



House of Commons
Defence Committee

**Foreign Involvement
in the Defence Supply
Chain: Government
Response to the
Committee's Fourth
Report of Session
2019–21**

**Fifth Special Report of Session
2019–21**

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The Defence Committee

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Fifth Special Report of Session 2019–21

On 14 February 2021 the Defence Committee published its Fourth Report of Session 2019–21, [Foreign Involvement in the Defence Supply Chain](#) (HC 699). The Government's response was received on 14 April 2021, and is appended to this report.

Appendix: Government Response

The House of Commons Defence Committee (HCDC) published its Fourth Report of Session 2019–21 on Foreign Involvement in the Defence Supply Chain on 14 February 2021 (HC 699 Report).

The Government welcomes the Committee's report. Our response is set out below. The Committee's conclusions and recommendations are highlighted in bold, with the paragraph numbering in brackets referring to their location within the report. The Government's response to each, follows in plain text.

1. It is difficult to define what constitutes foreign involvement in the UK defence supply chain. However, regardless of the level of foreign ownership or the closeness of a company's relationship with another Government, any foreign domiciled company, or subsidiary owned by a foreign domiciled company, will be subject to influence from outside the United Kingdom. (Paragraph 6)

The Government agrees with the Committee that it is difficult to define what constitutes foreign involvement in the defence supply chain. As noted in our written evidence to the Committee, the defence supply chain includes companies from a wide range of different business sectors, including, for example, those providing construction, facilities and estates management, and IT. Many of the companies that play a critical part in the delivery of defence outputs obtain only a minority of their revenue from defence customers. The majority of top suppliers to the Ministry of Defence (MOD), by spend, are Public Limited Companies, with a diverse international shareholder base, and shares being freely traded on the stock exchange.

Regardless of ownership, the MOD requires companies to have a robust regime in place to restrict access to classified information to appropriately cleared individuals. In addition, in a small number of particularly sensitive cases, the Government holds special shares for national security reasons in companies including: BAE Systems; Rolls-Royce Holdings; QinetiQ; and certain subsidiaries of Babcock International.¹ The special share typically provides the Government with certain rights, including the ability to: limit the ownership of a single foreign shareholder or foreign shareholders acting in concert; restrict disposals; and/or to control the nationality of company directors.

¹ The Government has maintained some control over privatised defence firms through special shares. These give the Government certain rights, including the ability to limit foreign ownership, restrict disposals, control the nationality of company directors, and require maintenance of an effective compliance system.

2. As a result of the Ministry of Defence’s approach of encouraging inward investment, foreign involvement in the UK defence supply chain is widespread, with the UK hosting a broad range of UK-based and international suppliers. This approach has brought many benefits to the UK defence industry and wider economy. (Paragraph 13)

As the Committee notes, the Government’s open approach to inward investment has resulted in significant benefits to the UK economy. It provides a substantial contribution to business turnover and job creation across the UK and will be essential in delivering on the Government’s wider objectives including levelling-up, clean growth, innovation, and job creation.

Since 2010/11, the UK has been the recipient of over 16,000 Foreign Direct Investment (FDI) projects. The UK has the second-largest inward FDI stock in the world after the United States (US) and is ranked eighth among 190 economies for the ease of doing business by the World Bank. The Department for International Trade (DIT) found that inward FDI created over 56,000 new jobs in the UK (across all sectors) in 2019/20. Studies suggest that FDI is also associated with increases in Gross Value Added and economy-wide productivity.

Foreign involvement in the UK defence supply chain has offered access to international programmes, high-end technology and partnerships that deliver capability for our Armed Forces and opportunities for UK industry, and the defence supply chain has significant overlap with civil sectors and applications. Over recent years, the UK’s defence and security industrial sectors have increasingly internationalised and several defence and aerospace companies founded in the UK now have significant global reach. For instance, BAES’ turnover in the US in 2019 was £8.6 billion, representing 43% of their total sales against 19% in the UK, and the majority of its employees are now overseas. Other examples of companies with significant overseas operations and sales include Rolls-Royce, Martin Baker Aircraft and Ultra.

At the same time, overseas based companies have chosen to move parts of their businesses into, or invest in, the UK. Notable examples include: Leonardo, with its headquarters in Italy, which employs over 7,500 people in the UK; Thales, a multinational aerospace and defence company headquartered in France, which operates nine key sites and employs over 6,500 people across the UK; and Airbus, a European firm headquartered in the Netherlands, which operates more than 25 sites in the UK with a workforce of 12,500.

All the top five US-based ‘Primes’ (Northrop Grumman, Raytheon Technologies, Boeing, General Dynamics and Lockheed-Martin) have invested in sites in the UK. International joint ventures also can play a significant role: one of the most successful being MBDA, a joint venture of Airbus, BAES and Leonardo, which employs over 11,500 people across France, Germany, Italy, Spain and the UK. Multinational firms operating in the UK can bring investment in skills and new technology, thereby strengthening our industrial base and generating prosperity benefits including exports. Through our relationships with international allies and major global companies, we look to create opportunities for the UK supply chain. This includes reducing barriers to trade and initiatives such as the prosperity agreements with companies such as Boeing and Lockheed Martin.

3. If the Ministry of Defence has the level of oversight of the defence supply chain that it claims, then it is clear that it was aware of purchases by Chinese companies into the UK defence supply chain and decided that such involvement was an acceptable risk. We do not agree. (Paragraph 23)

As the Committee is aware, the MOD wants to source the best solutions for our requirements. This naturally means that there is significant foreign involvement in the defence supply chain. Given the scale, depth and complexity of our defence supply chain, we focus our supply chain monitoring efforts on critical capabilities. The MOD is undertaking detailed supply chain visibility and risk assessment programmes, which includes foreign ownership.

Foreign investments, regardless of their country of origin, are subject to thorough scrutiny and must satisfy our robust legal, regulatory and national security requirements. Where necessary, the Government will investigate and apply appropriate mitigations. The Government recognises the risks associated with more sensitive procurements, and - where appropriate - undertakes such activity with trusted suppliers only. Measures in place to protect UK intellectual property (and prosperity, operational advantage and freedom of action) include export controls, a rigorous investment screening regime, capability assurance, patent controls, research licenses, protective security and outreach campaigns to stakeholders including UK business.

Whilst noting the Committee's concern regarding a Chinese presence within the defence supply chain, we consider that the extant, risk-based approach continues to be the most appropriate counter to potentially hostile investment, whereby each case is judged individually on the basis of the relevant facts. The recent examples of transactions involving Cobham, Inmarsat, Mettis Aerospace and Impcross have demonstrated that, where foreign ownership raises national security issues, the Government is prepared to use existing powers to intervene and to ensure that any such concerns are assessed and properly mitigated. The National Security and Investment (NSI) Bill will introduce enhanced powers for reviewing and intervening in business transactions that might raise national security concerns.

4. The Ministry of Defence should assess the implications of Chinese ownership of the companies listed within this report. (Paragraph 24)

The Government notes the Committee's recommendation and would like to reassure its members that the MOD (and the wider UK investment security community) has assessed - and will continue to assess - the implications of all investments into the UK defence supply chain where there are national security concerns. Decisions on the potential threats from foreign owned companies are addressed on a case by case basis.

We do not consider that it would be appropriate to comment on individual decisions on past interventions, which were taken by previous Ministers and Governments, based upon the facts at the time. But we can reassure the Committee that we have looked at potential threats to national security resulting from Chinese ownership of the companies listed within the report.

The MOD actively manages the defence supply chain and has regular dialogue with key suppliers. It monitors mergers and acquisitions to ensure that any national security risks are identified and mitigated in line with our risk-based approach.

5. **The Ministry of Defence’s open and country-agnostic approach to foreign involvement means that the defence supply chain has been open to potentially hostile foreign involvement, with reports of companies being owned and influenced by foreign Governments whose values and behaviours are at odds with our own and who are known to engage in intellectual property theft. *The Ministry of Defence should publish a list of countries it considers friendly and from whom investment should be encouraged. All those countries falling outside of this list should be barred from investing in the UK’s defence supply chain, including China and Russia.*** (Paragraph 27)

The open and country-agnostic approach to foreign involvement in the defence supply chain mirrors the wider approach followed across Government, which has worked to the benefit of the UK. As the Committee is aware, the overwhelming majority of investments in the UK’s economy raise no national security concerns.

As an open economy, we welcome foreign trade and investment where it supports UK growth and jobs, meets our stringent legal and regulatory requirements and does not compromise our national security. The Government will continue to monitor transactions where there are potential national security concerns from any country—and investigate and apply appropriate mitigations where required.

We note the Committee’s recommendation that the MOD should publish a list of countries considered to be friendly. We understand the Committee’s intent, recognising the importance of the defence sector and its supply chains to our national security and the development of innovative and first-class military capabilities. But the Government considers that our current risk-based approach to foreign investment remains appropriate, whereby each case is examined individually, and considers the ownership of the proposed acquirer, the nature of the target company and the type of work that it undertakes. This approach reflects the fact that the ostensible domicile of an investor does not in itself, provide a complete and fully accurate indication of the potential level of security risk. We also think that a determined hostile actor could seek to obscure the ultimate acquirer by using companies it owns in countries on the ‘friendly list’, hence the requirement for case-by-case analysis.

Our risk-based approach will be further strengthened by the additional protections that will be introduced by the country agnostic NSI Bill for which the Committee has expressed its support. The MOD - and other Government departments - will continue to scrutinise foreign acquisitions on a case-by-case basis to ensure we can best protect our defence industry and the wider economy, without taking a pre-emptively discriminatory approach. With strong measures in place, we will act to protect our national security interests regardless of the source of the investment.

6. **Recent reports have highlighted the purchase of second-hand Chinese equipment by the Ministry of Defence. This is deeply concerning. *The purchase of equipment from China for use by the Armed Forces should not be considered a viable option by the Ministry of Defence.*** (Paragraph 29)

The Government recognises the Committee’s concerns regarding the importance of our acquisition strategies and supply chains for defence equipment, including associated security considerations. However, it is not correct to state that the acquisition of two airframes for the E-7 Wedgetail programme involves the purchase of “second-hand

Chinese equipment”. These aircraft were manufactured by Boeing in the United States. They were sourced by Boeing through the open market by a broker in Canada, having been previously used in a VIP transport role. The use of previously owned airframes provides a cost and schedule benefit to the programme against new airframes from the Boeing production line and will allow for the more rapid introduction of this important capability to Defence. The airframes will be subject to comprehensive overhaul and stringent security checks as part of the extensive modification process.

7. The relative indifference of the Ministry of Defence to the possible relocation of General Electric’s Rugby facility was concerning. We are pleased that this important industrial capacity ultimately remained in the UK. *The Ministry of Defence should prioritise the maintenance of sovereign capability within the UK defence industry.* (Paragraph 32)

The Government is very clear that the MOD did not view the possible relocation of General Electric’s Rugby facility with indifference. As the then-Minister for Defence Procurement said in the House on 20 May 2019, the MOD worked hard to ensure the equipment for the Type 26 frigates continued to be made in Rugby. During the complex negotiations to secure this welcome outcome, the Department was constrained in its public statements by considerations of commercial confidentiality. This did not reflect a lack of concern.

Our review of the Defence and Security Industrial Strategy (DSIS) has considered how we can take a more strategic approach to ensure the UK continues to have competitive, innovative and world-class defence and security industries that underpin national security now and in the future; drive FDI and prosperity across the Union; and contribute to strategic advantage through science and technology. The strategy seeks to ensure the UK maintains the right industrial base to meet our needs—one that delivers the assured support we need in a crisis, and is able to keep up with both the evolving global threat and the opportunities for UK prosperity and capability that new technologies and manufacturing offer. That includes being clear on what we need onshore, either as a strategic imperative or to ensure our operational independence. At the same time, the UK defence industrial base will remain open to partnership with allies and partners.

8. The UK previously lacked foreign direct investment screening legislation which left the defence supply chain, alongside other sectors of the UK’s economy, vulnerable to influence from hostile foreign investors. The National Security and Investment Bill, once law, will change this situation and offer greater protection to the UK’s economy. Alongside industry and many expert commentators, we support the introduction of this Bill and the planned regime. (Paragraph 41)

The Government’s current powers to protect against hostile foreign investment come from the Enterprise Act (2002). Although this Act has been amended, it is no longer sufficiently flexible to address the current risks and changes in the way that technology is developed and applied. The Government welcomes the Committee’s support for the NSI Bill, which will bring in new powers to modernise our investment screening regime, to ensure we strike the right balance between preserving our national security and enshrining our position and reputation as a desirable country in which to invest. This legislation will ensure that we can properly scrutinise any type of deal, of any size, in any sector, that may pose a threat.

9. Some commentators have questioned the placement of the ‘Investment Security Unit’ within the Department for Business, Energy and Industrial Strategy, suggesting that it does not have the necessary expertise and knowledge. We are content, however, that the unit will be able to draw on experience across Whitehall. *The Ministry of Defence, alongside other departments and agencies, should proactively feed into all relevant assessment processes.* (Paragraph 46)

The Investment Security Unit (ISU) has been designed following wide consultation across Government, with the active engagement of Government departments including the MOD and the Agencies. The Committee is quite right to conclude that the ISU will draw upon the extensive experience and expertise of stakeholders across Whitehall.

Sitting within the Department for Business, Energy and Industrial Strategy (BEIS), which already plays a vital role with regard to the screening of foreign investments, the ISU will act as a hub, drawing upon expertise from the Cabinet Office, the MOD, the Agencies and other Government departments, to ensure we process transactions quickly and efficiently—with access to the required evidence and advice. The existing expertise from the Cabinet Office’s Investment Security Group will move into the new unit and all Departments have worked closely together to design ISU processes.

The MOD will continue to play a pivotal role in the establishment of the ISU and the future assessment of cases. The new unit will work closely with the MOD and other departmental teams to carry out risk assessments and gather the sector expertise required to inform decisions, which will be taken by the Business Secretary in his quasi-judicial capacity. The Business Secretary already takes representations from Defence Ministers, especially in those cases concerning defence and security issues.

10. Venture capitalism helps to drive innovation in defence and associated industries. However, we heard concerns that venture capitalist funding could represent an avenue for hostile foreign investors to gain entry into the UK defence supply chain. The Minister for Business and Industry told us that the National Security and Investment Bill legislates in this area to protect national security-sensitive entities. (Paragraph 50)

The Government agrees with the Committee that venture capitalism can have a positive impact on UK industry. The UK remains by far the leading destination in Europe for venture capital and is one of the most innovative countries in the world—ranked fourth in the 2020 Global Innovation Index.

The Committee is right to highlight the importance of understanding the ultimate ownership and investment structure of the venture capital vehicle. Under the new National Security and Investment regime, parties must declare their ownership structures including ultimate owners. If acquirers provide any false or misleading information in their notification, they will be punishable through civil and criminal sanctions in addition to the impact on their transaction. Furthermore, the new legislation will also introduce powers to address the risks relating to small, start-up companies, which was difficult under the extant Enterprise Act (2002), due to the minimum annual turnover and share of supply thresholds.

11. The new regime’s impact on foreign direct investment is, as yet, uncertain. If implemented efficiently the new regime should have little to no harmful impact on foreign direct investment to the UK defence supply chain, only preventing investment that is undesirable. (Paragraph 55)

The Government agrees with the Committee’s assessment that an efficiently operated regime introduced by the NSI Bill will not have a negative impact on foreign direct investment to the UK defence supply chain or the wider economy. The Bill is not intended to deter legitimate investment, but instead will provide a clear and predictable regime that will enhance our legal capacity to protect the defence sector from hostile investment that may damage our national security. This will help to reassure companies and allies that the UK is a safe and secure place to do business.

The Government fully recognises the importance of the regime operating effectively from the first day it comes into force—and is committed to working with investors to provide clarity and certainty around the future regime. It is crucial for business and investors that the Government acts quickly to meet the statutory timescales for screening notifications and carrying out national security assessments. This means that investors will know in 30 working days or fewer whether the Government is concerned about a transaction. For the small minority of cases that require further investigation (estimated in the Government Impact Assessment as 70-90 transactions per year), the Government has a further 30 working days to decide whether to clear, apply mitigations or block a transaction. Whilst this timetable is extendable, a higher legal test must be passed in order to do so.

As outlined above the Government is in the process of creating the ISU to deal with notifications and inquiries, drawing upon expertise from across the Government to ensure notifications are processed quickly. Notifications will be made via a simple digital platform supported by an inquiry email address. The unit will include a dedicated team of officials for businesses to engage with throughout the screening process.

The introduction of a new investment screening regime is not a signal that we are reducing our appetite for foreign investment, but instead represents an enhancement to address the demands of a modern economy. Protecting and nurturing the UK’s strengths and assets is not at odds with an open approach to inward investment. The fundamentals of the UK as an international investment destination—our open, liberal economy, world-class talent and business-friendly environment—remain as strong as ever. The UK will remain one of the best places to do business with many incentives for investors. The Government is committed to ensuring the UK remains a top destination for foreign investment.

12. The defence industry in the UK has remained broadly resilient in the face of financial pressures resulting from the COVID-19 pandemic. Unfortunately, the same cannot be said for all businesses within the defence supply chain, particularly those that also operate in commercial aerospace and are small and medium sized enterprises. The financial vulnerability of such businesses could increase the risk of hostile foreign involvement in the defence supply chain. (Paragraph 59)

The Government shares the Committee’s assessment that UK defence industry has remained broadly resilient despite the enormous challenges posed by the pandemic. But the Committee is quite right to highlight that economic disruption caused by Covid—and the resulting financial stress—could make businesses more vulnerable and susceptible to

takeovers. For this reason, we have provided a great deal of support to business, have continued to monitor transactions under the existing mergers and acquisition legislation and are prepared to act where we identify a national security risk. Indeed, we have strengthened the Enterprise Act (2002) legislation to give additional protection to the supply chain that includes emerging technologies and our capability to respond to public health emergencies. We are also bringing forward new legislation in the form of the NSI Bill. It has therefore become increasingly important that the Government can effectively identify, assess and mitigate any risks from acquisitions in the most sensitive areas. As we continue to battle Covid, we want to keep foreign direct investment flowing into the UK, but we will continue to protect our national security.

The MOD has actively supported the defence sector with increased government financial assistance via the Cabinet Office-led initiative to support strategically important suppliers, the Furlough Scheme, and the Supplier Interim Payments Scheme. The Department has also assisted with contract management support, continued to place orders throughout the pandemic and identified opportunities within the departmental portfolio to provide economic support to UK industry. Feedback from the Defence Suppliers Forum has confirmed that the support provided has been both well received and effective.

The Government recognises that small and medium sized enterprises (SMEs) have a very important role in promoting economic growth. In addition to short-term measures initiated in response to the pandemic, the MOD is working to help SMEs gain a greater share of Defence related business. By 2022, we want at least 25% of our procurement spend to go to SMEs both directly and indirectly. To help achieve this goal, we are refreshing our dedicated SME Action Plan which reinforces our commitment to the SME Agenda, aiming to increase our overall spend with SMEs. This will be published shortly. Our SME spend has increased steadily over the last three years, from 13.1% in Financial Year (FY) 2016/17 to 19.3% in FY 2018/19.

13. The Ministry of Defence and wider Government have provided substantial support to businesses in the defence supply chain. Unfortunately, we heard that this support has not always reached its intended beneficiaries or had the intended consequences. *The Ministry of Defence should improve its communication strategy with small and medium sized enterprises to ensure that they are aware of the support that they are eligible for at this difficult time.* (Paragraph 66)

The Government is grateful to the Committee for the insights it offers. As the Committee notes, we have provided substantial support to those within the defence supply chain and have publicised the opportunities available, which include funding streams from sources such as the Aerospace Technology Institute.

We are concerned to hear that this support has not reached all intended beneficiaries and will seek to further enhance related communications to SMEs, while noting that we have received much positive feedback. The MOD is working closely with the Cabinet Office Strategic Partnering Team, BEIS and DIT to make sure that the right messages are getting through to defence industry on a broad scale.

We recognise the challenges facing smaller businesses and the department's communications strategy has focused on signposting the various sources of Government guidance and support. The MOD adopted a multi-channel strategy to communicate

Covid support measures, including interim payments to maintain cash flow to our supply chain, utilising a combination of direct communications facilitated through the Defence Contracts Online portal, social media (via our Twitter channel @DefenceProc), and through engagement with the Defence Suppliers Forum. We have also worked closely with Strategic Suppliers and Trade Associations to ensure that messaging was cascaded as far as possible into the supply chain, with a focus on reaching smaller suppliers.

Support measures were made available to direct suppliers, with the expectation that these would be flowed down through the supply chain. The then-Permanent Secretary wrote to Defence industry Chief Executives on 27 March and 6 May 2020 to emphasise our very clear expectation that the whole of the defence supply chain should benefit from the approach we are taking to support defence contractors, and that our direct suppliers would, in turn, safeguard their subcontractors, and particularly vulnerable suppliers including SMEs, by continuing to pay promptly and maintain cashflow.

Regular communication with industry, including SMEs, has been a vital part of our response to the pandemic and we are continuing this dialogue. The MOD assessed and monitored the financial resilience of more than 600 of our critical suppliers to better understand supply chain resilience, continued running the Defence Suppliers Forum Executive Group, and established regular meetings with the mid-tier and SME communities to ensure the requirements of different tiers of the supply chain are understood. We work closely with UK defence industry trade organisations including the ADS Group (which represents companies in the UK Aerospace, Defence, Security and Space sectors) and Northern Defence Industries Ltd, which focuses on defence and aerospace supply chains.

The MOD is grateful for the Committee's recommendation that it should improve its communication strategy with SMEs to ensure that they are aware of the support that they are eligible for at this difficult time. Improved communication features within the Department's SME Action Plan, which outlines the commitment to improving engagement with SMEs across the defence supply chain and addressing behavioural, policy and process change. In addition, we have established a new SME Working Group under the Defence Suppliers Forum, to develop a challenging but achievable programme of work to improve SME engagement and to meet the aspirations contained within the SME Action Plan. We plan to publish a refreshed SME Action Plan later this year and will seek to implement any lessons learnt from the handling of the pandemic.

14. The commercial aerospace industry remains financially fragile. *The Ministry of Defence should already be aware of the close links between this industry and the defence supply chain and should consider what more it can do to support businesses which operate here, particularly small and medium sized enterprises.* (Paragraph 67)

Like the Committee, the Government is acutely aware of the current fragility of the commercial aerospace sector as a result of the Covid pandemic and agrees that a strong aerospace sector is important to this country, driving economic growth and prosperity across the breadth of the UK. The UK aerospace sector is a global leader in some of the most technological areas of aircraft production, including engines, wings and systems. We recognise that many aerospace businesses, including SMEs, provide goods and services to both defence and civil aerospace sectors and would like to reassure the Committee that we are fully aware of the close links between the commercial aerospace industry and the defence supply chain.

Covid is presenting particular difficulties for the aerospace industry, and mindful of that, we continue to work closely with aerospace companies to mitigate the risks wherever possible, and to ensure that vital Defence outputs continue. Civil aerospace companies have been able to draw upon the Government's extensive business support measures during this unprecedented period of challenge, including furlough, Coronavirus Business Interruption Loans and Bounce Back loans. The aerospace industry and its aviation customers have been supported with around £11 billion made available through loan guarantees, support for exporters, the Coronavirus Corporate Financing Facility, and Research and Development grants.

To help secure jobs for the long-term, the Government is supporting the development of future green aviation technologies in the UK through our £1.95 billion Aerospace Technology Institute programme and the £125 million Future Flight Challenge. We are committing to JetZero and to becoming a world leader in Sustainable Aviation. The MOD is working with the Department for Business, Enterprise and Industrial Strategy to explore how we can plan and coordinate better our respective investments in aerospace research and technology.

The Committee is right to raise the importance to Defence of supporting the UK civil aerospace industry. While Covid has put significant pressure on the industry, there is evidence to suggest that Defence involvement is playing a crucial role in sustaining work until the civil sector recovers. The MOD takes the health and resilience of its supply chains very seriously and has undertaken significant work with defence suppliers to help alleviate financial problems and improve resilience. We have actively supported the defence sector with increased government financial assistance (via the Cabinet Office-led initiative to support strategically important suppliers, the Furlough Scheme, and the Supplier Interim Payments Scheme) and contract management support. The MOD has ensured that suppliers at risk continue to be paid as normal, and in line with Government guidance, has paid £140 million in interim payments to ensure that critical defence outputs can continue uninterrupted.

The Prime Minister's announcement of an historic increase in defence spending will help to secure jobs in our aerospace industry. The Government is making a strategic investment of more than £2 billion over the next four years in the Future Combat Air System (FCAS). Our commitment to FCAS will generate thousands of jobs across the country over the coming years and will provide a vital boost for UK aerospace. We are aware that based on these investments, some companies have been able to sustain expertise by redeploying staff from civil to military programmes. The Government is committed to ensuring our aerospace industry will not only survive but will thrive in the future.

15. The COVID-19 pandemic impacted the supply chains of defence businesses as well as their finances. Global supply chains for defence represent a vulnerability, especially when these supply chains include materials from countries not closely aligned with the UK. The Ministry of Defence should set out how it is proactively supporting efforts from defence businesses to seek domestic alternatives for supply and to shorten supply chains. (Paragraph 72)

The Government thanks the Committee for its observations. We recognise the impact of the pandemic and agree that global supply chains can involve a degree of vulnerability. Our DSIS review included an assessment of the key capability areas and industry sub-

sectors that we rely upon for our national security - and set out that the MOD would continue to prioritise the mapping of its critical supply chains. This included looking at what we need to have directly available in this country.

Through the DSIS review, we have also explored how we can grow opportunities for UK supply chain companies on both our own programmes and those of our key allies and partners. We actively support those interested in supplying the MOD to find new UK-based suppliers, including, for example, the Boeing Prosperity Partnership. For new contracts, we will be piloting a new industrial participation policy, encouraging bidders to consider what can be supplied from within the UK, to set voluntary targets. The new 'social value in procurement model'—which will ensure that tender evaluations across government fully consider UK social value in a consistent and systematic way—allows us to compare options in individual procurements, including an assessment of which might increase supply chain resilience or boost innovation.

The Government recognises the potential benefits of shorter domestic supply chains, especially where they can enhance supply chain resilience. The recent announcement of the potential for Cornish-sourced lithium, a critical mineral for batteries for electric cars, provides one such example. But there are limits to such an approach since the UK on grounds of geology will remain dependent on external sources for certain strategic raw materials.

The pandemic has demonstrated the importance of resilient supply chains to ensure the continued flow of critical goods and to keep global trade moving. The Government has assessed several critical supply chains, based on our judgement of the severity and likelihood of their disruption against a range of stress scenarios. We have also developed a cross-government strategic framework for addressing potential resilience issues, from a 'market-first' position in line with our commitment to free trade as part of a rules-based system. We have identified mitigations that could strengthen supply chains and are developing a risk and assurance tool for collating intelligence from across government and our overseas network. This will provide central oversight across the most critical supply chains, allowing the UK to respond quickly when risks emerge.

The UK has a diverse range of global trading partners involved in our critical supply chains. As we are committed to championing free trade, our approach to developing supply chain resilience is designed to balance the need to develop domestic resilience in some critical supply chains, with the need for a diverse set of international supply chains and trading partners. Our focus is on ensuring that we have resilient and diverse supply chains in place to allow for the continued flow of essential items and avoid shortages in the future.

We collaborate with allies to address shared risks and develop a common level of collective protection and trust necessary to support the sharing of technology and capability and to ensure access for UK companies in overseas supply chains. Our objectives are to establish greater international cooperation, better understand supply chain vulnerabilities, share diagnoses and inform a coordinated response to our shared challenges. The MOD has been engaged from the start in this endeavour. A primary example is the work being done within the National Technology Industrial Base (NTIB) initiative, which seeks to foster increased cooperation and collaboration between the US, Canada, Australia and the UK. NTIB partners are working together to strengthen and build resilience in respective

industrial bases in areas such as: enhancing innovation to facilitate greater integration, eliminating barriers to the sharing of knowledge, cooperation to resolve specific supply chain issues and for protection against hostile foreign investment.