

## Written evidence submitted by GMB Union

### Defence industrial policy: procurement and prosperity inquiry

#### Introduction

- 1.1 GMB welcomes the opportunity to submit evidence to this expanded inquiry, and we also welcome the Defence Committee's ongoing interest in this important area of public policy.
- 1.2 GMB is a general trades union with a strong footprint in the defence sector. We represent 620,000 public and private sector workers, including defence manufacturing workers and Ministry of Defence (MoD) civilian staff. We are the lead shipbuilding union within the Confederation of Shipbuilding and Engineering Unions (CSEU).
- 1.3 This evidence submission is intended to be additional to our written evidence to the Committee's work on procurement earlier this year,<sup>1</sup> and to the GMB's 2018 research report on the Fleet Solid Support order.<sup>2</sup> We have attempted to cover points here not raised in those publications.

#### Executive summary

- 2.1 The shipbuilding industry has descended into crisis. Urgent action, including a change of procurement policy, is needed now to save jobs and protect industrial capacity and skills. Ministerial changes represent an important opportunity to look again at procurement policy and its contribution to prosperity.
- 2.2 The Government's commitment to the principle of extending prosperity is important must be underpinned by clear policies, which should include the development of prosperity weightings and measures that account for returned taxation in procurement exercises. Recent press reports that the MoD may include prosperity weightings in future procurement exercises should be cautiously welcomed, although we would wish to subject any such proposals to close scrutiny.<sup>3</sup>
- 2.3 The MoD lacks a clear assessment of the UK's future sovereign manufacturing capacity requirements against which the effectiveness of policies can be assessed. The need to carry out such an assessment is acute, given the ongoing risks to manufacturing sites and a growing skills gap.
- 2.4 There is a pressing need to revisit the 2017 National Shipbuilding Strategy, which has not survived contact with reality. The MoD should award the Fleet Solid Support order to the Team UK consortium and bring forward the Type 31 award in order to secure investment and help prevent further job losses.

#### Recent developments

- 3.1 The position of the defence shipbuilding industry has deteriorated sharply since the Committee last took evidence on this subject in May. At the time of writing, Harland and Wolff

stands on the brink of closure. Ferguson Marine – the last shipbuilder on the Lower Clyde – has been saved from closure only by the intervention of the Scottish Government. Further voluntary redundancies are being undertaken at Rosyth. Despite hopes to the contrary, Appledore has not secured a new operator. The National Shipbuilding Strategy has not passed the test of experience and it should be superseded by a new approach that is not predicated on international competition.

- 3.2 Outside of shipbuilding, a number of procurement decisions have been taken that appear to prioritise short-term budgetary savings (the valuation of which is controversial) over the long-term preservation of sovereign capabilities. Prosperity initiatives are either proceeding slowly or are of an uncertain status.
- 3.3 The Ministerial changes at the MoD represent an opportunity for a fresh approach. We welcome the fact that the new Defence Procurement Minister stated as recently as July 2019 that ‘getting our shipbuilding strategy right will be critical to ensuring that we have throughput of work and know that, if we get into times of crisis, we have the supply chain we need within our borders,’<sup>4</sup> and we also welcome the fact that she was a signatory to a May 2019 report which argued that:

*‘The MoD alone is responsible for its definition of warship and has, in the view of this Group, made a political choice to put out the FSS contract to international tender.’<sup>5</sup>*

- 3.4 The loss of military shipbuilding capacity in the last few months alone has had a significant impact on our shipbuilding members, their families and communities, and the UK’s sovereign manufacturing capability. We urge the new Secretary of State and the new Minister for Defence Procurement to revisit the National Shipbuilding Strategy and remove the self-imposed and discretionary restrictions it imposes on the UK’s freedom of action.

### **The importance of prosperity**

- 4.1 Defence is a significant contributor to the UK economy. The sector accounted for exports worth an average of £8.2 billion a year over the last decade.<sup>6</sup> As BEIS research found, the defence manufacturing workforce is characterised by very high levels of skills, experience and knowledge. Defence workers are estimated to earn a wage premium of between 5 and 12 per cent compared to similarly skilled jobs in other sectors,<sup>7</sup> and defence jobs carry a very high employment multiplier of up to 3.8 (meaning that each defence job supports up to an additional 2.8 jobs in the wider economy).<sup>8</sup> Between 34 and 36 per cent of defence spending in the UK is estimated to be returned to the Treasury through taxation and national insurance payments.<sup>9</sup>
- 4.2 We welcome, in principle, the Government’s stated commitment to increasing the sector’s economic value as long as defence workers receive their fair share of the rewards from any raised output. Four years on from that objective being set, we are however concerned by the lack of policy detail to support this commitment.

- 4.3 The Committee has rightly drawn attention to the flexibility that the MoD already has under the revised Treasury Green Book to take account of local economic impacts in procurement decisions, and no coherent account has emerged of why this did not take place for the Fleet Solid Support competition.<sup>10</sup>
- 4.4 While we would have liked the Dunne Review to have gone further in some respects, we believe that it made a number of important and constructive suggestions that are worthy of serious consideration by the MoD and the Treasury. It is disappointing therefore that little progress appears to have been made in response to those recommendations; indeed, the MoD has yet to give its formal response to the individual recommendations.
- 4.5 The absence of a formal response to the Dunne Review is made all the more conspicuous by a past Ministerial commitment that a formal response would be issued,<sup>11</sup> and also by a commitment by the then Secretary of State in March 2019 that the MoD would continue to review its response to the outstanding recommendations.<sup>12</sup>
- 4.6 It is also disappointing that the welcome decision by the former Secretary of State to commission research on the consequences for the UK supply chain of the award of the MARS tanker order to South Korea's Daewoo Shipbuilding and Marine Engineering has not yet been published.<sup>13</sup> Similarly, we feel that the MoD could cast welcome light on the likely benefits of a domestic Fleet Solid Support award by publishing the Fleet Solid Support Programme's business case.<sup>14</sup> Unfortunately, the MoD is yet to substantively respond to a Freedom of Information request for disclosure of this document that was submitted by the GMB in February. The recent refusal to disclose the identities of the current bidders for the Fleet Solid Support contract fails to meet, in our view, the reasonable standard of transparency should be expected even in the sensitive field of defence procurement.<sup>15</sup>
- 4.7 The MoD should build on the recommendations of the Dunne Review by developing and integrating both prosperity weightings and metrics for accounting for returned taxation into its procurement policies. The MoD should also work with the ONS to identify defence workers and employers within official labour market surveys, and to produce defence-specific metrics for use in input-output analysis, which would allow a clearer analysis of the prosperity implications of procurement decisions, alongside taking forward other Dunne Review recommendations.

### **Threats to the defence industrial base**

- 5.1 As discussed above, there has been a reduction in sovereign shipbuilding capacity over the last six months following the closure of the Appledore yard. Worse news will follow if an operator is not found for Harland & Wolff. GMB and other shipbuilding unions have backed industrial action taken by our members, and the unions have also taken the extra-ordinary step of reaching an indemnity agreement with Harland & Wolff's administrators that is preserving employment at the site. However, in the absence of a UK Government that is willing to follow the Scottish Government's example by nationalising this priceless asset, the future of one of the largest dry docks in the world and its workforce is still contingent on a new private

operator being found.

- 5.2 There are examples outside of shipbuilding where international competition and apparent short-term savings have been prioritised over investment in long-term industrial sovereign capability (the MoD has said explicitly that ‘the Army’s needs and VFM come first before the UK Prosperity Agenda’<sup>16</sup>). The 2016 decision to place a \$2.3 billion order for new Apache helicopters with Boeing, to be built in America, is reported to have led to job losses at Leonardo’s site in Somerset and undermined the UK’s long-term ability to build new military helicopters.<sup>17</sup> GKN Yeovil also closed as a consequence of consolidation on site following the loss of the Apache order.<sup>18</sup>
- 5.3 These reductions in domestic capability have serious implications for the UK’s long-term sovereign capabilities. As the 2005 Defence Industrial Strategy warned:
- ‘If we do not make clear which industrial capabilities we need to have onshore (and this includes those maintained by foreign-owned defence companies), industry will make independent decisions and indigenous capability which is required to maintain our national security may disappear.’<sup>19</sup>*
- 5.4 The Government’s current commitment to international competition, and its consequent reluctance to invoke the defence exemption from compulsory international tendering under Article 346 of the EU Treaties, is a major source of uncertainty in the defence sector. Capital intensive, high-risk industries such as defence require a steady and predictable drumbeat of orders. The negative consequences of uncertainty were dramatically underlined when BAE Systems cancelled its planned £200 million to £300 million investment in a new ‘frigate factory’ at Scotstoun in 2017 following the MoD’s devaluation of the Type 26 order.<sup>20</sup>
- 5.5 We acknowledge that some areas of defence manufacturing, such as aerospace, are part of highly integrated global supply chains. This is not true of the shipbuilding industry, which draws on concentrated domestic supply chains, and which continues to be characterised internationally by hidden (and sometimes overt) subsidies, and closed markets. It is concerning, therefore, that successive governments have not heeded the warning made by RAND in 2005 that, in the shipbuilding industry, Ministers should ‘consider the feasibility of competition in light of the [UK’s] industrial base constraints,’<sup>21</sup> and have in fact progressively sought to extend competitive forces in the sector, despite the near-absence of genuine competition or moral hazard faced by non-UK competitors.
- 5.6 Both atrophy and closures have serious consequences for prosperity and the defence industrial skills base. In the submarine sector, the delay between the end of Vanguard construction and the beginning of the Astute programme ‘meant that key skills and submarine-building experience had been lost’<sup>22</sup> – expertise that was subsequently rebuilt at great cost. The evidence from the Swan Hunter closure in the 1990s shows that defence manufacturing workers who are made redundant are at a high risk of either exiting the labour market altogether or of finding work that is less well paid, less skilled, and less satisfying than

their previous employment.<sup>23</sup>

- 5.7 It was recently stated in Parliament that the Government is supporting an evaluation of ‘the shipbuilding skills requirements needed to meet future demand.’<sup>24</sup> This work has potential implications for both military and civilian manufacturing. It is vital that the trades unions are fully involved in the development of this analysis.
- 5.8 In our view, the Government could do more to support investment and innovation. The percentage of GDP that the UK spends on permitted state aid is significantly lower than the European average,<sup>25</sup> and the Westminster government has viewed yard closures as ‘a commercial issue’<sup>26</sup> – rather than matters of essential sovereign industrial capability that require central intervention. Securing the finance to bring defence prototypes to market can be notoriously challenging. Innovation aid is permitted under current regulations, but the UK does not make use of this facility, unlike other Member States who use it to support competitors to UK employers.<sup>27</sup> GMB would like to see an exploration of the practicalities of establishing an equivalent scheme for shipbuilding to the aerospace sector’s Repayable Launch Investment schemes to help secure the finance for investment that employers can struggle to raise in conventional markets. More generally, the Government could take a much more active role in this field (including by supporting innovation on areas that apply across the different defence sub-sectors). As the independent Defence Innovation External Advisory Panel noted last year, ‘there is currently a real dissonance between the Department’s innovation rhetoric and its resources.’<sup>28</sup>
- 5.9 In the short to medium term, Brexit will also likely present workforce challenges for some employers in the sector that have become reliant on skilled EU labour. This factor is compounded by a sector-wide failure to invest sufficiently in apprenticeship programmes. Defence manufacturing workers are older than average<sup>29</sup> and our experience suggests that UK nationals working in defence manufacturing are on average older still, although the extent of this effect cannot be quantified due to the challenges of identifying defence workers in the ONS’s Labour Force Survey and Annual Population Survey. This problem of an aging workforce, which is made more acute by a relative lack of diversity, has obvious and challenging implications for the sustainability of key skills. Improving workforce diversity is a key pillar of GMB’s *Making It* campaign for investment in domestic manufacturing industries.<sup>30</sup>

### **GMB’s priorities**

- 6.1 The GMB’s immediate priority is seeking to secure the Fleet Solid Support order, newly publicly valued at up to £1.565 billion,<sup>31</sup> for the Team UK consortium, and also the early confirmation and bringing forward of work on the Type 31e vessels, in the hope of reversing the immediate spiral of decline in shipbuilding (including, potentially, the reopening of Appledore).
- 6.2 We are also seeking the lifting of the restrictive, and discretionary, classifications of ‘warships,’ as laid out in the National Shipbuilding Strategy. Our arguments on the applicability of Article 346 to Royal Fleet Auxiliary vessels were set out in detail in our written evidence to the Committee’s Procurement Update hearing, and we do not intend to restate them here. We

would seek to draw the Committee's attention to a statement made in July by the former Defence Procurement Minister to the effect that the EU had challenged the classification of FSS-like vessels as warships by other EU nations.<sup>32</sup> The MoD has been unable to provide examples of such challenges in response to Written Parliamentary Questions and, more recently, in a Freedom of Information Act response to GMB, which admitted that the Department did not hold relevant information.<sup>33</sup> On the basis of records of infraction proceedings, we do not believe that any such challenges have in fact been issued.

- 6.3 We believe that a key component of the defence manufacturing wage premium is derived from the sector's strong trade unions and the system of industrial relations that has built up in prime MoD contractors over many years. We acknowledge that the MoD is seeking to increase its share of spend on SME providers, and while we do not seek to stand in the way of that aim, we would seek to strongly make the point that if a change in the profile of MoD spending is not accompanied by a commitment to quality of employment then there is a risk that some of the current prosperity benefits of defence spending will be lost. 'Good employer' weightings are increasingly common in procurement exercises, and we believe that similar weightings could and should be adopted by the MoD for the major project tendering exercises (such a weighting is regrettably absent from the Fleet Solid Support scoring matrix).<sup>34</sup>
- 6.4 The Government should clearly estimate minimum levels of required future industrial capability, which would be applicable across a range of different risk scenarios, and provide the steady drumbeat of orders necessary to maintain and build that capacity, while also putting pressure on suppliers to deliver value for money, skills and apprenticeships, and the workforce diversity that the industry requires.

## Conclusion

- 7.1 GMB has consistently argued that the defence manufacturing workforce should be seen as an integral part of the UK's sovereign capabilities. Apparent short-term savings from awards to the lowest international bidders are more than balanced in the long-run by reductions in the UK's freedom of action and the loss of domestic production capability.
- 7.2 As RUSI has warned, without a strategy for building and maintaining its own strong manufacturing base the UK will become more dependent on the decisions of other states:
- 'Countries that lack such a national base, but which require high-technology armed forces with advanced equipment, can use those forces over any extended period only with the permission and support of their supplying countries and companies.'*<sup>35</sup>
- 7.3 Such a strategy should have measures that promote prosperity at its heart, and in this evidence we have discussed a number of policies that we think would support that aim. The Government's rhetoric on prosperity is welcome in as far as it goes but it must now be supported with real policy.
- 7.4 We acknowledge that the Committee is considering these matters at a time of unique political volatility, but in our view it would be unacceptable for Ministers to further delay decisions on

these matters. Yards are closing now. Jobs and skills are being lost now. Urgent action is required.

- 7.5 The National Shipbuilding Strategy has not passed the test of experience and it should be withdrawn or amended to remove the self-restrictions on the UK's freedom of action in naval procurement. The forthcoming Fleet Solid Support order will be an acid test of the prosperity commitment. The new Ministerial team at the MoD has an opportunity to revisit the damaging policies that they have inherited and replace them with measures that support employment and strengthen our sovereign capabilities.

11 September 2019

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- <sup>2</sup> GMB, Turning the Tide: Rebuilding the UK's defence shipbuilding industry and the Fleet Solid Support Order, April 2018 <https://www.gmb.org.uk/sites/default/files/turning-the-tide.pdf>
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- <sup>4</sup> Hansard, Westminster Hall Debate on Defence Spending, 16 July 2019, Volume 633, Column 277WH <https://hansard.parliament.uk/commons/2019-07-16/debates/E6FB81BA-F1F5-4D90-AD71-82AEA8797D4B/DefenceSpending>
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<sup>10</sup> Julian Lewis MP to Stuart Andrew MP, 16 July 2019

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<sup>11</sup> Written Parliamentary Answer to Question 162496 asked by Kevan Jones on Defence, 16 July 2018

<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2018-07-10/162496/>

<sup>12</sup> Written Ministerial Statement, Update on Defence Prosperity Programme, HCWS1411, 14 March 2019

<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-03-14/HCWS1411/>

<sup>13</sup> MoD, Defence Secretary keynote speech at the Sea Power Conference 2019, 15 May 2019

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<sup>15</sup> Written Parliamentary Answer to Question 286673, asked by Kevan Jones on Royal Fleet Auxiliary, 09

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<sup>16</sup> Guto Bebb MP to Julian Lewis MP 03 April 2018 [http://data.parliament.uk/DepositedPapers/Files/DEP2018-0372/Guto\\_Bebb\\_Letter\\_to\\_Julian\\_Lewis.pdf](http://data.parliament.uk/DepositedPapers/Files/DEP2018-0372/Guto_Bebb_Letter_to_Julian_Lewis.pdf)

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<sup>18</sup> BBC Somerset, GKN Aerospace confirms it will close down in 2017, 17 November 2016

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<sup>19</sup> Ministry of Defence, Defence Industrial Strategy: Defence White Paper, Cm 6697, December 2005, page 6

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<sup>20</sup> The Herald, Major investment scrapped at Upper Clyde's last yards, 18 February 2017

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<sup>21</sup> RAND Corporation, The United Kingdom's Naval Shipbuilding Industrial Base: The Next Fifteen Years, 2005

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<sup>22</sup> National Audit Office, The United Kingdom's Future Nuclear Deterrent Capability, November 2008, page 11

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<sup>28</sup> Defence Innovation External Advisory Panel Report – April 2018 <https://www.gov.uk/government/publications/the-defence-innovation-advisory-panel-report-2018-and-the-official-response-by-the-ministry-of-defence>

<sup>29</sup> BEIS, Exploring the Value of Defence Jobs in the UK, September 2017, page 7 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/641575/value-defence-jobs-uk-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/641575/value-defence-jobs-uk-report.pdf)

<sup>30</sup> <https://www.gmb.org.uk/campaign/making-it>

<sup>31</sup> Defence Equipment and Support contract listing for the Fleet Solid Support Programme, published 22 May 2019 <https://www.contractsfinder.service.gov.uk/Notice/96c99852-6571-4f2c-ba4b-df320e1ca849?p=@FQxUIRRPT0=NjJNT08=U>

<sup>32</sup> The relevant exchange reads:

**Nick Thomas-Symonds**

Other countries such as France and Italy classify these vessels as warships, meaning that they have to be built in domestic yards. Why will the Minister not just guarantee that a UK contractor will be the successful bidder and give a much-needed boost to UK industry?

**Stuart Andrew**

As I have said, the EU has raised questions about the classification of some of those countries and the decisions that they have made. Also, some of those vessels are manned by those countries' navies, whereas ours will be manned by the auxiliaries.

Official Record, 08 July 2019, Volume 663, Column 14 <https://hansard.parliament.uk/commons/2019-07-08/debates/053AF3D7-D122-436A-9777-615EC1C8A997/FleetSolidSupportShips>

<sup>33</sup> Written Parliamentary Answer to Question 278412, asked by Kevan Jones on Warships: Procurement, 22 July 2019 <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2018-07-10/162496/>; Written Parliamentary Answer to Question 238591, asked by John Spellar on Defence: Procurement, 03 April 2019 <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2019-03-29/238591/>; MoD Freedom of Information Act response to GMB, letter dated 30 July 2019 (received 19 August 2019).

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