

Written evidence submitted by Jag Patel

Of course, it makes sense to maintain good relations with near neighbours and trading partners. But it is precisely because the UK has had a longstanding intelligence-sharing and military partnering arrangement with the US, stretching back to the start of the last war, that stands in the way of a reinvigorated defence, security and intelligence relationship with the EU27.

INTRODUCTION

1. The Integrated Review of Security, Defence, Development and Foreign policy accurately encapsulates the UK's place in the world as a newly independent, sovereign nation in the post-Brexit era, recognising its enduring commitment to promoting good governance at home & abroad and security & prosperity for all, underpinned by mutually beneficial free trade and unhindered movement of people.
2. Even more importantly, it is driven by this government's unwavering determination to raise the lot of its people through pursuit of an independent trade strategy – most notably, a comprehensive free trade agreement with its ideological, freedom-loving partner and closest defence, security and intelligence ally on the other side of the Atlantic.
3. The government's view on the UK's strategic relationship with the United States, as expressed in its Integrated Review, cannot be clearer. It says (on page 19):

“The United States will remain our most important bilateral relationship, essential to key alliances and groups such as NATO and the Five Eyes, and our largest bilateral trading partner and inward investor. We will reinforce our cooperation in traditional policy areas such as security and intelligence and seek to bolster it where together we can have greater impact”

4. From the outset, the UK-US relationship has been defined by mutual self-interest – it is in the interests of the former to make sure that its armed forces are equipped with the most up-to-date and technologically advanced equipment available on the market, and it is in the interests of the latter to oblige because it serves its economic, military and diplomatic objectives perfectly.
5. This submission examines the UK's enduring relationship with the US within the context of their trade in defence goods, and the UK's preference for buying off-the-shelf equipment which it is increasingly sourcing from the US, so that it can narrow the technological gap between UK and US armed forces.
6. It is only right to ask why this once proud, manufacturing powerhouse and birthplace of the Industrial Revolution which pioneered the practical application of science to improve the human condition, has come to rely on the US for most of its new military equipment, how all this has come about and what it portends for the future of the domestic defence industry.

UK-US TRADE IN DEFENCE EQUIPMENT

7. Since the UK exited the EU, it is true to say that the remaining EU27 have proceeded ahead with plans for sharing military research & development, closer defence industry collaboration, alignment of arms export policies and common procurement of defence equipment so that they can act independently of the US, if considered necessary.
8. Of course, it makes sense to maintain good relations with near neighbours and trading partners. But it is precisely because the UK has had a longstanding intelligence-sharing and military partnering arrangement with the US, stretching back to the start of the last war, that stands in the way of a reinvigorated defence, security and intelligence relationship with the EU27.

COMMONALITY AND INTEROPERABILITY

9. Consider for a moment, recent military hardware purchases made by the UK. In the main, they have been acquired because of their commonality and interoperability with US armed forces which not only enables both countries to undertake joint operations seamlessly, but also offers certainty that replacement spare parts will be made available to the front line via a *common* logistics supply chain – thereby reducing substantially, the burden of in-service sustainment costs, which can be in the order of *four to five times* the prime equipment costs.¹

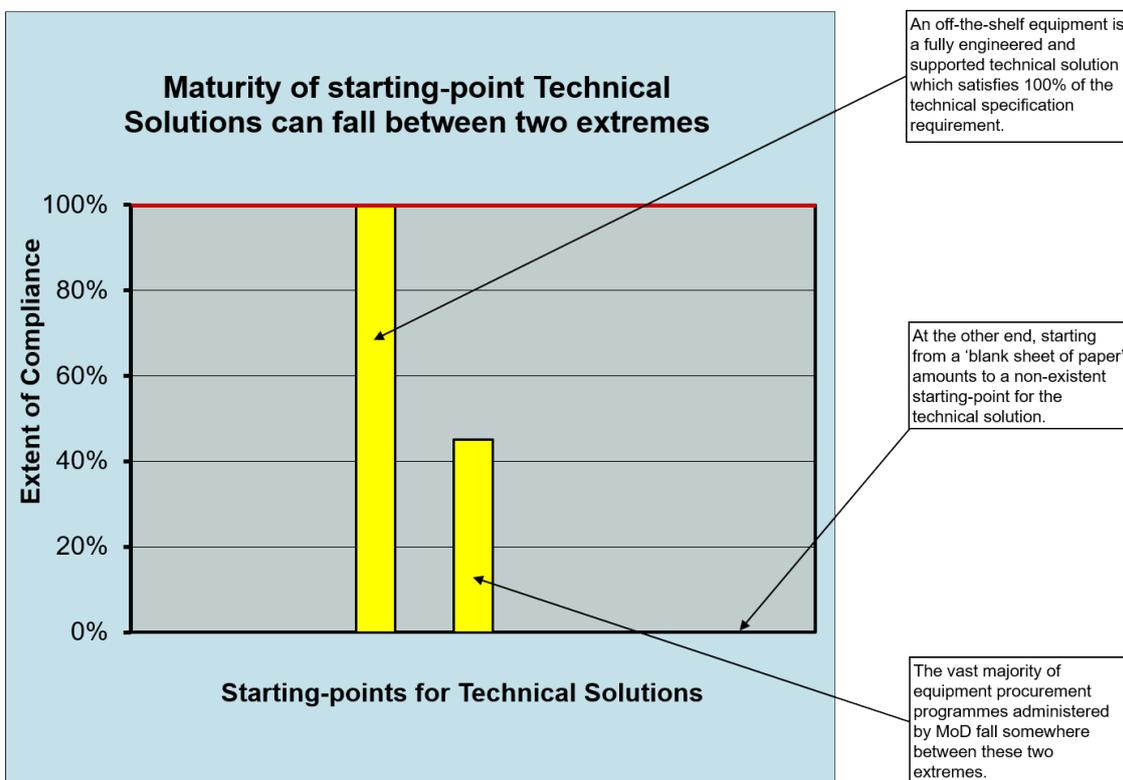
10. But there is yet another, *even* more important reason.

11. Although the government has not come out and said so publicly, it has quietly revised its defence procurement policy to consider buying, as its first and foremost priority, new military equipment for the armed forces which automatically falls in the *off-the-shelf* category – specifically because an off-the-shelf equipment is a *fully* engineered and supported technical solution which satisfies 100% of the technical specification requirement at *no* additional cost or risk to the Exchequer, that is to say, it does *not* require any user-specified modifications or related development work laden with risk to be performed upon it.

MATURITY OF THE STARTING-POINT FOR THE TECHNICAL SOLUTION

12. The undeniable truth is that the maturity of a starting-point for the technical solution can fall anywhere between two extremes, as shown in Figure 1. 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 is why it has become the first choice for consideration.

Figure 1



13. To this end, the government’s quest for risk-free, value for money acquisitions has seen it go for off-the-shelf purchases to satisfy its military equipment needs – in the shape

¹ Written submission to the Public Accounts Committee, Inquiry into *Defence Capability and the Equipment Plan 2019-29*, published 29 May 2020, p.13, PDF file: <https://committees.parliament.uk/writtenevidence/5413/pdf/>

of orders for the P-8A Poseidon maritime patrol aircraft, Apache AH-64E attack helicopters equipped with AGM-179 Joint Air-to-Ground Missiles, MQ-9B Protector armed drones, E-7 Wedgetail airborne early warning and control aircraft, BOXER armoured vehicles and now H-47(ER) Chinook heavy-lift helicopters whilst the Joint Light Tactical Vehicle has been identified for its Multi Role Vehicle-Protected (MRV-P) requirement – the last four, after having first conducted 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 and is *identical* to that operated by US armed forces.

14. In so doing, this government has put financial security and the national interest first, not domestic equipment manufacturers' commercial interests.

NO LONGER CONFIDENT IN THE ABILITY OF ITS OWN PEOPLE

15. The reason, which it will not admit in public, why the government has moved away from its longstanding procurement policy of buying equipment designed to a bespoke technical specification requirement set by the military customer is because, it is no longer confident in the ability of its *own* people 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 acquisition programmes for as long as anyone can remember.

16. This tragic situation has come about because MoD does not possess the capability in the form of intelligent and experienced procurement officials 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 per year to buy defence equipment, outsourced services and labour from the private sector.

17. But most worryingly of all, there is a question mark about the allegiance and loyalty of MoD procurement officials and their willingness to put the public interest first, ahead of their career interests.²

PROCUREMENT PROCESS HAS BEEN TAMPERED WITH

18. 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.

19. Whereas the government would want to look at indigenous equipment manufacturers as its first port of call for entirely good reasons, the undeniable fact of the matter is that after decades of unwavering support lavished upon them by political parties of all persuasions, *none* of them are able to offer suitable off-the-shelf equipment, because they simply haven't got any – not least, because they have not been investing in product research & development or engineering excellence which has resulted in them becoming seriously uncompetitive, both in the domestic market and in export markets.

² Written submission to the Public Administration and Constitutional Affairs Committee, Inquiry into *Propriety of governance in light of Greensill*, published 8 June 2021, pp.1-4, PDF file.
<https://committees.parliament.uk/writtenevidence/35317/pdf/>

CONTRACTORS NO LONGER POSSESS A DESIGN & DEVELOPMENT CAPABILITY

20. To its credit, the government has realised that the most important benefit to be derived from buying off-the-shelf equipment via a government-to-government deal is that it allows any hidden technical, financial and schedule risks – which have dogged the so-called, minimal development solutions proposed by domestic contractors – to be transferred to the *other* government. This is especially pertinent given that domestic contractors are unable to tackle such risks because they no longer possess an in-house engineering design & development capability, and haven't done so for many years.³
21. Additionally, it will not be necessary to maintain the usual (overmanned) procurement team, when a *skeletal* procurement team can easily see each acquisition through – which paves the way for the government to reduce the headcount at MoD's procurement organisation in Bristol even further, in numbers not possible before.
22. After being misled by domestic contractors 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, there remains little appetite to consider any alternatives that may be put forward by these same dishonest suppliers.
23. 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 recent Spending Review efficiency savings commitments, further complicated by Brexit and now the Covid-19 pandemic – hence its preference for the off-the-shelf option.

BUYING OFF-THE-SHELF EQUIPMENT IS RELATIVELY STRAIGHTFORWARD

24. 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.
25. Additionally, because the “revolving door” between MoD and US-based defence contractors is firmly shut, buying military equipment from the US will deny UK defence procurement officials the opportunity to engage in lobbying and corruption to secure a job with the latter, which is what they have been doing so freely with domestic contractors.
26. It is believed that a quarter of the UK's equipment procurement budget is currently being spent on buying off-the-shelf equipment. This slice is only set to increase during the remainder of this Parliament, as more and more projects which involve significant development work are side-lined, in favour of off-the-shelf purchases.
27. It makes sense. In fact, it is common sense.

HOW ALL THIS HAS COME ABOUT

28. Over the last several decades, domestic contractors 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.

³ Written submission to the Defence Committee, Inquiry into *Defence industrial policy – Procurement and prosperity*, published 10 September 2019, pp.3-4, PDF file.
<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/defence-committee/defence-industrial-policy-procurement-and-prosperity/written/104907.pdf>

29. 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.

APPALLINGLY POOR PERFORMANCE

30. Some people say that buying off-the-shelf equipment from abroad means that the ability of domestic 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.

31. 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 an engineering design & development capability on their premises, which means that they cannot even develop new products to stop themselves from being dragged further into this death spiral.

32. This wilful neglect amounts to wanton destruction of shareholder value – by the *very* people who were supposed to be preserving and enhancing it. In other words, they are stuffed!

NOT TOO LATE

33. It is still not too late to save the day. The way ahead for domestic 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.

34. 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 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 – which is a sure way to relinquish market share to foreign contractors.

35. 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.

NARROWING THE TECHNOLOGICAL GAP

36. In an extraordinary turn in transatlantic relations, the UK and US governments have agreed to collaborate in key technology areas so that they can develop future capabilities for their armed forces. They have decided to align their equipment procurement activities to not only narrow the technological gap between UK-US forces during joint operations,⁴ but also mutually benefit from the network effects of economies of scale.

⁴ UK Ministry of Defence news story, *Defence Minister and Head of the US Army sign Modernisation Agreement*, 14

37. Such is the goodwill between these two firm allies that this US administration, sanctioned by the unreserved consent of the US Congress, is willing to go out of its way to help the UK close the technological gap between UK and US armed forces by offering it open access to off-the-shelf equipment of its own choosing.

RELATIONS WITH THE EU27 AND NATO

38. As for the UK's relations with the EU27, the consensus view among observers is that it has fallen to a new low, precipitated by the manner in which the UK exited the EU, evidenced by ongoing disagreements over the operation of the Northern Ireland Protocol. The pace at which the relationship with France in particular has been fractured is a salutary reminder of how quickly bilateral relations with individual countries can deteriorate. This experience does not bode well for relations with other European members of NATO because many of them are also members of the EU.

39. On the other hand, some members of NATO have followed the example set by the UK and started to buy off-the-shelf equipment from the US, so that they can maintain commonality and interoperability not only with the UK, but also the EU27.

CONCLUSIONS

40. The UK-US relationship is in pretty good nick, strengthened by their trade in defence equipment. The same cannot be said about relations with the EU27.

41. At a time when the domestic defence industry is unable to satisfy the specific needs of the UK government, it is reassuring to know that the US can easily step into the breach and fulfil this function.

42. The government's policy of buying off-the-shelf equipment is here to stay – largely because indigenous contractors lack an in-house engineering design & development capability, which is unlikely to be remedied anytime soon.

43. The UK's recent equipment purchasing decisions were taken because of their commonality and interoperability with US armed forces, enabling the two countries to undertake joint operations seamlessly.

44. The UK's military and economic tilt towards the US has seen it being rewarded with access to off-the-shelf equipment of its own choosing.

45. This slide towards even greater dependency on the US has been forced upon the UK government let down by its own procurement officials and domestic contractors.

46. Over the last several decades, domestic equipment manufacturers have squandered the chance 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.

47. It is safe to say that the defence manufacturing industry is ill-equipped to help realise the government's vision of a thriving and globally competitive defence sector trading freely with countries beyond the EU, post Brexit.

48. The UK defence industry 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.

49. Such is the loss of confidence in indigenous contractors that this government has all but walked away from them.

50. MPs who are fixated on retaining defence jobs onshore have succeeded in achieving the exact opposite, because they have lost sight of the key feature of competitive markets – making things that people want to buy, at a price they are willing to pay.

September 2021

About the Author

Jag Patel has considerable experience of researching, analysing and solving a wide range of entrenched procurement problems on defence acquisition programmes.