Unite response to The Defence Committees inquiry into defence industrial policy: procurement and prosperity

This response is submitted by Unite the Union, Britain and Ireland's largest trade union with over 1.3 million members across all sectors of the economy.

Unite represents the interests of tens of thousands of members working in the UK's defence sector in both the primes and their supply chain companies. These defence companies employ highly skilled workers and are a major source of apprenticeships/graduate training schemes.

1 Introductory comments

1.1 Unite, as the major trade union representing workers in the defence industry, focusses here on the industrial questions around prosperity, including the preservation/development of our members' jobs and putting communities first.

1.2 Unite welcomes this inquiry as an opportunity to provide evidence on how defence procurement policy can directly impact on the companies, employees and our members, involved in the safety, security and defence of the British people. It is vital that their voices are heard, such that policy not only ensures the UK remains secure, but also safeguards its critical defence sector, so that its worker and the communities in which they live are sustained.

Questions

2 Q1

2.1 In two words, no and yes. Unite consistently argues for a **defence industrial strategy** that recognises the importance of onshore defence manufacturing. This strategy should concentrate on the industrial capability required to achieve its military capability to defend against identified/potential threats and what further capability we need. This should generate a list of equipment areas for each of the services, identifying technologies that amount to sovereign capabilities. These technologies must be secured onshore to ensure the UK is capable of **freedom of action** (**FoA** *being able to act in the UK's interests without intervention from other nation states*) and **operational advantage** (**OA** *ability to have the edge over potential adversaries*)[1].

[1] https://www.adsgroup.org.uk/blog/defence-procurement-sovereign-capability-explained/

2.2 It is essential for the MoD to work closely with BEIS and the Treasury to agree a holistic approach to procurement, ensuring the contribution made by UK industry to UK prosperity is the first consideration.

2.3 **Sovereign capabilities** (**SC** *defence capabilities that should be built solely in the UK to protect the UK's FoA and OA*[2]) are important to Unite members, include for example, in shipbuilding design, manufacturing, maintenance and support; the design, manufacture and maintenance of manned combat aircraft; complex weapons; cyber systems; and through life support for defence equipment.

2.4 Unite believes there are good political and economic reasons for supporting these technologies and companies that produce them here. Every pound spent manufacturing these goods in the UK results in at least 36% being returned directly to government through tax and NI payments. Additionally, wages paid to UK based workers are overwhelmingly spent here, creating a multiplier effect for local communities.[3] Unite believes the MoD and wider government should use procurement as a broader tool to spend UK taxpayers' money in a way which creates multiple UK benefits. This is far more straightforward in defence than other areas of procurement as sovereign capabilities can be protected under EU procurement rules.

2.5 Unite is concerned that interpretations of industrial strategy differ across government. It is therefore crucial to end this uncertainty. It must be made clear that the **government is willing to provide long term, strategic support for engineering/manufacturing**, especially with 'Brexit' and is willing to intervene using the government's entire industrial toolkit.

2.6 Unite is clear about what our members need and the areas where their interests align with industry. Having consulted with our members, academics and industry, we know businesses want a long term approach from government which is concerned with stability, not minor fluctuations in stock markets. Stability which helps protect and grow skilled jobs, apprenticeships, company turnover and exports, as quantified below, within and for the UK Defence sector, and reported here by the ADS[4]:

- 142,000 direct, 120,100 indirect jobs
- 4,300 apprentices/trainees
- £23bn turnover with £5.9bn exports (2016)
- 30,000 British R&D jobs
- Salaries 42% > than national average
- Productivity grew by 23% since 2015 (7x > than UK as a whole)

3 Q2

[2] Ibid

[3] https://rusi.org/publication/briefing-papers/destination-defence-pound

[4] https://www.adsgroup.org.uk/reports/uk-defence-outlook-report-2017/

3.1 ADS's paper of 18/2/19 outlines how parliamentarians are calling on the Government to invest in the UK's defence industrial base so that the UK can **retain the skills needed to** design, develop and produce cutting-edge defence technology, ensuring British defence manufacturers continue to innovate.

3.2 They outline how **Fleet Solid Support Ships (FSS)** have been at the forefront of the defence prosperity agenda as they have been opened for international tender, outlining how North Durham MP, Kevan Jones, asked what weighting would be placed on national prosperity when awarding the FSS contract. The argument for FSS being built here is to ensure British shipyards **retain jobs and skills** as well as from UK Treasury returns via taxes and NI contributions.[5]

3.3 Professor John Louth of RUSI informed the authors in 2017 that "Our work indicates that Value for Money criteria needs to be extended to embrace fiscal benefits to the Treasury as well as capability sustainment through skills/competency maintenance."

3.4 Kings College Londons' paper 'A Benefit not a Burden', concisely summed up the advantages of UK sourced procurement:[6]

> 'The **domestic defence industry supports and creates highly skilled jobs** and strengthens the economy. MoD expenditure within the UK defence industrial base and beyond provides significant economic value to the UK in terms of domestic employment levels, high-technology skills and financial contributions.'

4 Q3

4.1 Yes, the global market for its systems/products and services is limited to governments allied to the UK.

4.2 The UK's defence and associated industries make a significant contribution to UK prosperity, as a consequence of both MoD spending and via exports. However, much of this prosperity has been achieved via programmes begun prior to the **2012 National Security Through Technology white paper, which excludes wider employment, industrial and economic factors from its value for money considerations**. The 2012 paper also stated that wherever possible, we will seek to fulfil the UK's defence and security requirements through open domestic/global competition.

4.3 The 2012 white paper stance ruled out consideration of the benefits (e.g. jobs, tax returns) that would accrue from undertaking work here. It also, by implication, excluded consideration of the potential for UK exports, given, as recognised by RUSI, '…other governments are unlikely to buy product that the domestic government hasn't endorsed with a purchase.'[7]

[5] https://www.adsgroup.org.uk/blog/defence-procurement-sovereign-capability-explained/
[6] A benefit not a burden – The security, economic and strategic value of Britain's defence industry – Kings College London, April 2015
[7] The Defence Industrial Triptych – Henrik Heidenkamp, John Louth, and Trevor Taylor (RUSI)

4.4 Interestingly, Type 31e frigates, even though they are classified as warships, could have, as a result of collaboration, everything other than ship construction and missile systems sourced abroad, including, for example, its radar, guns, command and control systems and perhaps even engines. As a potential consequence, any **T31e exports may have little UK work content** as many customers will construct in territory.

4.5 Recent reports suggest that 'France set to overtake Russia as second largest global exporter in 2020, with annual exports due to total USD7 billion', whilst it's also been suggested that the 'UK is now set to become a minor player in the global defence export market from 2024 due to planning/investment failures in its domestic industry'.[8]

5 Q4

5.1 No, there shouldn't necessarily be. The MoD has a preference for open competition when it comes to defence procurement, however, government can exempt open competition for reasons of national security, protecting the UK's OA and FoA.[9]

5.2 The 2017 National Shipbuilding Strategy (NSS) committed to designing and constructing the Type 26 and Type 31e frigates in the UK, **but also invited foreign shipyards to compete to build FSS in their entirety and partner in the building of T31e**.

5.3 The FSS ships, which lend themselves to a distributed block build here, as per the Type 45 destroyers and QE class carriers, are being put to international competition. The reason for this, according to the NSS, is because they're considered 'non-warships'. This is somewhat bizarre, given the FSS ships will hold considerable ammunitions and be equipped with a Phalanx close in weapon system.

5.4 With a potential value of £1bn for three ships, this could sustain over ten thousand jobs across shipyards, benefitting UK prosperity with £285 million returned to the taxpayer through income tax, NI contributions and lower welfare payments.[10] If the work was kept onshore the UK would benefit not just from the build, but also the supply of steel etc. However, the Government's present policy is to put the contract to international tender – even though they aren't bound by EU rules to do so. The Chair of the Commons Defence Committee, recently wrote to the Government saying: "Our allies, such as both France and Italy, classify equivalent ships as warships."[11] Thus they're not put to international tender.

6 Q5

6.1 Yes. The impact, as outlined below, would simply put the UK on a more level playing field with international competitors, and should lead to more work share being retained here, with the consequence of capability, highly skilled jobs and greater treasury

[8] https://ihsmarkit.com/research-analysis/saudi-arabia-qatar-tensions-drive-defence-export-growth.html
[9] https://www.adsgroup.org.uk/blog/defence-procurement-sovereign-capability-explained/
[10] https://www.gmb.org.uk/news/governments-perverse-obsession-international-shipbuilding-tender
[11] Ibid

revenues remaining here. Additionally, it may assist in enhancing our FoA/OA, with components made here.

6.2 Had the procurement of the Advanced Jet Trainer (2003) been placed outside the UK, hundreds of Brough workers would have been made redundant, the UK would have lost capability and there would have been no revenue to the treasury to offset the cost of production or from export. Put simply, off the shelf procurement from abroad contributes nothing to UK PLC, with reports suggesting 'the UK is set to become the fifth largest market for defence imports, despite being traditionally outside the top ten importers'.[12] The UK's lowest possible cost industrial policy 'is now set to see the UK's aviation sector lose large segments through lack of domestic offset from foreign manufacturers', with Brexit likely to accelerate this.[13]

6.3 On 11/7/16, the UK confirmed the £3bn purchase of nine Boeing P-8A aircraft. The UK work content is circa 3%. Conversely, when the Indian government purchased the same aircraft, it secured 30% offset work. When Tony Douglas (former CE, Defence Equipment and Support (MoD)) was asked about this by the Public Accounts Committee, he surprisingly replied "I have absolutely no idea what the Indians got by way of work share", despite having access to information relating to the sales of the P-8 to other countries[14], and with the Indian offset information being public.

6.4 There had been other suppliers with maritime patrol aircraft solutions, offering significant UK work content, but (and contrary to the 2012 White Paper), there was no competition.

6.5 On 11/7/16, the Government announced a $2.3bn order for 50 Boeing Apache helicopters. UK work content is again small. The Indian Government with its Apache order, as with the P-8As, again secured offset work worth 30%. An indirect consequence of the UK order was the loss of 230 Yeovil jobs.

7 <u>Q6</u>

7.1 Despite the commitment in the 2015 SDSR to 'promote our prosperity', the reality has been somewhat different. On 31/10/17, the MoD, in response to several Parliamentary Questions from Kevan Jones MP, admitted that none of its circa 20 contracts over £100m since the SDSR (up till 31 Mar 2017) had taken National Security Objective 3 (*to promote our prosperity – seizing opportunities, working innovatively and supporting UK industry*[15]) into account. No information was forthcoming for contracts below this. One may conclude that few if any contracts of any value had taken this objective, and hence prosperity, into account as an award criteria.

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[12] https://ihsmarkit.com/research-analysis/saudi-arabia-qatar-tensions-drive-defence-export-growth.html

[13] Ibid

[14] Public Accounts Committee – Defence Equipment Plan 2016-2026 Oral Evidence 1/3/2017

[15] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/705347/6.4391_CO_National-Security-Review_web.pdf

7.2 On a regional basis, defence is absolutely vital to the local economy. This is especially the case in South Cumbria, where 9,600 FTE jobs are supported by BAE Systems.[16]

8 Q7

8.1 To date, with just one exception, little.

8.2 Recent decisions (17/7/18) around the Future Fighter Tempest Programme, confirming plans to develop a next generation fighter replacing the Typhoon as part of a wider UK Combat Air Strategy (CAS), are promising. This commitment is great for the UK air defence sector, as it works to develop innovative technologies/systems, with the aim to maintain our FoA/SC, whilst also supporting UK prosperity. It also recognises the UK combat air sector (which includes the industrial base) as a critical asset.

8.3 It must be noted, however, that the CAS is NOT a commitment to procure and build a future fighter here. It's, as stated in the foreword, to provide choice to the UK for its future procurement decisions. It's ensuring money is being spent to retain and develop capability here, so that an aircraft could be designed/built in the UK, but equally, the UK government could decide to procure elsewhere.

8.4 As we know, Team Tempest is a new approach to air defence capability with its partnered co-funded element of the Future Combat Air System Technology Initiative, which, alongside funding from BAE Systems, Rolls-Royce, MBDA and Leonardo, will see the government inject £2bn to develop a next generation fighter aircraft to replace the Typhoon, between now and 2025 when a decision will be made on full development, with a view to it entering service by 2035.

8.5 It is worth noting that the £2bn funding is designed to develop the technologies, skills and processes necessary to ensure the UK can play a leading role to develop a next generation combat air system – as opposed to being just about developing a new fighter. We understand monies allocated from Tempest funding have already generated hundreds of jobs across the companies involved.

8.6 In addition to the team Tempest decision, soon there are other hugely important decisions to be made for the future of the UK defence industry. Decisions regarding FSS, T31e, Hawk T2 and radar, could make or break indigenous capability. With a circa £178bn ten year defence equipment budget, the MoD has the means to make a significant contribution to prosperity, but unless it changes and practices what it's preaching, this will be an opportunity lost and could see the MoD presiding over an irreversible decline in the UK defence sector.

8.7 A failure to continue backing a future fighter, based upon Typhoon figures, could see an impact of circa £28bn to future UK Government returns over the lifetime of the programme with the loss of >10,000 jobs. For real progress to be made we must see Tempest work continue with longer term funding and see a more holistic UK approach to upcoming future defence procurement, which fall in line with his recommendations.

[16] 1 The Contribution of BAE Systems to the UK Economy, Oxford Economics, November 2017

9 Q8

9.1 In short, no it doesn't appear to.

9.2 Other countries have a far more pro-active and positive approach to their indigenous defence capability/procurement.

9.3 Recently Australia, which the UK is seeking to export Type 26 frigates, has published its 'Defence Industrial Capability Plan'[17], 'outlining their Government's long-term vision to build/develop a robust, resilient and internationally competitive Australian defence industry base that is better able to help meet defence capability requirements.' It states:

> 'The Defence Industrial Capability Plan recognises the strategic importance of Defence and defence industry sovereignty to Australia's defence and national security.
>
> The Government is committed to ensuring Australian industry is positioned to meet Defence's future requirements and to maximise economic growth and high-tech jobs in the sector. The Government will continue to maximise Australian industry involvement in our defence capability planning, acquisition and sustainment, building the sovereign defence industrial base we need to achieve our strategy and capability goals.'

9.4 It goes further by publishing a list of its Sovereign Industrial Capability Priorities[18]. Significantly, it includes radar, at a time the UK Government is looking at possibly Australian radars on future British warships.

9.5 Professor John Louth (RUSI) informed the authors in 2017 that "RUSI research shows that our European partners, especially France/Germany, are committed to governmental patronage of their national defence industries, and capability secured through competition is less preferred."

10 Q9

10.1 Time will tell, however, the recent reversal of GE's decision to move its UK power business from Rugby to Nancy was welcome, as Rugby produces power conversion equipment for the Royal Navy including for the Type 26 frigate, with the original decision raising national security concerns. Without knowing the full ins and outs of this decision, it would be nice to think that reforms were at least partly responsible here, but it appears that lobbying by Unite, the Labour party, the local MP, and security concerns were largely behind it, noting MoD correspondence to the Defence Committee (27/2/19) did not appear to be unduly concerned regarding a move to France'.

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[17] http://www.defence.gov.au/SPI/Industry/CapabilityPlan/Default.asp

[18] http://www.defence.gov.au/SPI/Industry/CapabilityPlan/Docs/SICP-Factsheet1.pdf

10.2 DE&S acquisition reform must be fully aligned with defence industrial policy/strategy; otherwise past experience shows that acquisition decisions will fall back to their short term, narrow focussed ways based around price not prosperity.

11 Q10

11.1 The Typhoon and F35 jet programmes probably best exemplify how this can be done.

11.2 The UK's F35 workshare, whilst not huge, although significant, resulted from us having developed the required technology through previous research, which, along withUS relationships, our own purchases of aircraft, enabled us to gain workshare.

11.3 In a similar vein, Typhoon has seen us working in collaboration with European partners and our leading aerospace/defence firms. This partnership is unmatched, allowing equal access to shared manufacturing, development and the creation of long-lasting political/industrial relations[19].

11.4 Whilst Brexit may play a part in our future direction, the CAS with the Tempest fighter show that we are learning, and how new international partnerships, such as with Sweden, are essential in starting such programmes. They show that cross-border/long-term partnerships, aligned with the industrial approach of allies, where workshare is critical, continue regardless of Brexit.

11.5 Investment in and development of the UK defence supply chain must be encouraged, especially in the context of more expensive imports. For supply chain and other SME companies, access to skills, affordable energy and support for R&D have also been identified as of concern.

11.6 For larger parts of the manufacturing base the government must support 'foundation' or 'strategic industries,' including defence manufacturing, steel, energy and digital utilities.

11.7 The MOD's procurement budget must be used to create a stable internal market. As Unite research has proven, supporting engineering and manufacturing, through targeted procurement, results in clear social value, creating jobs, sustaining industry and communities.

12 Conclusion

12.1 Up and down the country, communities depend on the defence industry for their jobs, for a future for young people, for economic security and in some cases, survival.

12.2 Unite will never allow any of that to be risked, thus it calls on the MoD to support, through a defence industrial strategy, procurement that locks in prosperity, supporting a UK defence industry that allows us to design, build and maintain the defence equipment needed.

[19] https://www.eurofighter.com/about-us

12.3 'Value for money', is often used as an argument to buy equipment overseas. Spending taxpayers' money, buying UK-built equipment, isn't just good for UK companies/jobs, it's also good for Treasury and economy as UK workers spend money here.

12.4 Recent indications from defence analyst Francis Tusa that government will actually double the defence pounds spent in the USA by 2020 (from 12% today to possibly 25%)[20], needs addressing. Overseas spend is continually undermining the jobs of those skilled Unite members working in the sector, along with its skills base and communities in which they work. A potential made worse by noting that for every job lost, approximately 3.7 are at risk in the supply chain/wider economy.[21] Additionally it could serious impact the UK's defence sovereignty.

12.5 The Defence Industrial Policy 2017 and various statements by civil servants/ministers suggest UK prosperity is becoming important, however, as things stand, Unite has yet to see this evidenced, along with the identified key SC/policies needed to defend manufacturing that delivers and grows capabilities.

12.6 Soon there are hugely important decisions regarding the FSS, Type 31e frigates, Hawk T2 and radar that could make or break indigenous capabilities. Failure to further back a Future Fighter, based upon Typhoon figures, could see an impact of circa £28bn to UK Government returns over the programmes lifetime with the potential loss of >10,000 jobs.

12.7 Unite's General Secretary, Len McCluskey, said at Unite's 2016 Defence Conference that "***Unite will fight – without reservation/equivocation/hesitation – to defend every last members job in the defence industry***". Referring to the importance of the issue he said, "***It is a clear message to politicians that this union will never support any policy which sees members and their communities thrown on the scrapheap***".

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[21] file:///C:/Users/rick.graham/AppData/Local/Microsoft/Windows/Temporary%20Internet%20Files/Content.IE5/3M86R4IH/RS26986_BAE_ReportNoCropMarks.pdf (P4)