(DIP0011)

Written evidence submitted by Harland & Wolff

1 Harland & Wolff believes in the positive intent of the UK National Shipbuilding Strategy to sustain and grow sovereign capability, to seek a resurgence in UK shipyard capacity and to promote international exports and technology transfer, whilst enhancing competition within the UK market.

2 We follow guidance from the Secretary of State to promote more commercially viable shipbuilding and would welcome considered debate and the opportunity to contribute to the Defence Industrial Strategy and Policy to better assure more collegiate principles of UK shipbuilding, engineering and manufacturing prosperity.

OUR PROUD HARLAND & WOLFF HERITAGE, CAPACITY AND CAPABILITY

3 Following the InfraStrata plc acquisition of Harland & Wolff, a new management team with substantial world-beating fabrication & construction experience was assembled. This team has been developed by blending newly recruited personnel in key positions, who have significant *international* shipyard experience, together with existing managers who have extensive facility knowledge and critical local and regional experience. This has ensured the retention of established skills within Harland & Wolff whilst also benefitting from an increased breadth of experience through selective recruitment.

4 The new team has exceptional transformational leadership and extensive experience with shipbuilding on numerous global programmes, including:

i. Canberra Class Amphibious Assault Ship - also known as the Landing Helicopter Dock (LHD)

ii. Anti-Ship Missile Defence (ASMD) programme upgrade for the Royal Australian Navy's eight ANZAC Class Frigates.

iii. Sustainment activities for a substantial number of vessels within the Australian Naval Force.

iv. HMAS Choules Ex Largs Bay Sustainment activities.

3 In addition, the team has deep Canadian Patrol Programme (CPP) experience, a key tenet of the Canadian National Shipbuilding Strategy (NSS) and exemplary delivery knowledge across numerous global commercial vessels, including substantial fast-tracked programmes.

4 The team has a demonstratable track record of combining major defence, cruise, commercial and renewable energy projects, thus ensuring a lasting legacy to be gained from innovative defence procurement, creating an industry that is capable of building defence platforms, whilst avoiding reliance on continued government funding.

EXECUTIVE SUMMARY

5 The Ministry of Defence has a stated policy of looking for procurement through fair competition, yet it has created an environment which has led to an increase in single source contracting. There is a clear duopoly in the acquisition of Ministry of Defence maritime contracts.

6 This unfair bias in UK defence naval orders means that UK national shipbuilding skills cannot be advanced as a national effort, other UK naval and commercial enterprises are at a disadvantage in competing for commercial contracts and these other shipyards are being put under undue risk of failure.

7 This is particularly problematic in the case of Harland & Wolff, which has the most suitable and strategic facilities within Europe for large scale shipbuilding and sustainment projects but is currently unrecognised by the Ministry of Defence.

Is the current Defence Industrial Policy effective? Is a new Defence Industrial Strategy required?

8 The extant Defence Industrial Policy has been effective, however a policy is not a strategy. The Policy refers to objectives, whilst a strategy details the plan to deliver the objectives. Moreover, as you will see from considerations that follow, if we are to create and maintain a fair competitive environment, particularly at a platform level, we need to create a cross-sectorial UK Industrial Strategy, as defence business alone will not sustain one shipyard, inevitably leading to a UK monopoly or a continued UK duopoly. Hence consideration of the UK shipbuilding enterprise *must* be addressed.

9 In the area of our primary interest, the Government published a National Shipbuilding Strategy (sic: in fact, the strategy only addresses *Naval Shipbuilding*) in September 2017. The Strategy was informed by Sir John Parker's independent report on shipbuilding (November 2016). Sir John was deeply critical of the procurement of naval ships and recommended overhauling the Navy's procurement process for its surface platforms, starting with the new general-purpose T31e Frigate. The Industrial Strategy, however, lacks an understanding of the need for a cross-sectorial approach and that UK naval and commercial shipbuilding entities should not be solely reliant on defence contracts as a means of survival but rather integrating defence, cruise, oil & gas and renewables contracts to create a balanced portfolio of projects that will cater for gaps in defence programmes.

10 The principles within the Defence Industrial Policy and Defence Industrial Strategy require strategic reconsideration during financial year 2020/21 to measure its overall effectiveness. Whilst we acknowledge the need for a balanced, long-term defence portfolio to meet ever-changing world-wide asymmetric threats and to embrace new technology insertion into sovereign platforms, the allocation of and the sustainment for defence contracts is not fairly distributed across the extant UK naval and commercial shipbuilding entities.

11 An updated Defence Industrial Strategy to broaden the current scope from UK naval shipbuilding distribution to include both commercial marine, auxiliary and multi-role platform groups would create more long-term UK prosperity across ***all*** of our UK naval and commercial shipbuilding entities, developing confidence to

rebuild and invest in much needed shipbuilding apprenticeship programmes and facilities and to bring an end to the *boom and bust* nature of the UK naval and commercial shipbuilding environment with competitive pipelines and fragile order books.

12 The UK Defence procurement process is broken and with the lack of a UK enterprise approach to the National Shipbuilding Strategy, it does not address the issue of capacity planning and how this would evolve in a competitive environment to ensure sustainment of the national capability. As a result of the T31e competition we now have the build focused in one shipyard (contrary to intention of the bid strategy) with that shipyard now required to generate a shipbuilding capability (tooling for a panel line, fabrication building etc) from scratch. During ITN Phase 1 the preferred prime submitted its tender, which originally included partnering and teaming agreements with two UK commercial shipbuilding entities but during the Ministry of Defence procurement process for a second round of financial evaluation, the preferred prime was allowed to push through its submission alone and subsequently excluded the partners as a position-to-win at all costs and the two UK commercial ship-building entities were taken into administration.

What are the national skills and competencies needed for a successful UK defence industrial sector? How can the UK ensure, and assure, that these are maintained in the right place at the right time for the right cost?

13 Whilst there are some unique skills and experiences required by the UK defence industrial sector it is much more effective to consider these across adjacent sectors, in our case; ship design and build. The maritime industry recognised this challenge some years ago and developed national strategies for skills development. In the Naval Sector, a forum for UK Naval Engineering Science and Technology (UKNEST) was formed over a decade ago to address the issue of sustaining the intellectual capital to design and sustain naval vessels. UKNEST recently organised the very successful STEM event aboard the HMS Prince of Wales in Liverpool. Harland & Wolff would like to propose we work closely with Ministry of Defence, BAE Systems and UKNEST to conduct the next major UKNEST event on HMS Queen Elizabeth from our rich Belfast heritage facilities.

14 We believe UKNEST should extend to UK commercial shipbuilding ventures. We would work closely with government to help encourage and sustain the very best engineering talent which, as a UK shipbuilding enterprise, we need to design, develop and build some of the most complex artefacts on the planet. This can only be achieved by the industry being perceived as an exciting, worthwhile and a sustainable workplace which brings value to society and the country.

15 Harland & Wolff, its parent company InfraStrata plc and our investors are investing heavily in the resurgence of an historic and exceptionally capable strategic UK shipbuilding asset in Belfast, with outstanding dock and facilities management capacity to contribute towards the objectives within the UK Ministry of Defence National Shipbuilding Strategy. We are keen to secure UK Defence orders so that we can enable engineering and technology apprentice

programmes as a strategic future sector strength – a smooth forward-looking defence and commercial marine order book is urgently required across *all* defence and commercial shipbuilding entities.

16 We would strongly promote a re-evaluation of core UK shipbuilding assets to support the National Shipbuilding Strategy development and the Ministry of Defence Independent Review – our facilities are very much *open for business* and we would embrace all Ministry of Defence stakeholders to work collaboratively with Harland & Wolff to achieve a Centre of Excellence status for UK shipbuilding prosperity.

17 Harland & Wolff has the most suitable and strategic facilities within Europe for large scale shipbuilding and sustainment projects but is currently unrecognised by the Ministry of Defence. We aspire to work with Ministry of Defence to enable a QEC Centre of Excellence and to seek a future business agreement with Ministry of Defence to have carrier strike group 24/7 emergency docking readiness, working collaboratively with BAE Systems in that UK sovereign objective, saving UK taxpayers monies and avoiding unnecessary new or future dock investments, especially at a time when the UK shipyard dock capacity forecast is saturated at both Rosyth and Portsmouth - for the next decade.

Does the market for Defence systems, products and services have any specific characteristics, which differentiates it from other markets? Does international collaboration limit the potential for defence exports?

18 This is certainly true for certain elements of defence systems but importantly does not apply as a blanket constraint and care should be taken to isolate those particular technologies and capabilities which are either required to maintain sovereign capability or indeed provide enhanced military capability.

19 On balance, International collaboration is seen as an *export enabler* rather than having a negative effect. Clearly this depends on having a sound policy and strategy which articulates the Sovereign Capability requirements which is underpinned with a solid industrial strategy for the sector.

Is tension between competition and strategic choice inevitable?

20 We consider this to only be the case if the issues around enterprise design are not taken into consideration within policy and industrial strategy. Ministry of Defence has a stated policy of looking for procurement through fair competition, yet it has created environments leading to an increase in single source contracting. Even as recent as T31e, the system and process has been Ministry of Defence certified to ensure Tier 2 Shipbuilders are kept out of key programmes;

21 We would suggest that Ministry of Defence does not continue to create contract constructs such as the PPEO and the exclusive Bi-Lateral TOBA frameworks which provide the chosen two defence industry primes with an unfair competitive advantage when entering into competition where overheads are protected and orders are provided to ‘fill shipbuilding troughs’ with no competitive tender

process to give tier two shipbuilders an opportunity to support Ministry of Defence and the industry primes;

22 The focus should be on designing a collegiate UK shipbuilding enterprise, aligning skills and capability with the civil sectors and ensuring that several UK shipbuilding entities can remain competitive in the marketplace with a mix of both defence and civil activity. It is interesting to note that in Japan the largest proportion of defence work carried out by a single contractor only represents 10% of its business - a UK target / UK offset for 50% as the objective;

23 In conclusion, we absolutely recognise the very careful balance of the annual budget forecasting to match the demand for current and future defence orders, however, UK naval and commercial shipbuilding entities should not be solely reliant on defence contracts as a means of survival but should work in unity with the Ministry of Defence to integrate *all* sector opportunities (defence, cruise, oil & gas and renewables) to help maximise a balanced portfolio of projects to create and sustain certainty of work-scope for all of our UK naval and commercial shipbuilding entities, whilst bringing learnings from other industries to the Defence sector.

Should the UK adopt a formal Offset/Made in the UK policy? What impact would this have on the national and international defence markets?

24 We believe in a free and open market, accepting that sovereign capability and security issues dictate limitations over certain defence products. It is already accepted, for example, that warship building should be a *national endeavour*. However, we do believe that there is scope for much more structure around collaborative activity with allied nations both on product development and R&D. Further, since the UK departure from the European Union, we believe there has never been such an opportunity to utilise UK Defence programs to embrace progressive technology transfer from other world-class shipbuilding providers such as Navantia to not only introduce rich competition but to help rebuild and reinvest in the shipbuilding *skill of hand* and our progressive apprenticeship and STEM programmes.

25 We also think there is a case for a more formal assessment to be made ahead of a procurement policy being set for a project in order to maintain the UK defence industrial capability. However, this should be part of the UK shipbuilding enterprise planning and consider the whole demand (e.g. for a shipyard, integrating other sectors such as cruise and offshore wind) for that capability rather than just defence, in order to sustain the desired capability.

26 If the UK shipbuilding enterprise is designed correctly this would only impact selected competitions, which would be known by all ahead of the competition being set out. As similar rules are used by many nations, we do not believe it would have an adverse effect on the markets.

27 UK to international, government to government, collaborations should take place, the 5-Eyes NATO collegiate operation is a great example for the strategic T26 global combat ship export but for the greater UK prosperity and the wider UK commercial shipbuilding entities, the UK should look to integrate other international ventures such as significant cruise and offshore wind business growth opportunities that would yield business benefit to both UK and

international governments and key manufacturing and engineering sectors as a whole.

What is considered in assessments of "prosperity" and "value for money" in defence procurement? What consideration is given to the local economy, skills retention and balancing the positive financial impact across the regions and nations of the UK?

28 We see little evidence of assessments of 'prosperity' in defence procurement and believe that this will only change when the Treasury's 'Green Book' definitions are improved and incorporated into competitions by defence stakeholders;

29 National Shipbuilding Strategy and, in particular, the T31e frigate competitive design phase, Ministry of Defence introduced for the first-time, assessment criteria for broader prosperity objectives in a major defence procurement, drawing on the revised Treasury 'Green Book' and the need to maintain critical shipbuilding skills and the UK maritime supply-chain. However, whilst the bidding primes played heavily on collaboration and regional contributions during the early concept and bidding phase, it will be important to observe whether these have been incorporated into contract deliverables and measures of success because, at least in construction, the focus appears to be totally focused on one UK shipbuilding site/facility;

30 We do not believe that any consideration is given in defence procurement to the local economy, skills retention and balancing the positive financial impact across the regions and nations of the UK. It is difficult to conceive how this would be achieved within a competitive environment, given that an assessment of prosperity has yet to be embedded within defence procurement;

31 Harland & Wolff has quite considerable UK and world-wide Defence, marine, offshore and renewables commercial, procurement and acquisition experience. We are very used to UK Ministry of Defence evolution and transformation changes across its Defence Procurement Agency in the past two decades. We understand all BAFO, MEAT and RVfM approaches to enable best defence procurement outcomes and the tension between the right UK fiscal judgement, offset by the Navy Command requirements. As a strategic UK commercial shipbuilding entity with one of Europe's largest graving docks, QEC capable, we cannot enable business development bid budgets to compete with lengthy Category A procurement activities and compete against the two defence primes, whilst their overheads are being covered;

32 To underpin all points above, we strongly feel that allocation of core UK defence naval orders is unfairly biased and that UK national shipbuilding skills cannot be invested as a UK national effort as the UK commercial shipbuilding market has to compete to survive against over-whelming control and power from defence asset giants who over-spend and deliver late on all important complex warship programmes. We do respect best value for money outcomes for the UK taxpayer within Category A procurement activities, but two significant defence industrial primes enjoy quite exclusive terms of business agreements that protect hundreds of shipbuilding skills during order book troughs. UK commercial marine

shipbuilding entities, of which there are now only a select few, cannot currently provide the national skills and competency assurance the Defence Industrial Strategy seeks.

What progress has been made in implementing the recommendations from Philip Dunne's report?

33 We are unaware of any government response to the recommendations made in this report. However, we have noted an increased commitment to innovation and a significant push towards exploiting above and below water autonomous platforms and systems.

Does the Ministry of Defence understand the risks and opportunities in the Defence supply chain, and the procurement strategies of other buyers in the market?

34 Although there are some positive signs of the Ministry of Defence taking a more active role in understanding the enterprise level supply-chains, this remains limited and largely focused through the two large prime contractors. We observe very little collaboration between Ministry of Defence and other sector leads within government to ensure a sustainable competitive industrial base within the UK which would serve the nation's Defence needs.

35 Therefore, we are unsure if the Ministry of Defence is fully aware of ***all*** UK Commercial Shipbuilding strengths and experiences, observing that some deep perceptions probably exist based on poor and/or outdated insights and experiences. For Instance, Harland & Wolff have CADMID wisdom wide (Concept, Assessment, Demonstration, Manufacture, In-Service and Decommissioning) and a growing capability experience, knowledge and know-how from its senior management team with TEPIDOIL deep (Training, Equipment, Personnel, Infrastructure, Organisation, Information and Logistics) cadre;

36 We are familiar with and fully understand all Ministry of Defence future 2040/50 vision, its DLOD approaches (Defence Lines of Development) which might require a re-think to deliver Force Effect at Reach set against changing global threats and how DLOD's provide a mechanism for co-ordinating the parallel development of different aspects of capabilities – we simply need Ministry of Defence to work with Harland & Wolff to build a credible supply-chain to support all current, future and aspirational NSBS objectives.

What has been the impact of reforms to defence procurement and acquisition? How should Head Office and DE&S acquisition reform be aligned to defence industrial policy and strategy?

37 Issues related to reforms to defence procurement and acquisition have been covered in the above questions and we believe there is still much to do.

38 Recognition of the need to align the business with cross-sectorial aspects need to be understood by all stakeholders and clearly, in the case of the marine sector

this includes for example the Submarine Delivery Agency which as an enterprise approach is to be adopted.

Given that major capability acquisition programmes are international by design—the Combat Air Strategy and Type 26 frigate for example—how does a modern national defence research and industrial policy successfully manage cross-border long term partnerships and align with the industrial approach of allies and partners? What lessons can be learnt from other defence exporting countries?

39 Some three to four decades ago defence R&D was seen to be leading edge in a number of key areas, however technology developments in the civil sector combined with significant reduction in Defence R&D spend has resulted in it being a follower rather than a leader. To address this issue, greater funding is required in specific military capability but even with this increased funding international collaboration with allies is essential if we are to maintain a military advantage, as the development of some advanced defence products and platforms is beyond the budget of single nations;

40 We observe two types of exporting nations in the maritime domain. Those who are building up their platform export capability (e.g. China, Turkey, South Korea), who are focused on developing an indigenous capability to compete on the global stage against the current competitors and then there are those countries whose focus is on sustainment of a local capability and local prosperity from Defence procurement (e.g. Australia, Norway, The Netherlands). These latter countries tend to focus their R&D on selected niche capability areas and look to collaborate with allies in complementary areas.

21 April 2020