

Written evidence submitted by Sir Peter Luff, Min(DEST) 2010-12

Defence industrial policy: procurement and prosperity

I listened with interest to the committee's evidence session on Tuesday. On a number of occasions, the question of the acquisition, during the early years of the Coalition government, of the RFA Tide Class ("MARS") tankers from South Korea, was alluded to. As I was Minister for Defence Equipment, Support & Technology at the time, I thought it might help the committee if I provided some of the background, as I recall it. I have no access to papers or records, and this account is therefore from memory alone.

Crucially, I am clear the acquisition from South Korea

- was driven by issues other than budgetary concerns and
- brought real benefits to the UK, but
- sets no precedent for the new solid support ship contract.

The acquisition process had begun some time earlier, under the previous Labour government, and it was then that the decision to open the acquisition to foreign competition was taken. I do not know exactly what drove my predecessor to reach this decision, but the fact that British yards had no recent experience of constructing tankers must have played a part, as I am clear these ships could have been declared "warlike stores" and so exempted from the European procurement regulations.

An additional factor must have been urgency, given the likely remaining life of the existing tankers which were crucial to the Royal Navy's operations and to the new Queen Elizabeth carriers in particular. The existing tankers had single hulls and no longer complied with international safety regulations. RFA ships are, of course, merchant ships and Lloyds only agreed to maintain the certification of these tankers on

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the express understanding that they would be replaced with new double-hulled tankers at the earliest possible date.

I had the choice of proceeding with a competitive process that was already nearing completion or restarting the acquisition. The latter course would almost certainly have led to extensive delay and the enforced retirement of the existing tankers before their replacements could enter service. As there were no compliant British bids on the table at this time and given the lack of British experience in tanker construction, I did not consider abandoning the process was prudent.

So, continuing with the competition and the subsequent acquisition from South Korea was right, I believe because:

- No British yard had experience of constructing tankers
- Delaying the acquisition would have led to a loss of a crucial capability
- The successful bid represented excellent value for money

I am aware that the South Korean yard experienced significant subsequent difficulties with the construction of the ships, but I can only refer to public reports as to their nature. However, the RFA does now have four tankers at the agreed price with, I believe, the full class meeting its original scheduled in-service date. I am clear that abandoning the process and restricting a new competition to British yards would have met well-founded legal challenge and would have resulted in fewer ships being built at a later date, leaving the Royal Navy with a significant capability gap.

The acquisition in South Korea had numerous advantages,

- Four ships successfully delivered to budget and, despite some issues for the yard, with the full class meeting its due in-service date

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- The Royal Navy maintained crucial refuelling capability
- A significant improvement UK-Korean defence cooperation, particularly in UK-Korea defence science and with new market opportunities for Rolls Royce and Westland.
- The use of a British design (by BMT of Bath) with significant British equipment, creating the possibility of additional orders for a class of similar ships, with royalties and equipment orders for British suppliers.

My only lingering doubt is whether we were right to demand such high specifications for the ships, and whether the use of existing commercial designs, suitably modified, would have represented even better value for money.

Of course, the solid support ships have no specialist tanker element and are therefore much more readily built in British yards. Like the tankers, they are clearly "warlike", even if they are not technically warships, so even under European Community rules, their acquisition does not need to be opened to international competition.

I hope this sketch of the issues around the Tide class tankers may be of some use to the committee.

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