

# Written evidence submitted by Airbus

## Foreign involvement in the defence supply chain

### 1. Introduction

1.1 Airbus is the largest space company and third largest defence company in the UK, with activity across the portfolio of defence and space services. This includes:

- 1.2. being the UK's No1 space manufacturing and system prime company leading on and contributing to numerous European Space Agency and commercial missions and programmes;
- 1.3. operating the Skynet 5 satellite constellation to provide all secure Beyond Line of Sight satellite communications for UK military operations world-wide;
- 1.4. delivering a full support service for the RAF A400M transport fleet, including fleet management, airworthiness management and aircraft maintenance, partnered with the RAF;
- 1.5. being the lead partner of the AirTanker consortium, delivering the RAF's tanker and troop/VIP transport services;
- 1.6. manufacturing Zephyr, a high-altitude pseudo satellite for persistent surveillance and communications, for the UK MOD;
- 1.7. being the sole owner of Surrey Satellite Technology Ltd (SSTL), the world's leading manufacturer of advanced small satellites for more than thirty years, delivering to short schedules and tight budgets;
- 1.8. being one of the only UK companies certified to provide 'high grade' encryption technologies to our armed forces enabling secure voice and data sharing across multiple air land and sea networks without fear of cyber-attack;
- 1.9. provision of high-definition imagery and video from space delivering rapid information to the war fighter in support of military decision making;
- 1.10. being the first supplier in the world to provide secure laser services in space.

1.11 As Britain's civil helicopter hub, Airbus provides 50% of the UK's helicopter market and is a key supplier of military helicopters to the Ministry of Defence. Every UK military pilot is trained on an Airbus Helicopter. Airbus also supplies air ambulance and police helicopters across the whole of the UK.

1.12. Investment in future skills is key to what Airbus does; Airbus has trained in excess of 1,000 apprentices in the last ten years, holds collaboration agreements with more than 20 British universities and spends £340 million per year on UK R&D, making Airbus a champion of UK innovation and skills.

1.13 The UK defence sector needs the ability to rapidly fulfil unforeseen operational requirements during times of crisis and we need to retain and even create the ability to do so

independently by having a strong UK defence and space industrial base. This includes ensuring the complete security and integrity of our sovereign defence capability.

## **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 benefit from incredibly close relationships with our allies, including European nations. Several European countries maintain small ownership stakes in companies supplying their defence and security needs.

2.2. Major capability acquisition programmes are international by design, and Airbus as a company is the epitome of international collaboration leading to success. Airbus would support collaborative and shared science and technology work, which would allow a far greater breadth of work to take place, with data sharing arrangements in place. Our collaboration with British and European colleagues as part of the Eurofighter consortium, made up of BAE Systems, Airbus Defence and Space and Leonardo, bringing together the United Kingdom, Germany, Spain and Italy, has resulted in a supremely capable aircraft supporting UK air defence and the defence of the airspace of our allies.

2.3. The private ownership of Airbus (74 per cent) far exceeds the stake owned by states, and private United Kingdom and United States shareholders collectively own larger stakes than governments. The national investment funds of Germany and France each maintain an 11.1 per cent stake, and Spain has a 4.2 per cent stake. British Aerospace previously held a 20 per cent stake in Airbus Commercial, which was sold by its successor, BAE Systems, in 2006.

2.4. The changes in ownership structures undertaken over the past decade ensure commercial interest is paramount, to ensure that no one nation takes primacy in making decisions regarding the future of the company.

2.5. Airbus in the UK has a distinct UK leadership with the authority to make UK decisions, including UK Eyes Only work. Airbus Defence and Space Ltd (AD&S UK) has a British managing director reporting to the executive vice president for global business and strategic programmes on the global AD&S Executive Committee - who is British. There are two British members of the group Executive Committee - about one fifth of the company's leadership - one of which is the chairman of Airbus in the UK.

2.6. The most significant issue is the continued procurement of overseas equipment without supporting the development of sovereign technologies in the UK. Companies headquartered in the US, for example, fiercely guard their intellectual property, which has led to issues such as eye watering expensive software changes to airborne assets and an inability for the UK to see the software code powering its own aircraft. Companies with a significant industrial presence in the UK develop sovereign industrial capability in defence and security here. Indeed, Airbus alone employs more people in the UK than all of the US defence prime contractors combined, and makes up over 70 per cent of the UK's Space industry, providing a vital national industrial capability.

2.7. Another issue is the continued application of the United States International Traffic in Arms Regulations (ITAR) to UK defence and security equipment and technologies containing US parts and intellectual property, however insignificant. Any export of a British product containing such a part over a certain value requires US Government approval. This poses a challenge to the UK's freedom of action and ability to support its own prosperity through defence and security exports. This is why it is essential that the UK's defence and security exports are developed and built in the UK, using sovereign technology, with as little US IP as possible.

2.8. It is also worth noting that the longest-running case in the history of the World Trade Organisation was instigated at the behest of a US company which has received many billions of pounds of UK taxpayer money in the 16 years since the case was filed. The case has resulted in tariffs on iconic UK products such as Scotch whisky, cheese, pork, suits and, until recently, shortbread. Both the UK and Airbus have called for a negotiated settlement to find a resolution to this dispute, but the US side has so far rejected negotiations to agree a way forward. There is no clearer example of companies representing their respective national interests.

2.9. The UK defence industry has the UK's best interests at heart. This is characterised by UK investment in R&D, capability, skills and infrastructure. Prime contractors with a far smaller UK presence will not always do the same in return, and will not invest in the UK beyond cosmetic contributions, will not locate intellectual property in the UK, and will not develop code in the UK. The UK must get the balance right between cooperation, competition and sovereignty, and cannot allow its hands to be tied.

### **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. Many companies in the defence and security supply chain largely depend on the commercial aerospace industry for revenue. It is therefore essential that the UK Government supports them through this crisis in commercial aviation to ensure they are able to continue delivering vital products and services to defence and to prime contractors.

3.2. The industry body, ADS, is calling for a £1bn fund to support the supply chain, with £200m from the UK Government as part of the Comprehensive Spending Review and £800m provided by the industry and private finance. Airbus fully supports this request and would contribute to the industry funding. A failure to support the UK supply chain would leave innovative companies supplying defence programmes more at risk of foreign takeover.

### **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?**

4.1. The Government can currently intervene in deals worth over £1m under temporary powers, whereas previously the deal had to be worth over £50m. This threshold should remain, or be deleted entirely.

### **5. Are additional measures required to protect UK Defence and Security technological advances?**

5.1. The main role for governments is to put in place statutory obligations to verify ownership and product origin throughout the supply chain for dual use goods. It is incredibly expensive for prime contractors to government to undertake these audits throughout the incredibly extensive supply chains we engage, a problem which has become more pronounced due to the rise of globalisation. This will require the cooperation of our allies, due to the broad international nature of our supply chains.

5.2. Airbus contractually requires its suppliers to notify us when there is a change of name or ownership under a 'change of control' clause. We are unable to demand notice of the beginning of takeover talks due to commercial reasons, however companies in the defence and security supply chain should be required to notify Companies House when it intends to begin such talks, and should require a certificate to continue them. There should also be a duty of candour to disclose ultimate ownership on the company proposing the takeover, with retrospective powers to reverse takeover approval should this duty be found not to have been followed.

5.3. The UK Government already enjoys powers which ensure that technological advances developed in the UK and which have a uniquely compelling application for the UK's national defence and security are available solely to the UK.

5.4. However, we must also concern ourselves with ensuring that the development of future technological advances actually happens. Airbus is concerned about the erosion of high value design skills in the United Kingdom if we continue to buy off the shelf from overseas, and the risk that the UK becomes a 'build-to-print nation'. Safeguarding and developing skills and competencies is a long-term investment, and companies invest in the United Kingdom on a very long-term basis.

5.5. To maintain a talent base requires continual investment in high quality UK projects which stimulate interest and imagination, as well as fund the training and product development base. Airbus is the only large aircraft and satellite supplier to the RAF and MOD with the UK footprint to be such a partner to government, academia and the rest of industry.

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