our shipyards are, and that is why I have spent a lot of time in this role going round those shipyards. I see the hard work that is going on there. I am trying to do what I can, and so is the whole Department, to secure their longer-term future. A one-off order with the FSS is not going to do that; this is about the long term.

Q272 **Mr Francois:** I have been round the shipyards too, if it makes you feel better. The reason I am so irritated is because trying to use article 346 to justify the policy is patently ludicrous. Let us talk about the shipyards. If the UK consortium does not win it, and Rosyth probably runs out of work in the near term, where will you refit the carriers, if not at Rosyth?

Stuart Andrew: There are other options available to us.

Q273 **Mr Francois:** Which are what?

Stuart Andrew: There is Northern Ireland, there is—

Sir Simon Bollom: Inchgreen.

Q274 **Mr Francois:** And that will take the carrier, will it?

Sir Simon Bollom: It will need some infrastructure modification—

Q275 **Mr Francois:** Have they done any large warship maintenance work there recently?

Sir Simon Bollom: You asked me if it was large enough to fit a carrier. Yes, it is.

Q276 **Mr Francois:** Which large warships have they refitted there in the past 30 years?

Sir Simon Bollom: The majority of the work on the carrier will be done at Portsmouth. For the dry-dock inspections that are required every five or six years, there are options to do that. It is not a big piece of work.

Mr Francois: How do you summarise the effect on UK yards if this contract goes abroad? How do you summarise the effect on UK yards if you were to award this contract, for example, to Spain or Korea?

Air Marshal Knighton: Are you talking about the FSS contract?

Mr Francois: I think we have been talking about the FSS for the past half an hour, Richard, so yes, sir.

Air Marshal Knighton: As we said, there is a UK yard in the competition. As it is a competition, we expect them to put forward a price. We don't



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examine in fine detail precisely what that means in terms of the number of workers that they would have to hire in order to deliver it. It is self-evident that if that ship were not built in the UK, that work would directly be elsewhere, but that does not mean to say—if the yard is competitive—that it would not win other business elsewhere.

Q277 Mr Francois: Why don't you just drop this whole pretence and negotiate the best, most aggressive price you can with the UK consortium? I suspect that we will call a Committee meeting when you are very close to your decision, and we will see whether the Minister comes along again with some good news. Why don't you just go straight to the UK alliance to negotiate the best price that you can get?

Air Marshal Knighton: We have very good, clear evidence that competition drives better value.

Q278 Mr Francois: Except when it is E-7, P-8 and all that. What I am saying is that the Secretary of State virtually gave the contract in that speech, so why don't you just stop pretending, cut to the chase and get on with it? We all know that you are going to give it to the UK yard at the end of the day, so stop wasting time.

Stuart Andrew: May I correct you there? The Secretary of State did not say that. In fact, in the questions after the speech, she was asked explicitly whether she could confirm today that the FSS would be going to a British shipyard. She said no.

Mr Francois: I heard the speech and—

Stuart Andrew: So did I. It is important for the public record for me to say that she did not confirm that FSS would be going to a UK yard.

Mr Francois: I think your risk is that your foreign bidders will drop out. Anyway, that is me done.

Sir Simon Bollom: Another one for the record, if I may: we are not going to run a competition just to award it to a UK yard. That is emphatically not what we are doing.

Mr Francois: Okay—for this, because it is not a warship.

Q279 Chair: Indeed. The worry is that it might be awarded to a competitor with an unfair advantage in the competition—for example, by state subsidy of the bid being made. So we are not taking it for granted by any means that it will go to a British shipyard.

Sir Simon Bollom: We are going to run a competitive bid process. I want to be clear: we are in the competition now, and we will run the process. We will receive the bids back in July, and we will make a decision at that point.

Q280 Chair: If the ships were to be built in the UK, do you accept the estimate that up to 1,800 jobs would be created, and that if they were built abroad, over 800 jobs would be lost? Do you accept that that is an



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accurate estimate of the labour situation?

Sir Simon Bollom: I have certainly not seen any analysis from my team to support those assumptions.

Q281 **Chair:** Would you like to offer a better guess?

Sir Simon Bollom: I do not have a better guess, I'm afraid. It rather depends on the workload. The other piece of the jigsaw is the Type 31, so there are all sorts of permutations and combinations.

Ruth Smeeth: That is a warship, right?

Mr Francois: The Type 31 is. We're just checking.

Q282 **Chair:** I just want to check one other thing for the record before I ask Martin to come in. Did I form the impression earlier that you are saying that you are content to allow Rosyth to close if need be, because you are satisfied that the aircraft carriers could have their periodic deep servicing in other yards?

Sir Simon Bollom: I did not want to give the impression that we are content for Rosyth to close. Like any other taxpayer, I am keen to have a vibrant shipbuilding market in this country. I was pointing out that there are other options for dry docking the carrier.

Q283 **Chair:** But do you not accept that a win-win situation would be that if it turned out that these fleet solid support ships were built by the UK consortium, enough of the work would be done at Rosyth to ensure the survival of those yards and to take the workforce through to the period where the carrier work could become available to it? Therefore, the overall footprint of UK shipbuilding would be retained, rather than significantly reduced. Is that a factor that you will have in your minds when you make this decision?

Sir Simon Bollom: Two questions there. I reiterate that it is not just the FSS that determines the future of Rosyth. There are other bids that are ongoing and could keep it going. There are other opportunities for Rosyth. To go over what I said before, the way this competition is set up means that, along with the departmental policy, we will look at the value inside the scope of the contract.

Chair: Ruth, last word before you bail out, and then I will bring in Martin.

Ruth Smeeth: I apologise; I need to leave for another meeting. Sir Simon, you suggested that it was fine if Rosyth closed. That was the impression that many of us were left with.

Chair: In fairness, Sir Simon, you have corrected that. That is why I raised the question.

Q284 **Ruth Smeeth:** I think it is a very careful use of language when we are talking about thousands of people's employment. How much money did we invest in Rosyth with BAE for the aircraft carrier in the first place, given that we are walking away from it because we have a problem with



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the steady drumbeat of orders that we are not awarding to British companies because we do not believe something is a warship, even though it will be deployed with warships?

Sir Simon Bollom: I don't know the investment figures into Rosyth to build the carrier.

Air Marshal Knighton: It is worth noting that Rosyth just won a competition for some sustainment and support activity for the carrier.

Q285 **Ruth Smeeth:** Here's my problem—I think it is a problem for anybody. I come back to the steady drumbeat of orders. Everything becomes more expensive when we have significant gaps. Everything becomes more expensive, or almost impossible to deliver, as we saw with the Astute-class submarines, when we don't have a steady drumbeat of orders, because we lose the sovereign skills. In the case of Barrow, we had to go and ask General Dynamics to come and help us. Everything keeps getting more expensive.

Air Marshal Knighton, you now see the scale of the procurement gap, as it is now your responsibility. A lot of that is because of decisions made by your predecessors, Minister. I do not understand why we keep going round in circles when, in the longer term, you are going to be adding another 10% or 20% to the black hole that already exists within your budget. I don't understand the logic.

Stuart Andrew: I don't want to go over the same old arguments, other than to say that we are trying to make those yards as competitive as possible. That really is important for us, so that when there is a gap for any defence order, it is not just left because the yard has not looked at other work that it could feasibly win. We now have the 30-year plan for the ships that we are going to need so they can plan and see where those gaps will exist. They are going to have to be competitive if they are going to win the contracts in those quiet periods. It is important that we try to work with industry to make sure they are as competitive as possible. As I say, this couples with a lot of the work that the new Secretary of State has just commissioned to look at all these issues in even more detail.

Martin Docherty-Hughes: I take no consolation from the answers we have been given here. Mr Francois' question was, "What are you doing to ensure that shipyards like Rosyth contain capabilities and skills for refitting the carriers?" and all we heard was a litany of other yards across the rest of the United Kingdom that could deliver what Rosyth do. As a son of the Clyde, I do not need a history lesson on where the Ministry of Defence over a long period of time disinvested an entire infrastructure programme across one of the greatest shipbuilding rivers in the world. I have grave concerns, first about the language used. Chair, I appreciate that you say that they have sought to say that that is not what they mean, but given the history of the Department in shipbuilding, no one in any part of the United Kingdom should take any solace from this type of answer. I just think it is unbelievable. It is groundhog day for those of us who have been there before.



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Chair: Well Martin, you have the next set of questions.

Martin Docherty-Hughes: Well, let's fire them off. Let's go on to processes.

Chair: We want to finish within about 15 minutes, maximum.

Q286 **Martin Docherty-Hughes:** I will try to get them all in as quickly as possible. Where are you in the procurement process? What is the next milestone? Two consortia, Italian and Korean, have withdrawn from the tender. What does this mean for the programme and the likely cost?

Stuart Andrew: Can I just say right at the outset that, as I confirmed to the House yesterday, Fincantieri have withdrawn, but I cannot comment on any speculation that the other has? I want to make that clear at the outset.

Q287 **Martin Docherty-Hughes:** Okay. But you can maybe expand on—

Stuart Andrew: Yes. Simon, can you corroborate where we are?

Sir Simon Bollom: In terms of the timelines, we are expecting bid returns in July of this year, and there will then be a period of intense discussion and negotiation with each of the bidders, which we expect to take about 12 months, leading to a design build contract in July '20.

Q288 **Martin Docherty-Hughes:** Okay. The proposal has changed to two fleet solid support ships, with an option for a third. How likely are you to take that option?

Air Marshal Knighton: It will depend on the price and on our sense of whether the requirement is adjusted at the time, but we will need to see the price and then consider that in the context of the wider defence budget prioritisation.

Q289 **Chair:** Why did you reduce it from a definite order for three ships to two plus possibly a third?

Air Marshal Knighton: It is quite good practice to request industry to price us for the first batch, and to keep open the option for the next batch—in this case two and a third—in order to keep industry keen and ensure that we have the best possibility of getting a good price.

Q290 **Chair:** How many ships are these two or three meant to be replacing?

Air Marshal Knighton: I will have to come back to you. It depends on what timetable you look at, but these are large ships—the fleet solid support ships. I will come back to you, Mr Chairman.

Q291 **Martin Docherty-Hughes:** In her recent speech, the new Secretary of State said that she had "commissioned work examining the lessons from the Mars tanker procurement, especially for our UK supply chain". Is this exercise too late to affect the FSS programme?

Air Marshal Knighton: In short, the competition is already running, so we would have to throw away the competition, and the risk of doing that is



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very serious; in fact, there is a certainty that we would deliver the capability late and would have a capability gap.

Sir Simon Bollom: I think the stop point here is our intention to place a contract in July '20. We will run through the process up to there. That is the point at which the current timetable shows a firm commitment.

Q292 **Martin Docherty-Hughes:** The Secretary of State also said in her speech that a sample of live MoD programmes found "that the initial estimated cost of a project rose by 35% on average and delivery time by 46%". How will you ensure that this does not happen on the fleet solid support programme?

Sir Simon Bollom: Much of that was looking at the big capital ship programmes that had gone through—the warships. I can only take the Tide-class tanker, and in that particular instance it delivered inside our budget. So that was the value of competition there.

Q293 **Chair:** We are almost done. How do you protect yourselves against the possibility that, in a bidding situation of this sort, a foreign bidder—possibly state-subsidised—might deliberately underbid what the British consortium might be able to offer with a clear conscience, and then, after it is too late and the foreign bidder has got the contract, it turns out to be more expensive and is delayed? Do you have the contracts drawn up in such a way that they have to bear the loss, or do we have to?

Sir Simon Bollom: The first part is that we will do an extensive piece of due diligence on the winning bidder, as we did with the Tide class tankers. We have a process that looks for abnormally low bids. We will of course have a very detailed breakdown of the cost estimates that the supplier provides, and of course we have benchmarks. We will be pretty confident that we could identify a low bidder. The intention, just as we did with Tide, would be to go for a firm fixed price on this. It is then up to the bidder to make sure that they deliver—there is no more money available.

Q294 **Chair:** Yes. I am not an expert on the subject, but I believe there were problems with that tanker delivery. Is that right?

Sir Simon Bollom: There were some negotiations at the end. The contractor found that it was a tough target that was set, but that is what you get with a firm fixed price—there is an associated risk.

Q295 **Chair:** So we didn't lose out?

Sir Simon Bollom: We absolutely didn't. We came inside the budget.

Q296 **Chair:** That is very clear and the sort of answer I was looking for. Thank you. Finally, do you think that chapter 5 of the national shipbuilding strategy, on industrial policy and prosperity, is dead? Or can we take some comfort from another quote from the new Secretary of State's speech at RUSI, when she said the aim is: "To create a virtuous circle where we recognise that it's long order books and a steady drumbeat in our yards that strengthens our supply chain and brings down the overall cost of procurement. What's needed is a closer partnership with industry



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that gives them confidence to invest and build and us the confidence that we can and must buy British.” Is she on track? Is the chapter of the national shipbuilding strategy that suggests the same sort of thing on track? Or are these just virtuous words, rather than a virtuous circle?

Sir Simon Bollom: I will defer to my Minister.

Stuart Andrew: The Secretary of State was clearly saying that we understand and recognise the point about a regular drumbeat, but we have to ensure—I keep going back to this point—that we get value for money for the taxpayer and that we get the maximum capability available with the budget that we have. In order to ensure that those yards are able to produce such equipment, we need them to be competitive. The Secretary of State was very clear in challenging the industry to do that, and that is why we are working very closely with them. We are looking at a whole range of aspects around the prosperity agenda, following Philip Dunne’s review—things like setting up the new joint economic data hub, which is looking at what is the true value of defence to the wider UK economy and how we are making more of the industry more competitive. We are working closely with people like ADS, Defence Economics, the Office for National Statistics and—

Q297 **Chair:** Is that data hub in the MoD itself?

Stuart Andrew: It is down at Farnborough, isn’t it?

Air Marshal Knighton: It is in Farnborough. It is an adjunct to the DSC.

Stuart Andrew: As part of that, in the autumn we are having the Defence Economics Conference, which will again be hosted by King’s College London. It will look at the value of the defence sector, so that we can really try to understand the true value to the UK economy of the defence sector.

Q298 **Chair:** You will no doubt know about the King’s College report of a few years ago that Lord Sterling commissioned, entitled *A benefit, not a burden*, which stressed the amount of revenue that comes back to the Treasury and to the economy when British defence expenditure is invested in expenditure by British defence industries.

Finally, how far has Sir John Parker got with his review of the national shipbuilding strategy, and when is he likely to report?

Stuart Andrew: My understanding is that his report will be published jointly with our response, and that will be later this year.

Q299 **Chair:** Okay, so we now know it will not be next year, but there is a lot of this year left to go. Can you narrow it down a bit more?

Air Marshal Knighton: Sir John has not yet passed his report to the Secretary of State. We expect that to happen soon, but it is Sir John’s report and I am afraid we do not know precisely when he is going to pass it on.

Q300 **Chair:** But you think it is at a draft stage, perhaps.



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Air Marshal Knighton: It is imminent.

Q301 **Chair:** In that case, I would have thought it would be a matter of weeks rather than months, with any luck. We will look out for it.

Stuart Andrew: We are in Sir John's hands.

Chair: Well, give him a nudge.

Thank you all very much. It has been a marathon session and we have covered a lot of ground. We are very grateful to you all.