

Written Evidence submitted by Jag Patel

The defence manufacturing industry in the UK is in terminal decline – not because there are fewer defence contracts going around, but because it hasn't got the ability to adapt to changing market conditions and shifting customer preferences, most notably, that of its primary customer, the UK government.

INTRODUCTION

1. The Comptroller and Auditor General's report entitled *The Equipment Plan 2020 to 2030* finds that for a *fourth* successive year, the Equipment Plan – the list of new defence equipment the government intends to procure in the years ahead – is not affordable, that is to say, there remains a gap between Treasury-allocated funds for defence procurement and MoD's wants and needs outlined in the Equipment Plan.
2. This mismatch between the available budget and MoD's wish list has come about because the vast majority of defence procurement projects in the Equipment Plan are programmes which require substantial development work to be performed upon them, making them inherently risky and therefore, susceptible to repeated delays and cost overruns.
3. Indeed, the NAO report concludes that the funding shortfall may be as much as £17.4bn if all identified technical, financial and schedule risks were to materialise, an *increase* of £4.4bn on last year's figure.¹
4. The government cannot afford to stumble along in this haphazard manner, year after year – especially at a time when the public finances are in such a perilous state, and set to be for many years to come. Fortunately, there is a way out of this dilemma.
5. It should move at pace along the risk-free path it is already embarked upon.

A RISK-FREE WAY AHEAD

6. For many decades, governments of all persuasions were absolutely convinced that handing out single-source, development contracts to selected UK-based defence contractors on a preferential basis was the best way to protect the UK's operational advantage, freedom of action and sovereign capability, because they considered this type of procurement to be fundamentally different from other forms of procurement – such as purchasing equipment which neatly falls into the *off-the-shelf* category.
7. This government no longer is. In a major reversal of policy, it has now ditched the operational advantage, freedom of action and sovereign capability consideration and instead opted for off-the-shelf purchases. Why? Because, despite indulging such contractors with a steady stream of cost-plus contracts for many years, the government has been rewarded with appallingly poor performance, characterised by persistent delays and cost overruns.

NO LONGER CONFIDENT IN THE ABILITY OF ITS OWN PEOPLE

8. One reason why the government has moved away from its longstanding procurement policy of buying equipment designed to a tailored technical specification requirement set by the military customer is because, it is no longer confident in the ability of its *own* people

¹ Report by the Comptroller and Auditor General, *The Equipment Plan 2020 to 2030*, published 12 January 2021, p. 10, PDF file (411 kB). <https://www.nao.org.uk/wp-content/uploads/2021/01/The-Equipment-Plan-2020-2030-Report.pdf>

to identify, manage and control technical risks inherent in a starting-point for the technical solution that requires development work to be performed upon it – which has been the cause of persistent delays and cost overruns on equipment procurement programmes for as long anyone can remember.

9. This tragic situation has come about because it does not possess the capability in the form of intelligent, experienced and loyal procurement officials² who have an adequate understanding of what it takes (in terms of skill types, funding, tools, processes, materials, scheduled work plan, inter-business contractual agreements etc.) to advance an immature technical solution from its existing condition, to a point where it will satisfy the technical specification requirement within a private sector setting driven by the profit motive and people who instinctively employ sharp business practices. Consequently, they are not able to establish what the true status of the evolving technical solution is, based upon claims made by Contractors. They have been taught the importance of having situational awareness but not of *market* awareness. The harsh truth is that, these people have *no* business acumen at all – on account of not having spent a *single* day of their lives in the private sector and yet, they have been put in charge of spending taxpayers' money to the tune of £17bn a year to buy defence equipment, outsourced services and labour from the private sector.

10. Nor is the existing defence procurement process (which has evolved over the years) conducive towards delivering equipment to the Armed Forces which is fit for purpose, adequately sustained in-service and constitutes value for money through-life, because it has been tampered with by defence contractors (most notably the Select Few) who have skewed it decisively in their favour, at every turn.

UNLIKELY TO ACCUMULATE AN IN-HOUSE CAPABILITY ANYTIME SOON

11. The government's considered assessment is that it is unlikely to accumulate an in-house capability of the desired quality and numbers anytime soon, certainly not in the foreseeable future. It has also been realistic and concluded that it is nigh on impossible to reconstitute the existing, flawed procurement process alongside the tough 2015 Spending Review efficiency savings commitments further complicated by its exit from the EU, and now the Covid-19 pandemic – hence its preference for the off-the-shelf option.

12. Ironically, one of the most spectacular benefits to be derived from buying off-the-shelf equipment is that the administrative leadership at MoD will be absolved from its burdensome responsibility of having to upskill its existing procurement staff to a level comparable with that exhibited by counterparts in industry, because this type of acquisition is relatively straightforward and can even be undertaken by mediocre post holders with no business sense – not least, because it is devoid of any hidden financial, technical or schedule risks which are inescapable features of development programmes.

13. The maturity of a starting-point for the technical solution can fall anywhere between two extremes, as shown in Figure 1 below. At one end, starting from a “blank sheet of paper” amounts to a non-existent solution whereas at the other end, an off-the-shelf equipment corresponds to a readily available, fully engineered and supported technical solution which satisfies the totality of the requirement at *no* additional cost or risk to the Exchequer, that is to say, it does *not* require any UK-specific modifications or related development work laden with risk to be performed upon it – making it the first and foremost choice for consideration.

FALSE PROMISES AND LIES HAVE DESTROYED TRUST

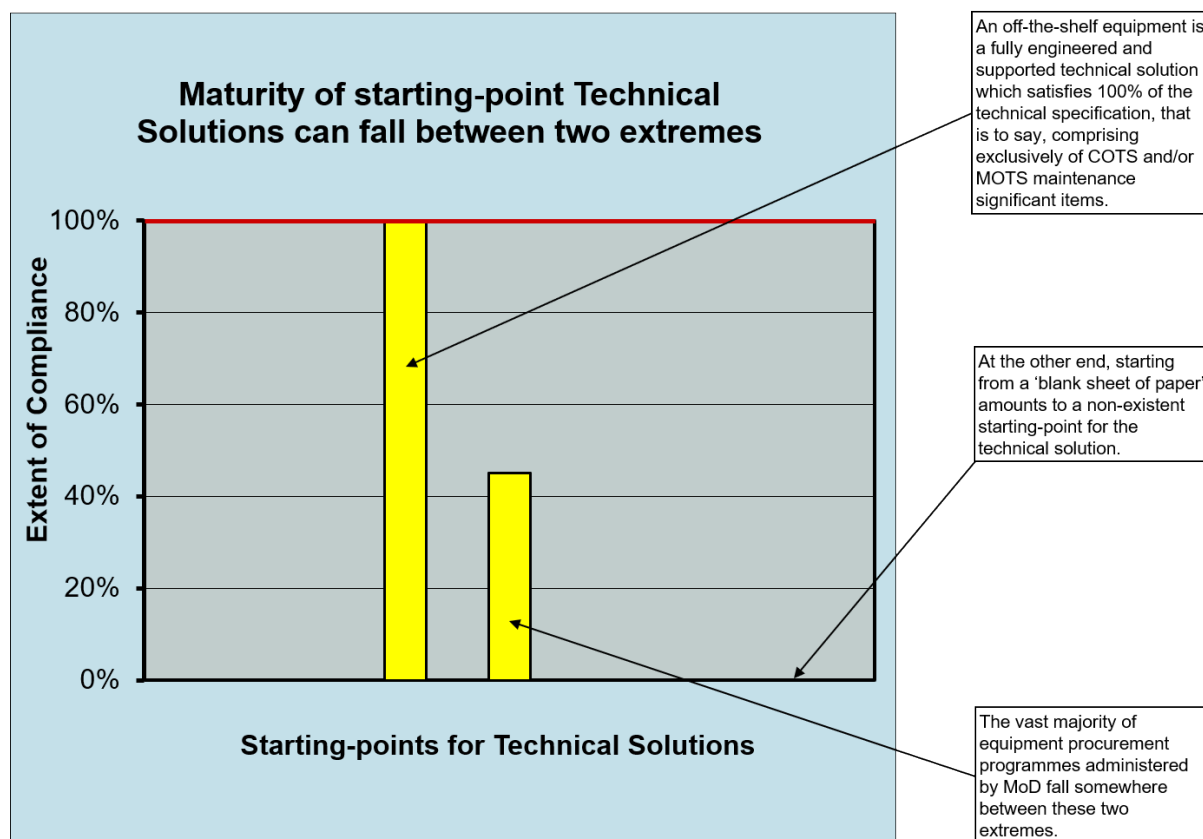
14. After being misled by UK-based defence equipment manufacturers with false promises and lies for decades, this generation of elite politicians, senior civil servants, military top brass and front-line procurement officials have been so badly scarred that,

² Written submission to the Public Accounts Committee, Inquiry into *Lessons from major projects and programmes*, Written evidence from Jag Patel, published 30 November 2020, p. 5, PDF file (200 kB). <https://committees.parliament.uk/writtenevidence/16825/pdf/>

there remains little appetite to consider any alternatives that may be put forward by these same dishonest suppliers.

15. In snubbing their usual proposals, this government has put financial security and the national interest first, *not* military equipment manufacturers' commercial interests.

Figure 1



16. But there is yet another, even more important reason for the government's decision to revise its policy on defence procurement – and not surprisingly, it has everything to do with getting value for money for taxpayers.

UK TURNS TO THE UNITED STATES

17. Many people will know that a handful of US Marine Corps F-35 fighters are currently embarked upon HMS Queen Elizabeth alongside F-35s from RAF Marham to conduct joint training missions and demonstrate visibly not only UK-US interoperability, but also force integration.

18. What is not so well publicised is the fact that the UK and US governments have already achieved an *even* greater level of integration – by closely aligning their defence procurement activities to not only narrow the technological gap between UK-US forces during joint operations, but also mutually benefit from network effects of economies of scale.

NETWORK EFFECTS OF ECONOMIES OF SCALE

19. In a free market of mass-produced products, it is widely accepted that purchasers of goods can benefit from greater buying power because manufacturers are able to offer lower prices for the same design configuration of a fully engineered product, due to large-scale production and economies of scale, underpinned by bulk orders from different customers, which allows longer production runs to be maintained.

20. The main reason behind this government's decision to buy off-the-shelf equipment is that there *already* exists a fully functioning and verifiable production line, tooled-up for the

product being manufactured, which also attracts the interest of other potential customers around the world. Therefore, it stands to reason that for the government to negotiate the *lowest* possible price for the prime equipment (and its Support Assets package), it should hold back from taking the main investment decision until the price has fallen to an affordable level, by allowing other government customers to get ahead of it, *before* placing its order. This delay is further justified by the fact that the value of sterling has fallen significantly against major currencies since the EU referendum vote, making off-the-shelf equipment ordered from abroad a little bit more expensive.

21. In the event that the vendor subsequently receives *further* orders for the same equipment from other countries, then according to the laws of economics, the unit price of that equipment should come *down* by a proportionate amount, enabling *all* earlier government customers to demand and obtain a cut in the contract price already agreed.

22. So, relying on economies of scale is a pretty good reason why buying off-the-shelf equipment makes sense, because it is the *only* type of procurement strategy that offers the prospect of a *reduction* in price *after* the supply and sustainment contract has been signed – unlike the other two approaches, namely procurement through open competition and simply handing out single-source, development contracts on a preferential basis to the usual suspects – which only guarantee an *increase* in costs, post contract award.

23. Indeed, the government is so enamoured by the utility of this network effects mechanism of economies of scale that it wasted no time in putting it to use whilst procuring one of its most important off-the-shelf pieces of equipment, the Apache AH-64E attack helicopters manufactured by the US defence contractor, Boeing.

AN INNOVATIVE APPROACH

24. Instead of placing an order directly with the vendor, the UK government has deployed an innovative approach. It signed a Foreign Military Sales agreement with the US government for 50 Apache AH-64E helicopters, which the latter then *combined* with its own considerably larger order without necessarily telling the vendor, to leverage its enhanced buying power and negotiate the lowest possible unit price from Boeing, thereby securing best value for money for both, the US and the UK. For confirmation, see this answer from the then Parliamentary Under-Secretary of State for Defence Procurement to a written question in the House of Commons, shown in Figure 2.


Figure 2

Apache AH-64 Helicopters: Written question - 3570

Q Asked by **Mr Kevan Jones** (North Durham)

Asked on: 06 July 2017

Ministry of Defence

 3570

Apache AH-64 Helicopters

To ask the Secretary of State for Defence, when he expects his Department to complete the order for all 50 AH-64E Apache attack helicopters.

A Answered by: **Harriett Baldwin**

Answered on: 11 July 2017

The Ministry of Defence is buying 50 Apache AH-64E helicopters from the US Government under a Foreign Military Sales arrangement. The US has ordered the first 38 of the UK helicopters as part of its own larger purchase, under a multi-year contract with Boeing. This ensures we can take advantage of economies of scale and secure best value for the UK taxpayer, while procuring a vital capability for the UK. We expect the remaining 12 helicopters to be incorporated within the contract by the end of the year.

25. Here is an excellent example of the UK and US governments working together, in their mutual interests, to exert maximum pressure on the private sector so as to extract significant price concessions, which they would not otherwise be able to do in the absence of competition. It will come as no surprise to learn that the nine P-8A Poseidon maritime patrol aircraft have also been bought in this clever way.

26. There is every chance that this novel approach to defence procurement expedited by a government-to-government agreement will be taken-up by other NATO members, Five Eyes intelligence-sharing nations and friendly democratic countries, especially the smaller ones which are not able to take advantage of the economies of scale mechanism by going it alone, but still have requirements to buy tiny quantities of common equipment platforms to fulfil, not only their standing military tasks, but also homeland defence responsibilities. It goes without saying that this opportunity to “club together” individual orders with like-minded countries can only work if the equipment to be purchased is *identical*, in every respect, to that being procured by the order-hosting government.

SKELETAL PROCUREMENT TEAM

27. What more, the purchasing country will be able to get away with assigning only a skeletal procurement team to see the acquisition through, as the cost of the traditional (overmanned) procurement team and associated risks will be borne by the US government, which will remain the interface between the Project Office in the Pentagon and the vendor.

28. It is worthwhile noting that no country has approached the UK government to purchase equipment from UK-based defence contractors in this imaginative way. There is a simple reason for this. The domestic defence industry has not got any newly designed equipment on offer which is both, in service with the UK Armed Forces and can be described as being truly off-the-shelf.

ALLOWS RE-PROFILING OF THE DELIVERY SCHEDULE

29. Yet another unanticipated but welcome benefit to be derived from this joint approach to buying equipment of a settled design standard involving multiple buyers is that, it allows re-profiling of the delivery schedule by any country which has seen an unexpected demand for emergency funding made upon its finance ministry that needs to be addressed immediately. Although unusual in that it has impacted just about every country in the world, the Covid-19 pandemic is a classic example, but there can be other events such as severe recessions or natural disasters like earthquakes, tsunamis, floods, wildfires etc. If such a catastrophic event were to occur, then the affected country could choose to defer an equipment order, in part or wholly *without* incurring a penalty, in favour of one or more countries lower down the “waiting list” who are willing to take receipt of equipment earlier than they would otherwise have done. There will always be such takers because militaries everywhere are always keen to induct equipment into their inventories as soon as possible.

30. Governments around the world know from bitter experience that no such flexibility exists within the construct of a traditional equipment procurement contract with indigenous defence contractors, because such a request will be met with the usual response – pay a charge (which is always punitive) for disrupting the production line and breaking the terms of the contract.

MOST NEW EQUIPMENT IS FROM THE US

31. In addition to the three off-the-shelf purchases which are currently well under way – namely, the P-8A Poseidon maritime patrol aircraft, the Apache AH-64E attack helicopters and MQ-9B Protector armed drones, the government has recently signed contracts to buy E-7 Wedgetail airborne early warning and control aircraft, BOXER armoured vehicles and has made known its intention to acquire the Joint Light Tactical Vehicle for its Multi Role Vehicle-Protected (MRV-P) requirement – the last three, after first conducting a comprehensive market survey and then a comparative analysis of *existing*, in-service platforms. All of this equipment, except BOXER, is being sourced from US-based manufacturers.

32. It is believed that a quarter of the equipment budget is currently being spent on buying off-the-shelf equipment. This slice is set to increase dramatically by the end of this

Parliament, as more and more projects which involve significant development work are side-lined in favour of off-the-shelf purchases.

WHY NOT BUY TRIDENT FROM THE US AS WELL?

33. Financial risks in defence procurement don't come any bigger than the £41bn officially set aside for the initial cost of the four new Trident submarines – £180bn if one takes into account the whole-life sustainment costs – given the fact that, the cost of acquiring and re-provisioning Support Assets associated with military equipment over the whole life cycle can be in the order of *four to five times* the prime equipment costs.³ It is hard not to see why there exists an extremely high risk that spending on conventional, non-nuclear equipment programmes (including cyber security) will be crowded out by the excessive cost of the nuclear deterrent in the years ahead.

34. Many people will know that the Trident nuclear capability comprises the submarines fitted with associated mission equipment and life-support systems, the missiles that serve as delivery vehicles and the nuclear warhead fitted on top of the missiles.

35. Given that the UK leases the Trident missiles from the US, which also builds and maintains them, why not procure all four submarines off-the-shelf from the Americans as well? While they are at it, the government could even buy the nuclear warheads from the US, instead of designing and manufacturing them separately at its dedicated facility at AWE Aldermaston, which has proven to be prohibitively expensive.

36. In so doing, the government will get a much-reduced price for the Trident submarines due to triggering of the network effects mechanism of economies of scale – as the UK's order of four will be added to the twelve that the US is currently building.

37. It makes sense. In fact, it is common sense because the massive financial risks inherent in this programme will be mitigated and consequently, taxpayers will get better value for money.

BUYING EQUIPMENT OFF-THE-SHELF DRIVES DOWN COSTS

38. When the Integrated Review of security, defence, development and foreign policy was first announced in early 2020, it was reported that one of its foremost objectives was to drive down defence procurement costs by moving away from the high-risk strategy of acquiring defence equipment designed to a tailored technical specification requirement to buying equipment off-the-shelf.⁴

39. In fact, this policy was first promulgated by the coalition government under the premiership of David Cameron 10 years ago. Its stated goal at the time was to not only maintain commonality, interoperability and burden-sharing with US Armed Forces whilst on joint operations, but also offer certainty that replacement spare parts will be made available via a *common* logistics supply chain – thereby reducing substantially, the costs associated with sustaining equipment in-service.

FIRST AND FOREMOST PRIORITY

40. This government has made the conscious decision to buy, as its first and foremost priority, new military equipment for the Armed Forces which automatically falls in the off-the-shelf category because an off-the-shelf equipment is a *fully* engineered and supported technical solution which satisfies the key user requirements at no additional cost or risk to the Exchequer, that is to say, it does not require any UK-specific modifications or related development work laden with risk to be performed upon it.

³ Written submission to the Public Accounts Committee, Inquiry into *Defence Capability and the Equipment Plan 2019-29*, Written evidence from Jag Patel, published 29 May 2020, p. 13, PDF file (849 kB). <https://committees.parliament.uk/writtenevidence/5413/pdf/>

⁴ The Sunday Times article "*Cummings turns fire on 'rip-off' BAE*" by Tim Shipman, Political Editor, 9 February 2020. <https://www.thetimes.co.uk/edition/news/cummings-turns-fire-on-rip-off-bae-tfdftg882>

41. Hitherto, it has been the practice of governments of all persuasions to hand out single-source, cost-plus contracts on a preferential basis to selected UK-based defence contractors – which would explain why they have become seriously uncompetitive both, in the domestic market and in export markets.

APPALLINGLY POOR PERFORMANCE

42. Some people say that buying off-the-shelf equipment from abroad means that the ability of UK-based defence contractors to develop and manufacture indigenously-designed equipment is undermined. But the fact of the matter is that, no matter how much public money is thrown at defence contractors, the government has always been rewarded with appallingly poor performance – characterised by persistent delays and cost overruns. The result is that they have failed to deliver equipment to the Armed Forces which is fit for purpose, adequately sustained in-service and constitutes value for money through-life, for as long as anyone can remember.

43. Over the last several decades, defence equipment manufacturers have had every opportunity to build-up a portfolio of fully engineered, off-the-shelf products to satisfy the current and future needs of both, MoD and export customers (as American contractors have done) by investing in innovation, product research and development, creating intellectual property and upskilling employees – at a time when they were subsidised exclusively by taxpayers.

44. They have squandered this chance. As a direct result, a significant technological gap has opened up between the capabilities of UK and US armed forces which threatens to undermine the special relationship between these two ideological, freedom-loving partners and defence, security and intelligence allies.

CAUGHT WITH THEIR PANTS DOWN

45. The government is not to be blamed for the predicament defence contractors find themselves in. In fact, the responsibility for this tragic state of affairs lies squarely on the shoulders of successive generations of contractors' *senior* management people who had every opportunity to future-proof their businesses many years ago, but didn't – not least, because they were too busy riding the gravy train. The future has arrived now, and today's top management have been caught with their pants down because they have no off-the-shelf products to sell. Nor have they bothered to maintain a design & development capability on their premises,⁵ which means that they cannot even develop new products to stop themselves from being dragged into this death spiral.

46. This wilful neglect amounts to wanton destruction of shareholder value – by the very people who were supposed to be preserving and enhancing it.

47. In other words, they are stuffed!

48. It is still not too late to save the day. The way ahead for UK-based defence contractors intent on protecting their remaining market share (of the £17bn a year spent on new equipment) is to self-fund the outstanding development work on their nearly market-ready products until they are fully engineered, sell them in export markets *first* – on price, superior technical performance, timely delivery & without bribing public officials via intermediaries – and *then* re-enter the domestic market with these tried-and-tested products rebranded as off-the-shelf offerings, to satisfy UK government needs.

49. However, instead of directing their energy onto hauling themselves out of this hole of their own making, one suspects that the knee-jerk reaction of the defence manufacturing industry will be the *same* as it has always been – resort to lobbying the governing elite and senior policy-makers behind closed doors, in the hope of trying to convince them to

⁵ Written submission to the Defence Committee, Inquiry into *Foreign Involvement in the Defence Supply Chain*, Written evidence from Jag Patel, published 13 October 2020, p. 3, PDF file (144 kB).
<https://committees.parliament.uk/writtenevidence/12556/pdf/>

reverse policy, whilst publicly threatening them (and their loyal employees) with mass lay-offs, if the government persists with its policy of buying equipment off-the-shelf.

OFF-THE-SHELF EQUIPMENT PURCHASES AND SUBCONTRACTORS IP

50. Unlike in the US, the defence manufacturing industry in the UK is in terminal decline – not because there are fewer defence contracts going around, but because it hasn't got the ability to adapt to changing market conditions and shifting customer preferences, most notably, that of its primary customer, the UK government.

51. The main reason why the government has decided to choose off-the-shelf products is because they are considered to be fully engineered and supported technical solutions which satisfy the key user requirements at no additional cost or risk to the Exchequer, that is to say, they do not require any UK-specific modifications or related development work laden with risk to be performed upon them.

52. In this context, an off-the-shelf equipment is defined as a combination of a *particular* set of sub-systems, assemblies, finished components and individual piece-parts which, when assembled together in a pre-determined way, deliver the full range of functionality during each operational phase of the equipment, as desired by the military customer.

ORIGINAL EQUIPMENT MANUFACTURER

53. These particular set of components have been specially selected and brought together by a deliberate act of design on the part of the top-level defence Prime Contractor, the original equipment manufacturer (OEM) – an activity that entails the involvement of a diverse range of professionally qualified and skilled group of people, specialising in a variety of engineering disciplines, tasked with designing a product that comprises a complex technological mix of electronic, electrical, mechanical and software components, in a systematic way – using the well-established design, development, systems integration, prototyping and testing process – to ensure that it satisfies fully, the technical specification requirement before proceeding into the manufacturing phase.

54. More often than not, the OEM will rely on a string of lower-tier supply chain partners, serving as specialist subcontractors, for the supply of some (if not all) of these components, for final assembly and testing of the prime equipment. These subcontractors will have been chosen by the OEM, through open competition (but not always), on the basis of price that offers best value for money, fitness for purpose and ability to deliver the necessary functionality at sub-system level. Therefore, it will come as no surprise that the intellectual property associated with these sub-system components – which comprises design rights, assembly know-how, test methodology and manufacturing capacity – is held by subcontractors, which enables them to not only supply components to build the initial numbers of the prime equipment, but also provide *additional* quantities to sustain the equipment, during the full period of its service life with the user.

EXISTING SUPPLY CHAIN PARTNERS BENEFIT AUTOMATICALLY

55. It stands to reason that when an OEM secures an order for a fully engineered off-the-shelf equipment from a foreign government, then the *existing* supply chain partners will automatically benefit from further follow-on contracts, to supply lower-level components.

56. For Members of Parliament (egged on by special interest groups and vested interests) to now ask for *UK-based* subcontractors to be selected by the OEM as new supply chain partners, is to defeat the very purpose of buying off-the-shelf equipment – that is to say, it is a *settled* combination of sub-systems, assemblies, finished components and individual piece-parts. Such a move would amount to the OEM starting all over again, with an alternative set of part numbers for lower-level components, making the new equipment completely *different* from the original, off-the-shelf product – not to mention, adding massively to the cost base of the product because it will have to be put through the entire design & development process for a second time!

DENIAL OF INTEROPERABILITY

57. What's more, not only does such an approach deny UK Armed Forces the ability to maintain commonality and interoperability with the Armed Forces of the US and other NATO countries, but it will add significantly to the cost of supporting the newly designed equipment in-service, because there will be a need for the UK to set-up and maintain a *separate* logistics supply chain for replacement spare parts, when on joint operations with allies.

58. Besides, why would existing subcontractors to the OEM want to forgo profits, offshore the jobs of their employees and hand-over their intellectual property to competitors abroad, for absolutely nothing? That is to say, intellectual property and market share they have built-up diligently over a number of years on a highly desirable, off-the-shelf product that other governments elsewhere in the world are also interested in buying, at a price they are willing to pay.

GOING BACK TO EMPLOYING SEMI-SKILLED LABOUR

59. MPs in the UK Parliament would *never* countenance any situation which undermines or destroys the jobs of their constituents, so why do they expect elected representatives in other mature democracies to put up with this sort of nonsense?

60. The best MPs can hope for is for the OEM to transfer some of the final assembly work to a domestic site here in the UK, to satisfy demands made by those who shout loudest in the corridors of power. However, even this is a retrograde step. At a time when newly industrialised countries are moving away from the labour-intensive model of production to manufacturing higher added-value products, UK-based defence contractors will be seen to be doing the exact *opposite* – going back to employing semi-skilled labour to assemble precision engineered products designed and manufactured elsewhere.

ATTRACTING INDIGENOUS ENGINEERING BUSINESSES FROM ADJACENT SECTORS

61. Competition is the essence of enterprise and free market capitalism. For an economic model that relies on voluntary exchange between buyers and sellers and seeks to deliver goods and services to everyone at a price they are willing to pay, vigorous competition among vendors on the basis of a level playing field is absolutely essential.

62. Time and again, this pro-market pro-competition government has made it absolutely clear that it would like see the competitiveness of the defence industry improved significantly, both in the domestic market and globally, so that the UK can pay its way in the world, post-Brexit.

63. But this message has simply not been getting through to the market.

A RADICALLY DIFFERENT APPROACH

64. Accordingly, it has abandoned the tried-and-failed policy of talking and cajoling to try to convince the top defence contractors to become more competitive. Instead, the government has adopted a radically different approach. It is now seeking to accommodate *additional* participants in the UK defence equipment market, both at prime contractor level and right down the extended supply chain – by attracting foreign defence contractors to take up the slack at the top *and* indigenous engineering businesses from adjacent sectors who have not previously engaged with MoD, elsewhere in this highly lucrative market.

65. Indeed, in its latest policy statement on defence procurement expressed in the Defence Industrial Policy,⁶ the government says:

⁶ Defence Industrial Policy document, *Industry for Defence and a Prosperous Britain: Refreshing Defence Industrial Policy*, published December 2017, p. 24, PDF file (1.28 MB).
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669958/DefenceIndustrialPolicy_Web.pdf

“Competition and innovation are mutually reinforcing. SMEs and non-traditional suppliers, alongside universities, are the bedrock of British innovation. We are committed to make it easier for them to do business with defence”

THE SELECT FEW HAVE MONOPOLISED THE MILITARY EQUIPMENT MARKET

66. But the *real* reason why the government wants to widen the diversity of defence equipment suppliers is because it wants to be released from the suffocating embrace of the cabal of usual suspects, the Select Few, who have monopolised the military equipment market for as long as anyone can remember.

67. Indeed, this is confirmed by statistical data cited by a House of Commons Library Briefing Paper published in the last Parliament which reveals that a few big contractors dominate the UK defence industry landscape today. In fact, over 42% of MoD expenditure on defence procurement for 2017-2018 was spent on just *ten* suppliers, with this market share remaining pretty much the same over the last decade.⁷ It is hard not to conclude that this stranglehold by the Select Few has been the cause of poor performance hitherto – characterised by persistent delays, cost overruns and chronically weak export performance.

STANDOUT PERFORMERS

68. The government also knows that by opening-up the defence equipment market to all and sundry, there is every chance that standout performers from the civilian arena – businesses that do real, *proper* engineering as their core activity (using professionally-qualified people from a wide variety of backgrounds and technical disciplines) – will be attracted to this highly lucrative market, bringing with them strict standards of ethical behaviour, a culture that nurtures the get-it-right-first-time philosophy and an export-orientated outlook. These newcomers view taking part in competitions as a natural order of things, and treat it as a challenge to take market share from incumbents. They are also used to raising private capital from the financial markets for the purpose of investing in innovation, product research and development, creating intellectual property and upskilling employees.

69. But the greatest benefit to be derived from displacing the Select Few is that the standards of workmanship on defence procurement contracts will be elevated to the level exhibited by the UK’s high-performing, best-in-class manufacturing businesses which are more likely to deliver value for money, thereby lessening the burden on the Exchequer.

CONCLUSIONS

70. The vast majority of defence procurement projects in the Equipment Plan are programmes which require substantial development work to be performed upon them, making them inherently risky and therefore, susceptible to delays and cost overruns.

71. Handing out these types of contracts to indigenous defence contractors over the last several decades has only resulted in the government being rewarded with appallingly poor performance, characterised by persistent delays and cost overruns.

72. To overcome this longstanding problem, the government has chosen to buy, as its first and foremost priority, new military equipment for the Armed Forces which automatically falls in the off-the-shelf category. Accordingly, it has come to rely on the US for most of its defence equipment because the UK has none of its own.

73. This change in direction is bolstered by that fact that the government can benefit from the network effects of economies of scale to secure best value for money, if it combines its order with that of the US.

⁷ House of Commons Library Briefing Paper, Number CBP 08486, *An introduction to defence procurement*, 28 January 2019, p. 32, PDF file (1.06 MB).
<https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8486>

74. Buying off-the-shelf equipment brings with it the prospect of obtaining a reduction in price after the supply and sustainment contract has been signed.
75. Yet another benefit to be derived from buying off-the-shelf equipment is that the administrative leadership at MoD will be absolved from its burdensome responsibility of having to upskill its vast army of procurement staff.
76. The government's policy of buying off-the-shelf equipment is here to stay – in the main because of a lack of an in-house capability, which is unlikely to be resolved anytime soon.
77. A significant technological gap has now opened up between the military capability of the UK and its closest ideological, freedom-loving partner and defence, security and intelligence ally on the other side of the Atlantic.
78. By asking defence OEMs to select UK-based subcontractors as new supply chain partners, MPs are unwittingly seeking to defeat the very purpose of buying off-the-shelf equipment.
79. Unlike in the US, the defence manufacturing industry in the UK is in terminal decline because it is unable to adapt to changing market conditions and shifting customer preferences, exacerbated by successive generations of incompetent leaders. Consequently, it is not in a fit state to help realise this government's vision of a thriving and globally competitive defence sector trading freely with countries beyond the EU, in the years ahead.
80. For an industry sector that regularly boasts about operating at the cutting-edge of science and technology, the realisation that it cannot even satisfy the most basic equipment needs of the UK government has come as a shock and taught it some pretty unpalatable lessons, such as, not taking one's customers for granted.
81. The government now believes that there is room to accommodate additional participants in the UK defence equipment market and to this end, it is seeking to attract indigenous engineering businesses from adjacent sectors who have not previously engaged with MoD.
82. Such is the loss of confidence in indigenous defence contractors that this government has all but walked away from them.

RECOMMENDATIONS

83. The most effective way of removing risk from the Equipment Plan is to avoid procuring new equipment which requires substantial development work to be performed upon it.
84. Accordingly, the government should redouble its efforts to buy off-the-shelf equipment from whatever source that offers best value for money.

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