

## Written evidence submitted by Leonardo MW Ltd

### 1. About Leonardo MW Ltd

Leonardo MW Ltd has a UK heritage stretching back more than 100 years. In its current form, with 7 major UK sites and 7,000 employees, it supports typically 25,000 UK jobs across a varied supply chain. As a business with annual revenues in excess of £2Bn, more than 50% of that in exports from the UK, it is part of the Leonardo Group, with headquarters in Italy and customers across the world, one of the top ten Aerospace and Defence companies globally and one of the 4 largest in Europe.

Leonardo's UK capabilities in Defence are based on helicopters, electronics and cyber. Its Helicopter Division in Yeovil is the UK's only end-to-end provider of helicopter capability – from research, design and development, through to manufacturing, training and support. In the field of advanced electronic systems, it is the leading UK provider for airborne radar, advanced targeting systems, infra-red counter measures and airborne electronic warfare as well as force protection systems in all domains, communications networks and sensor systems including those using its own high performance infra-red detectors. The Company is proud to support each of the UK's Front Line Commands and especially values its close working relationships with them.

Around 500 of Leonardo's UK workforce are engaged on early career development schemes such as its award-winning apprenticeship and graduate programmes. This substantial commitment is supported by a significant STEM programme with local schools and colleges, and with universities. In its extensive research programme, the company is working with 20 UK universities and is currently funding more than 30 PhD students.

From the breadth of our expertise and UK investment in supporting the UK's Armed Services operational capabilities in fixed wing, rotary wing, land, cyber and maritime environments, and drawing on the depth of our commitment in cross cutting environmental capabilities in areas such as C4ISR and resilience, we welcome the Committee's proposed analysis.

### 2. UK Prosperity as a consideration in MOD Procurement

As witness evidence in front of the Committee over 15 years demonstrates, it has been difficult to achieve a common understanding on what 'UK prosperity' means and whether it should have a legitimate place in UK MOD acquisition decisions. Leonardo would especially commend to the Committee the analysis offered by Professor Trevor Taylor in RUSI's submission to this inquiry (DIP007). Rather than repeat RUSI's analysis, we would seek in this submission to underline the key points. It is our contention that UK prosperity can be sensibly and coherently taken as a significant factor in UK acquisition decisions, taking economic and social value into consideration. Professor Taylor explains this in his research, summarised in RUSI's submission and expanded in more detail in his other publications, several of them jointly with Professor John Louth.

It has also been encouraging to note the informed interest that Members of Parliament from across the House of Commons have taken in UK Defence and UK prosperity. Foremost among these is Rt Hon Philip Dunne MP, whose July 2018 report “Growing the contribution of Defence to UK Prosperity” retains its validity and repays close study. His is not a lone voice among Parliamentarians. We believe that these quotes are forceful in making the key points; rather than find other ways of saying so, we would present their words to carry the key themes in response to the Committee’s questions:

“The issue is not about money: it is also about finding a way to develop, sponsor and bring on the technology that then has a spin-off in other areas of everyday life. ... Of course it costs money, but it brings in money as well as maintaining vital national independence. ... We stand to gain skills and international influence if we can manufacture and support aircraft.” Robert Courts MP speaking in Westminster Hall on 27 June 2019;

“To get the best value and the most effective outcomes, the Treasury models absolutely need to adapt and change to ensure that there is understanding across the whole of Government.” Rt Hon Anne-Marie Trevelyan MP, also in Westminster Hall on 27 June 2019, at the time speaking as a backbench MP.

“Our aerospace and defence sectors are truly world leading and they are vital to our security and national prosperity ... We need certainty and continuity otherwise we might stand to lose the vital skills on which we depend ... We hope to see concrete proposals that will put prosperity, as well as sovereign capability, at the heart of our procurement policy.” Fabian Hamilton MP, as a Shadow Defence Minister, also speaking in the Westminster Hall debate on 27 June 2019.

“I think that the Treasury has been missing a trick. It has not really understood the full value of Defence to the nation. The methodology it uses is flawed ... I think there is much more we can do to reap the benefits that Defence brings to the UK prosperity agenda.” Rt Hon Penny Mordaunt MP speaking as the Secretary of State for Defence at the Air & Space Power Conference on 18 June 2019

### 3. Investment in UK Intellectual Property is the most important criterion

Our headline perspective would be that for the analysis to consider strategic value particularly as it affects both UK prosperity and the UK’s operational capabilities, it would be important to consider investment in UK intellectual property. This in turn requires joint, demonstrable investment in research, design, development and skills as well as in advanced manufacturing infrastructure in the UK by higher tier companies and throughout the supply chain. By designing and developing systems in the UK, industry is well placed to create the advanced manufacturing, supply chain and systems integration capabilities which increase UK jobs, economic and social value. As several high-profile programmes have shown, operational success requires an extremely coherent approach across these dimensions. Our contention would be that ‘manufacturing’ or ‘servicing’ alone, in a narrow sense, would be unable to carry the weight of expectation or agility needed to provide prosperity benefits.

Further, UK's Armed Services rely for operational capability in a constantly changing environment on industry's design and development skills, and continuing research commitment which combine to ensure an appropriately responsive system from early concept work all the way to its out of service date. The lessons of fragile supply chains and absence of assured supply from the current Covid-19 pandemic crisis have yet to be reliably considered, but even at this stage, there are already firm indicators which, to quote Dick Elsy of the High Value Manufacturing Catapult in the FT on 22 April 2020, "make you reflect on the importance of having sovereign capability of making stuff".

#### 4. Prosperity, operational capability and value for money can be maintained in equilibrium

Having a key objective for the development of UK Defence Industry implies a much greater emphasis on long term R&D, not just on competition to meet an immediate statement of user needs today. We would place a premium on long term R&D, including the cross-over between civilian and military sectors. One important consequence of this approach would be to redefine exactly what we mean by Value for Money in Defence Acquisition, taking decisions based on long term strategic and capability benefits, not seeing everything in the light of short-term competition for specific short term requirements. Such an analysis would be aligned with an assessment of the costs throughout the service life of a system, not just in its initial procurement phase, and which would include material benefit to the UK economy as a whole

We would suggest two themes need to be pre-eminent. First, the whole skills issue has to be absolutely at the top of the agenda; this would give a new perspective on the value STEM in a sovereign defence capability brings to the UK. Second, R&D is fundamental, more important now than it has ever been. Between them, these two themes would put the emphasis on creating space for generating the new abilities which might be needed in future. Limited investment solely in UK manufacturing capacity does not generate or rejuvenate intellectual property, yet it is IP which lies at the heart of sovereignty in supporting the UK's operational capabilities. Equally, without substantial UK IP in a programme, there can be no prospect of major export success. We would therefore assert that the nexus of skills – R&D – IP provides the intellectual force necessary if the 'whole force by design' approach is to be realised. Success here therefore requires an integrated approach with MOD in Government as a whole, more open to exploiting industry's expertise and drawing on industry's own investment.

#### 5. Sustaining UK's role in export and as a leading international partner

At Leonardo we welcome the importance of a cross party approach, such as has been evident in the support for Team Tempest. We particularly appreciate the time Parliamentarians from across both Houses have spent exploring the issues at the heart of the Committee's question with the UK's key 4 companies (K4 – BAE Systems, Leonardo, Rolls Royce, MBDA). Implicit in this is the way, within Combat Air as an example, that the UK defence enterprise sees the significance of critical systems which provide freedom of action, operational advantage and assurance against operational risk.

Further, there is explicit recognition of the significance of generating Intellectual Property which creates export success. Without UK IP there can be no export success.

Team Tempest is a tangible instance of collaborative research and technology investment with academia across UK, of investment which maintains and develops skills at system level and across the supply chain, and in consequence gives UK the depth internationally to be an industrial and defence partner with clout. Here too the tangible example has been in the work with international Tempest partners, showing the potential that a new relationship between MOD, the rest of Government and UK industry offers a Global Britain on the world stage.

## 6. Supporting the delivery of operational capability

Much of the debate in recent years, for example in forums such as RUSI seminars as well as in witness evidence by officials to the Committee, seems too often to present UK prosperity as being potentially in contradiction to UK operational capability. We believe this potential contradiction to be false and were interested to note how the details of General Sir Nick Carter's CDS Annual Lecture at the RUSI on 5 December 2019 appeared to present a different approach. CDS had a year earlier set out a

“strategic context that was more uncertain, more complex and more dynamic than I could remember”,

and now he felt confident to state

“we have returned to an era of great power competition, even constant conflict”.

Our contention is that this changes the nature of the relationship between the UK MOD, its Front Line Commands and industry. It takes this relationship well beyond the highly transactional approach to buying equipment, towards a UK Defence Enterprise model that is successful in handling the demands of “competition , even constant conflict” through true partnership. To quote General Carter again, this is even more pertinent since we now operate in an era in which the:

“pervasiveness of information and the pace of technological change are transforming the character of warfare”

which in turn places emphasis on:

“mobilising ourselves to improve readiness and enhance resilience” which will require “the generation of modernised capability. For striking the right balance between the fight tonight and the fight tomorrow.”

CDS concluded this part of his lecture:

“All this requires a strategic response that integrates all of the levers of national power”.

Our contention is that in his December 2019 lecture, CDS takes the debate into the strategic dimension whereby the exploitation of UK Defence Industry as a strategic national asset can be understood directly in the contribution it and the MOD make in partnership to delivering operational capability and prosperity together. Arguably that is what “Whole Force by design”, to quote the pinned tweet at the top of Sir Stephen Lovegrove’s Twitter timeline, will look like in practice.

Indeed, CDS makes explicit reference to the nature of the commitment MOD and industry need to make in partnership:

“we’ll need commitment from our industry partners to learn the necessary lessons and help us prepare to fight the war we might have to fight.”

This shows again that the transactional approach to equipment procurement is no longer adequate. The commitment which companies such as Leonardo MW Ltd in UK industry are already making, the analysis in the Dunne Report, and the prosperity issues summarised by Professor Taylor, seem entirely consistent with General Carter’s perspective.

## 7. Conclusion

There are many papers and many speakers who have shown the potential for UK prosperity as a consideration in defence procurement to mutual benefit. This submission has sought to draw on some of those. In conclusion we believe that an MP and CDS point the way to the strength of the convergence:

“Sovereign capability is everything. We must have the ability to design, build and operate in isolation if required, and to invest in jobs, apprenticeships and new technologies. The combat air strategy allows us to do that.” Mark Menzies MP, speaking in Westminster Hall on 27 June 2019.

General Carter when giving the CDS lecture at RUSI on 5 December 2019, said:

“I have been very struck in my year-and-a-half as CDS by our international status as what industry calls a reference customer”

and he cited Tempest directly:

“Team Tempest. It’s much more a technology partnership than an acquisition programme ... And it is exciting to see the momentum that has been generated as well as the additional investment by industry in advanced technology enterprises.”

Mr Menzies and General Carter point the way to the future in taking the principles and precedent set in the Combat Air Strategy into adjacent domains in order to match the challenge which MPs and CDS set both the MOD and industry in the quotes above and more widely. Leonardo concludes this submission with the assertion that in the new environment outlined by CDS and even more so with the demands emerging from the Covid-19 crisis, the arguments at the core of these views are convergent. The shared challenge for UK industry and MOD is to make sure that they become not just convergent but entirely coincident, to the benefit of UK prosperity and UK front line operational capability.

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