

## **WRITTEN EVIDENCE SUBMITTED BY ADS**

### **FOREIGN INVOLVEMENT IN THE DEFENCE SUPPLY CHAIN**

#### **1. Summary**

- 1.1 ADS is the trade association for the UK's aerospace, defence, security, and space industries. ADS has more than 1,100 member companies across all four sectors, with over 95% of these companies identified as Small and Medium Size Enterprises (SMEs). The UK is a world leader in the supply of aerospace, defence, security and space products and services. From technology and exports to apprenticeships and investment, our sectors are vital to the UK's growth – generating £79 billion turnover a year in the UK, including £46 billion in exports, and supporting over one million jobs.
- 1.2 The Government's plans to strengthen its powers to scrutinise and intervene in business transactions are supported by ADS. The UK must maintain its sovereign capability and protect critical technologies. Industry is keen to work with the Government to create a regime that encourages investment in UK capability, protects our national security and ensures technologies funded and developed in the UK generate prosperity and tax receipts for the UK. However, international consolidation in our sectors continues at pace and the UK must remain open for business and able to sustain the high value design capabilities essential for future freedom of action. As the Government considers how to shape this policy agenda ADS encourages the Government to consider existing arrangements in the USA and other European nations for the purposes of both best practice and the relative competitiveness of the UK market.

#### **2. What is the current extent of foreign ownership of the UK's defence and security sectors?**

- 2.1 The UK's defence and security sectors host a broad range of UK-based and international suppliers. The UK Government's policy to pursue international competition as a primary means for delivering value for money has resulted in a diverse range of suppliers which are headquartered in a range of UK allies and partners.
- 2.2 Most defence and security suppliers to the UK national security community invest in the UK on a long-term basis. They establish UK businesses, investing in the local economy and creating jobs, and fostering research and development (R&D) activities, contributing significantly to the UK's national prosperity.
- 2.3 These vibrant and internationally enabled industries are a benefit to the UK, enabling greater opportunities for trade and strengthening ties with the UK's allies. These internationally headquartered businesses contribute to national security (such as through developing capabilities and sharing technology) and prosperity (by providing highly skilled, highly paid jobs across the UK) by investing in the UK and supporting the strategic objectives of the UK national security community.
- 2.4 Notwithstanding this, ADS recognises the importance of the security of supply and the possibility of hostile foreign ownership in the defence and security supply chains. Hostile foreign ownership can pose a potential risk to the UK's internationally enabled supply chains if they intend to disrupt industrial support to the UK's national security. This is an important issue that all ADS members are keen to address alongside Government partners. For that reason, ADS supports the creation of a regime that encourages investment in UK capability, protects national security, and ensures technologies funded and developed in the UK generate domestic prosperity.

#### **3. What has been the impact of the COVID-19 pandemic on the defence and security supply chain, particularly the finances of SMEs?**

- 3.1 SMEs across our sectors continue to face severe challenges. The impact on adjacent industries such as civil aerospace has been deep and across our sectors many SMEs face continued threats to their future

because of the interdependencies between aerospace and defence supply chains. Direct support is urgently needed to sustain business, retain expertise and skills, and support liquidity across supply chains. The broader economic outlook is also affecting business confidence. Nonetheless, the UK's defence and security industries have remained broadly resilient during the early stages of the pandemic. This is largely due to the stability of the customer base, long lead times on defence programmes, and new demand for key security capabilities.

- 3.2 Defence businesses have remained active and have been working to fulfil Defence Priorities as identified by the Ministry of Defence (MoD). Security businesses have been supporting a diverse range of customers in UK national security and the private sector, and in some key areas such as cybersecurity and biosecurity demand has rapidly grown for these capabilities. However, it is worth noting that businesses will soon be making key decisions on plans for 2021 that will be influenced by the strength and recovery of the UK economy.
- 3.3 This immediate collaboration between industry and Government greatly helped align priorities and ensure that businesses received the information and practical support they required to keep working safely. However, businesses across the defence and security supply chains have experienced substantial financial difficulties. Financial buffers, stock reserves and other risk mitigation measures that had been implemented in preparation for the UK's exit from the European Union have largely been used up during the pandemic. This now leaves businesses exposed not only to the enduring effects of the pandemic, but also the challenges of the next stage of the UK's relationship with the EU from January 2021.

**4. Under what circumstance will the Government currently intervene to prevent foreign takeovers in these sectors and what changes does the planned National Security Investment Bill make?**

N/A

**5. Are additional measures required to protect UK defence and security technological advances?**

- 5.1 Our industries are vital to designing, developing, building, and maintaining the defence and national security capabilities that keep the UK safe. It is important that the work undertaken to determine the UK's technological requirements, as well as decide which technology areas will be nationally sovereign, is done in partnership with industry. The earliest possible collaboration between industry and Government will result in science and technology (S&T) work that is more innovative and productive in the long term. In implementing the Government's Integrated Review, ADS strongly recommends that the Government views our sectors as critical partners in delivering national security and economic resilience.
- 5.2 To protect UK defence and security technological advances, the Government should focus on a more collaborative culture and mechanisms by which all stakeholders can have detailed conversations in a trusted and secure environment. Industry believes that the full potential of the UK's defence and security sectors could be unlocked by moving from a transactional customer-buyer relationship towards a strategic partnership approach. This can be built through closer communication on threat intelligence, future technology trends and plans, and consultation on investment decisions from all partners.
- 5.3 To effectively tackle shared challenges, including the protection of crucial technological advancements, the Government must work with the UK security and resilience sector to enhance the Home Office's capacity for strategic industrial engagement. The existing machinery for security sector engagement is still at a formative stage and this should be addressed through strengthening the Security and Resilience Growth Partnership and providing additional policy resources for the Home Office's Joint Security and Resilience Centre (JSaRC). This would help industry and Government to better collaborate on strategic policy issues.
- 5.4 Alongside this, the Government must address the financial impact of the crisis on SMEs. It should back initiatives that go beyond the current economy-wide, debt-based support measures and instead support longer term liquidity for firms that enables the supply chain to grow out of the crisis competitively. A

Government-backed equity fund to help the recapitalisation of the supply chain, together with a recommitment to recognised and successful supply chain improvement programmes, will significantly bolster the UK's defence and security supply chain. This would then reduce the vulnerability of the supply chain to hostile foreign takeovers.

**6. How does the UK's regime compare internationally and what can the UK learn from its allies?**

6.1 Several Western countries have amended their foreign investment controls in recent years. When designing its new regulatory regime for foreign direct investment, the UK Government should ensure that the UK regime is not overly restrictive relative to comparable markets. This is crucial for maintaining the UK's global competitiveness, especially considering the business environment post-Brexit.

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