House of Commons

Defence Committee

The Defence Industrial Strategy

Written Evidence (Session 2005-06)

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Written Evidence

1 The memoranda were submitted to the Committee as part of its inquiry on The Defence Industrial Strategy and were omitted in error from the evidence published with the Report (*Seventh Report of Session 2005-06, The Defence Industrial Strategy, HC 824).*

Written evidence

Memorandum from Scottish Enterprise

Introduction

Scottish Enterprise (SE) is the principal economic development agency for Scotland, covering 93% of the population from Grampian to the Borders. The SE Network consists of SE' main office, based at Atlantic Quay, and 12 Local Enterprise Companies. Working in partnership with the private and public sectors the SE Network aims to build more and better businesses, to develop the skills and knowledge of Scottish people, and to encourage innovation which will help make Scottish businesses internationally competitive.

Scotland has significant and long-established involvement in many aspects of the defence of the United Kingdom. This includes:

- The presence of major bases of operation for all the armed services (including being the base location for the UK strategic nuclear deterrent).
- World-class defence equipment design and manufacturing operations.
- Major military aircraft, warship and military equipment maintenance operations.
- Cutting edge research & technology activity in both companies and universities.

In pursuit of its remit to promote and support the development of the Scottish economy, SE is actively engaged with all of the major defence contractors located in Scotland, as well as a significant number of those in the wider supply chain. By and large, defence companies are technology-driven and as such provide opportunities for quality employment, often in locations that continue to suffer from higher than average levels of unemployment.

In the area of workforce development aimed at ensuring that companies operating in Scotland have the skills and expertise to support increasingly complex manufacturing techniques, SE is actively involved in funding and delivering diverse skills development initiatives through its Modern Apprenticeship and other programmes. This is in close coordination with the company base and the education sector, where SE has a catalytic role. An example of this would be the support provided for training and skills development at BAE Systems Naval Ships, currently the largest single private sector employer in our Modern Apprenticeships scheme, with some 297 apprentices in the current financial year.

SE welcomes the opportunity to provide evidence to the Defence Committee in its inquiry into the Government's recently published Defence Industrial Strategy (DIS), given the potential impacts of the DIS on the employment and economic development in Scotland.

Scotland—A Key Player in the UK Defence Industry

In 2004, some 20,410 MoD personnel were employed in Scotland, including 7,100 civilians. Within industry, for many companies defence-related activity is an integral part of their broader business interests, which also includes civilian work. The defence sector extends well beyond prime contractors into the extended supply chain. For this reason, it is difficult to identify the specific dimensions of the defence industry in Scotland. Indeed the Defence Analytical Services Agency discontinued the collection of such figures in 2002 as a result of concerns over accuracy. However, based on a review of companies operating in the sector which are known to have won MoD contracts, it is conservatively estimated that companies directly employing some 20,000 people are engaged in whole or in part in defence-related work, with an estimated further 17,000 staff employed indirectly in the supply chain. Defence-related business is therefore an integral element of the business base and as such, a significant contributor to the economy of Scotland.

Scottish-based companies and universities are represented in all of the aspects of the defence sector highlighted in the DIS Review by Industry Sector (Part B), with world-leading strengths in many areas. Major company presences include Selex Sensors and Airborne Systems, BAE Systems Naval Ships, BAE Systems Integrated System Technologies (Insyte), Rolls-Royce (Marine, Nuclear and Aerospace), Babcock Engineering Services, Babcock Naval Services, Thales Optronic Systems, Thales MESL, MacTaggart Scott, Raytheon Systems, Qinetiq, DARA and many more.

Scottish universities are involved in many aspects of defence-related research and the development of complex defence electronics systems, where Scotland's strong research background in microelectronics, optoelectronics and electronic technologies (MOET) provide a firm basis for the defence sector. Scottish university research activity includes Edinburgh & Heriot-Watt Universities in sensor development, Strathclyde University in areas such as composites and energy research Glasgow University in aerodynamics and rotorcraft development and Glasgow/Strathclyde Universities which jointly operate a department having a leading world position in naval architecture and marine engineering research.

SE is actively engaged with the Scottish company base in many aspects of the development of their businesses. This includes support for staff development and training, business process improvement and support for R&D activity. SE has detailed strategies in place specifically to serve and support both the Aerospace and the Shipbuilding/Marine sectors. We are also actively involved in wider UK initiatives such as the DTI's Aerospace Innovation and Growth Team (AeIGT) initiative and the ASTRAEA (Autonomous Systems Technology Related Airborne Evaluation & Assessment) programme, in which we are a funding partner.

The Scottish defence company base includes the presence significant international players who have either grown their businesses in Scotland over many years or who have set up in Scotland to take advantage of the leading technologies being developed in our universities or the skills of a highly-trained and innovative workforce.

The defence sector is therefore a significant generator of inward investment to Scotland. Continued commitment to defence companies in Scotland from the MoD as a customer, will have the spin-off benefit of encouraging yet more inward investment to the additional benefit of the economy.

Defence Industrial Strategy—The Scottish Perspective

SE welcomes the stated aim of the DIS to "promote a dynamic, sustainable and globally competitive defence manufacturing sector". We also welcome the recognition of the UK's (and thus Scotland's) quality defence base and its ability to compete in international markets. A high technology, high value-add manufacturing sector remains as one of the principal building blocks for the long term success of the Scottish economy and the defence industry remains at the leading edge of technological advancement in support of our armed forces, as well as in terms of the potential to generate export opportunities. If consistently and wisely applied, the DIS can help companies become even more competitive, thus creating the conditions for enhanced international defence market penetration.

SE welcomes the recognition in the DIS of the evolving nature of defence procurement and the need to improve long term value for money to the UK taxpayer. This mirrors the business efficiency and business improvement themes that as an economic development agency we have been vigorously promoting and supporting within all the industries and relevant customers with whom we interact.

The emerging theme of developing through-life capability is also to be endorsed. Both value for money considerations and the development of through-life support will necessitate a reshaping of industry and the development of new skills and capabilities. SE is already supporting companies in the defence sector (and other industries) in initiatives such as lean manufacturing, logistics, distribution and supply chain management, project management and other management skills.

In broad terms, SE welcomes the clarity that the DIS will provide to defence companies. This will assist in the development of long term training initiatives and in our efforts to focus and develop the Scottish supply chain. However, based on an understanding of the practical issues facing the industry in Scotland, we do have some significant concerns surrounding the implications for long term job creation and stability that result from how the DIS is implemented in practice.

Clearly the desire expressed in the DIS to "maintain appropriate sovereignty and thereby protect our national security" is understood and naturally endorsed. The contention that the UK may not be able to maintain a complete cradle-to-grave industrial base in all areas is also understood. The desire to get away from the "boom and bust" history of major defence projects, particularly in the shipbuilding sector is also welcomed.

However, we are concemed that the defence expenditure focus in the DIS underplays the complexity of the wider economic impact calculations that are inherent in any decisions on which industry capabilities should, and which need not be retained In the UK. Such assessments must take account not only of the need to secure value for money on specific defence contracts or groups of contracts, but also must simultaneously secure the maximum benefit to the UK economy. The MoD's expenditure of public funds is significant it has a duty of care to ensure it achieves value for money in the widest sense for the UK taxpayer, not just against its own expenditure targets. The cost-benefit calculation is more complex.

Company capital investment decisions in the defence sector company base can be very large. Investment in the recruitment and training of staff, particularly in the skills required to serve complex defence projects are also significant, with long lead times to ensure that the necessary skills are in place. If the MoD expects companies to invest in facilities, equipment, staff and training it must offer both certainty that such investment is justified and will provide a reasonable rate of return. From an employment standpoint, that same certainty is required to attract people to join and stay with the industry. Recruitment and retention of staff is a major issue. The MoD has a role to play in ensuring that this is effective.

Taking into account the economic implications of determining the industry base essential to retaining the essential core requirements of the MoD, there is a concern that there may be a danger for overly-simplistic programme-based thinking to skew the agenda. This is seen as a particular problem in the light of the current compartmentalised approach of the Defence Procurement Agency to procurement programmes. It is therefore welcome that the DIS acknowledges that re-organisation within the MoD and the DPA is planned. The hope and anticipation is that this reorganisation will enable more broad-based considerations of how defence programmes can be managed to derive the maximum economic benefit to the UK Taxpayer.

While SE has an active interest in the economic contribution of, and involvement with, companies engaged in all of the industrial sectors considered as part of the DIS, the industrial landscape is such that Scotland has a proportionately greater interest in the area of shipbuilding and ship maintenance. The implementation of the DIS in the maritime sector is therefore of greater significance, particularly as to its impact on employment and economic impact.

Naval Ships & Submarines

In value terms, Scotland's shipbuilding sector is focussed primarily on the manufacture and support of naval ships and specialist, more complex vessels for niche markets. In 2003 (the latest published figures) Scotland had some 20% of the UK's output in shipbuilding and employed 5,200 staff.

In the same year, shipbuilding alone was recorded as contributing some £150 million gross value add (OVA) to the Scottish economy. Since 2003, naval shipbuilding activity has increased significantly with the Landing Ship Dock (Auxiliary) and Type 45 destroyer programmes. It is fully expected to grow significantly further based on current and future MoD orders, particularly the Future Aircraft Canier (CVF) programme. Scottish-based companies have already been identified as playing leading roles in CVF, and yet more Scottish companies are hopefully to be considered as potential major suppliers to the programme.

Scotland is home to 50% of the UK's naval shipbuilding and ship refit capacity, the largest companies being BAE Systems Naval Ships, which is headquartered in Glasgow, and both Babcock's Engineering Services and Naval Services divisions, again both headquartered in Scotland. These three companies alone currently employ some 5,400 highly skilled staff. This includes a significant proportion (circa 62%) of the UK's surface ship design capacity.

The DIS provides welcome recognition of the "high priority for the UK to retain the suits of capabilities required to design complex ships and submarines, from concept to point of build; and the complementary skills to manage the build, integration, assurance, test, acceptance, support and upgrade of maritime platforms through-life." Scotland has strength-in-depth in all of these fields.

However there are aspects of the Maritime section of DIS, particularly in how in practice it is to be implemented, that give grounds for some concern in terms of the implications for employment and economic impact. While details for implementation of the DIS are still to evolve, it is as well that such concerns are highlighted in advance in order to ensure that they may be addressed as implementation of the DIS proceeds.

Submarines

SE welcomes the firm commitment to retain all the UK capabilities with respect to submarines and nuclear steam raising plant (NSRP). In addition to the surface vessels deployed there, HMNB Clyde at Faslane is the base location for the UK ballistic nuclear (SSBN) fleet and for the Swiftsure-class SSN fleet submarines. It is also the nominated base location for the first six (three committed and under construction) Astute-class fleet submarines, where a substantial additional capital investment programme is now underway to ready the base for the deployment. As such, the base has both the specialist facilities and highly qualified nuclear staff in place to handle current and impending workloads.

An economic impact study undertaken in 2005 on behalf of SE of the Faslane/Coulport base found that some 4,055 jobs were created in the Travel to Work Area (TTWA) by the operation at Faslane/Coulport some 9.4% of local employment. The base is a significant local employment generator in an area which demonstrates higher unemployment rates than Scotland as a whole. The purpose of this study was to inform current concerns on the employment implications of the anticipated significant downturn in maintenance workload stemming from the decommissioning of the current Swiftsure-class SSNs in advance of the introduction of the Astute-class boats.

From an economic development standpoint, SE has a concern that workload downturn will result in the loss of skilled jobs that, owing to lack of equivalent employment opportunities in the local area, may be lost to the local economy completely. The DIS recognises this fact in relation to shipbuilding, but the same concern applies to companies engaged in ship and submarine refit and maintenance.

The DIS highlights the intention under the Maritime Industrial Strategy (MIS) to "start negotiations with key companies that make up the submarine supply chain to achieve a programme level partnering agreement with a single industrial entity for the full life cycle of the submarine flotilla". This is understood and endorsed. However, there is a concern that failure to address short/medium term workload issues will result in the loss of skilled jobs at Faslane that will not be easily replaced in order to address the future upturn in work. Babcock Naval Services, the contracted commercial operator at Faslane/Coulport, has already provided significant operational cost savings to the MoD based on the terms of its gain-share contact. This type of contract is understood not to be in use at other UK dockyards. Equally there are no guarantees on workload at Faslane, which contrast with the case elsewhere.

Concerns over the workload at the Faslane facility, potentially both constrains its ability to contribute to the cost-effective submarine acquisition modernisation (SAM) strategy to serve the best interests of the UK in the longer term, and will lead to a negative impact on local employment.

SE would welcome an urgent review by MoD to the potential sharing of the short/medium term submarine basing and maintenance workload between the available facilities at Devonport and Faslane. This is particularly against the backdrop of the both proportionately and numerically higher levels of employment, lower levels of unemployment and the larger labour pool prevalent in the Plymouth area, and the ability for Devonport to take account of the larger surface fleet presence there to adjust its workforce deployment. SE would welcome the assurance that the MoD will take account of all of these issues and that no decisions will be taken on submarine work allocation/basing in advance of a properly balanced decision under the DIS.

Surface Ships

SE welcomes the measured and balanced approach in the DIS to the issues surrounding procurement of surface naval ships. As has been set out above, the drive to achieving manufacturing greater efficiency, the emphasis on high value-add activity and move towards considerations of value for money in the development of through-life support are entirely in line with work that we are promoting in industry generally.

The skills and training programmes that we are currently helping to develop and deliver are available to companies operating in Scotland and we look forward to playing our part in support of the aspirations of the MoD to achieve better value for money for the UK taxpayer.

The abandonment of the absolute commitment to onshore hull construction which was previously set out in the Defence Industrial Policy is recognised as necessary and pragmatic. Given the complexity of modern warship construction, particularly on large, complex programmes such as the CVF, Type 45, Future Surface Combatant and more complex support vessels (MARS) programmes, the abandonment of he commitment on hulls is probably less relevant in any event.

The high value-add in warships is in their systems and complexity of construction (packing density) where the UK workforce skills and experience can be brought to bear more cost effectively. The acknowledgement the DIS of the fact that "it is not effective to develop from scratch the most advanced, high-value skills needed for specialist hull construction or complex assembly tasks" is also welcome. As has been stated above, SE is already actively supporting a wide variety of skills development and training from craft/trade skills right up to senior management and specialist training programmes.

The DIS sets out broad guidelines for those elements of the forward surface ship programme that must strategically be retained onshore, and those which may be open to international competition, based on the complexity of the ships involved and the stages in the ship construction process. This clarity is welcome, but there is a concern that there may still be a tendency towards viewing individual ship procurement programmes on a stand-alone basis (Paragraph B2.18 of DIS… "The strategic need for onshore execution will be judged on a case by case basis…").

It is our view that judging the need for onshore execution on a case by case basis is too simplistic an approach, and inconsistent with the desire to ensure best value for money in future naval shipbuilding programmes. In the development of an effective and efficient long term defence industrial strategy it is necessary to consider the impact for disjointed planning to add costs to the procurement programme overall. This is equally true in terms of ship maintenance and refit programmes which, if carefully programmed, have the ability to add value to wider construction programmes and help to retain and up-skill staff.

Careful planning for the incorporation of programmes for the construction of lower complexity vessels (those which might otherwise in a stand-alone programme approach be considered for offshore manufacture such as has been hinted at with respect to the MARS vessels) could instead:

— help to de-risk the "core" onshore naval ship programmes;

— provide opportunities for developing and maintaining workforce skills;

— effectively utilise hard-won staff experience and knowledge;

— help justify further expenditure on, and utilisation of ship construction assets;

— spread the overhead costs that might otherwise have to be borne by the "core" naval projects; and

— help secure economies of scale.

The "core" programmes such as Type 45 and CVF will provide the opportunity to safeguard and to increase shipbuilding employment in Glasgow and Fife (and elsewhere in the UK). More workers will be attracted to join the industry—traditionally not seen as providing job certainty and therefore not attractive—if there is surety of long term employment. Combining CVF with other programmes, including ship refit work, has the potential to help secure both economic advantage and the benefits set out above. Additionally properly planned, multi-programme planning which enables the flattening of workflow peaks will help further improve job security and the attractiveness of the industry as an employer.

In short a careful, planned approach may have the potential to maximise the job opportunities and economic impact from the shipbuilding sector, whilst at the same time improving company efficiency and securing better value for money for the UK taxpayer. This will of course require commitment both from the shipbuilders to improve efficiency and cost-effectiveness, but will also require a cohesive, efficient and sophisticated approach to procurement from the MoD as customer.

As a practical example of how this might operate, the UK construction industry has seen remarkable changes in the approach to the procurement and undertaking of major capital investment programmes in recent years. Major customers such as BAA (which expects to spend some £6.8 billion over the next 10 years) have taken the lead in helping to forge new approaches to contracting and working with suppliers to provide cost effective solutions to its needs, while ensuring the sustainable viability of its suppliers. As stated on its web site:

> "BAA is one of the UK's principal developers of infrastructure and one of the construction industries largest clients. To ensure value 18 achieved from this investment, BAA works in partnership with the industry to achieve maximum efficiency, continuous improvement and higher standards in construction projects.
>
> As a major construction industry client, BAA has an important influencing role and ensures that a safe and sustainable approach to construction is adopted across the whole process starting from development and design and leading through the supply chain to delivery and operation."

There is no reason why the MoD, as the single largest customer for ships in the UK cannot act as an effective catalyst for change in the shipbuilding industry, although this will require the adoption of a new and ambitious approach to contracting. However, the net benefits to the UK taxpayer from adapting such an approach will help secure a long term sustainable shipbuilding sector offering concomitant advantages to the economy and to job creation in the UK.

It is acknowledged, of course, that in certain circumstances, the competition for surface ships, particularly support vessels, from international suppliers may be appropriate, if only to ensure continued value for money from UK builders and to ensure that competitive costs are being achieved. However, there are two issues to consider. Firstly the costs of acquiring overseas must be compared with the overall advantage that might accrue to the MoD and the UK (and the Scottish) economy of retaining the work onshore in its broadest sense, as set out above. Secondly, in deciding to acquire overseas, the UK MoD must be mindful that it may be simply helping to spread the overhead costs of foreign yards which have the advantage of protected contracts from their own national governments, this making it even easier for them to compete with UK yards in international export programmes from other countries.

Scottish companies have significant potential for export work which should not be hampered by the unintentional, but nonetheless effective weakening of their competitive position resulting from the MoD contracting overseas.

It is important to recognise that under European rules (Article 296 of the Treaty) military ships need not be tendered out with the home country. Whilst there is nothing to prevent the MoD from contracting for military vessels overseas in appropriate cases, the potential advantages from being able to use less complex vessel programmes to assist in the efficient procurement of the UK "core" shipbuilding programmes is lost if an arbitrary decision is taken to declare them as non-military. As an example, the MARS ships are designed primarily to operate in service of the Royal Navy's front-line warships. As with each of the current RFA vessels, the MARS ships will be fitted with weapons systems. As such they can hardly be termed clearly "civilian".

As explained earlier, SE has been actively supporting workforce training initiatives and the provision of Modern Apprenticeships. It would be good to know that the skilled jobs developed as a result of this public support have long term potential to contribute to the economy. The increasing technical complexity of military equipment requires the creation and safeguarding of advanced design and manufacturing jobs and skills. Jobs are not limited to lower level trade skills, but include a broad spectrum of skills areas including naval architecture, computer aided design, project management, electronics, electrical and mechanical engineering.

A well developed and efficient skills base provides the potential not only to help create a vibrant defence industry, capable of winning overseas orders and providing export income for the UK, but also of supporting the continued development of the broader UK industrial base. Skills developed in the defence industry have the potential for dissemination into other industrial sectors.

They also have the potential for ensuring a long term supply of skills to the ship refit and repair sector, thus helping to secure the aims in the DIS for achieving savings and efficiency by means of a through-life approach to military procurement programmes.

The shipbuilding industry in Scotland has a long and distinguished history. With careful management it can have a bright future, fully aligned with the aims set out in the DIS.

CONCLUSION

With few exceptions, SE welcomes the clarity and comprehensiveness of the government strategy for defence procurement set out in the DIS. Effectively implemented, the DIS has the potential to assist in the long term sustainability of the defence industry in Scotland and to help secure quality employment opportunities which will assist this industry and help to feed into other industries on which the economic success relies.

Our reservations with some elements of the DIS are less to do with overall substance and more to do with how certain aspects will be addressed in its practical application. We highlight these issues to the Committee in order to secure a firm understanding of their implications for economic development in a Scottish context.

We will continue to support the development of industry in Scotland in its broadest sense. Defence is a high technology business offering the potential for quality employment, export opportunity and the development of an enhanced research base. As such it is closely aligned with our ambitions for the Scottish economy.

20 February 2006

Memorandum from the Confederation of Ship Building and Engineering Unions (CSEU)

The Confederation of Ship Building and Engineering Unions (CSEU) represents employees in the ship building, aerospace, vehicle manufacturing and general engineering sectors that supply products and services to the MoD.

The CSEU welcomes the publication of the Defence Industrial Strategy and the opportunity to comment upon it. We welcome the general approach of the MoD to improve the procurement process and improve the working of both the MoD's own departments and that of the private sector industry.

We agree with the government that global security has changed substantially over the past fifteen years both in the needs of the sector and the technology that has become available to the sector.

The CSEU accepts that this has required a change of approach to national security by the Government which in turn has required a review of the Defence Industrial Strategy. The document clearly changes the emphasis to one where through life capability management will become the norm rather than initial equipment acquisition and upgrades.

Strategic importance, high value design and systems engineering capabilities, sovereignty and operational independence will become the watch words for the retention of our industrial base rather than jobs or production capacity.

However, we have a number of concerns with this strategy and the effects it will have on UK industries, jobs, skills and the economies of some of the more remote parts of the UK where there is little alternative employment.

We believe that although the strategy to some extent recognises this, the Strategy needs to have more consideration for link between UK defence strategy and that of the overall UK economy especially in the areas of employment, intellectual property, skills, training and regional development.

A number of points in the strategy stand out as needing a further review:

a) The UK defence market is the most open in the world; it is far more open than both the US and that of our European Union Partners. This may be beneficial in that allowing competition from companies outside the UK helps drive down price and improves the quality of defence products. However, this policy can have a downside in that it often results in job losses and a loss of intellectual property from the UK, while at the same time potentially reducing security of supply as we have to rely on elements outside the control of the UK.

It is quite clear that all US defence orders have to contain at least a 60% US component which effectively precludes manufacture outside the US while our European partners regard all military and military support expenditure as of national importance and only submit it to internal tendering process.

We also note that the MoD hopes to encourage our European partners to be more open in their procurement policies and hopes to help create a European Defence equipment market.

It is our experience not only in the areas of defence, but in other areas including energy that this will be a long time coming. In the meantime this policy puts UK companies and their workforce at a disadvantage. We would strongly caution a speedy advance down this road before our competitors are prepared to embark down the same road, at the same speed.

b) The strategy identifies that outside the US there is little ability for other western countries to maintain a cradle to grave industrial base. The CSEU does not disagree with the statement. However, we have a number of concerns over areas of work that strategy believes can or should be outsourced or undertaken offshore. Especially work on new platforms.

c) The strategy recognises the importance of High Skills which are needed today to deal with advanced technology that are now part of the defence sector. We agree with the need to ensure that these skills and technology are maintained in the UK.

The strategy goes on to recognise the importance of the defence industry to the UK manufacturing sector contributing 0.5% to GDP. It then goes on to say “There is wide spread acceptance that the UK cannot compete on low wage activity, nor should seek to do so”. The CSEU is concerned that this sentence is being taken out of context and to extreme. This sentence may be valid in the course of low cost manufacturing. However, in defence there are many other considerations other than straight cost, such as employment, intellectual property, regional development, transfer of skills and continuity of supply.

We are very concerned that this statement is largely responsible for driving a strategy where it is no longer considered necessary to build all new warships or fleet auxiliary vessels on shore in the UK.

The CSEU believes this policy is fundamentally wrong. The construct of hulls and platforms may in some respects be less skilled than high tech information communications technology and weapons systems. However, this is still part of modern day high tech engineering that has a very definite future in the UK. The skills involved are interchangeable with those of the offshore sector, engineering construction and the renewable energy sector. It is vital that the UK keeps a foothold in this sector.

The continued construction of military hulls in the UK is vital to provide the training and skills in this sector. It also provides work for a large number of skilled people in many of the remote parts of the UK.

d) The CSEU also believes that the skills base in the UK needs improving. At the present time only 30% of school leavers continue on to university and the Basic Skills Agency estimate that some seven million of the working population do not have basic skills in reading and writing.

It is our belief that shipbuilding provides a large number of the UK population with ability to increase their skills level to NVQ level 3 via apprenticeships. To allow valuable work on the construction of platforms to be outsourced to offshore countries would undermine the skills level and training opportunities to those not able to go to university in the UK.

e) We note that once the existing orders for both air and naval platforms have been placed that there may be no new requirement for new platforms for some time. This will result in most of the work moving from construction to repair, adapting, updating and refitting of platforms.

As a result the transition outlined in the strategy will inevitably result in a smaller workforce who would need to be better educated and more flexible. We are concerned that the resources to enable this to happen may not be there.

f) Outsourcing and Offshoring; the CSEU is not opposed to work being outsourced or even undertaken offshore when this is appropriate to do so. However, we have very strong concerns that this is undertaken on price alone or becomes the automatic choice.

It is our view that lower prices are frequently only achieved at the expense of the workforce in the areas of pay, conditions and health and safety etc. Lower standards are also frequently applied by offshore companies to issues such as pollution and climate change.

We demand that any outsourcing and offshoring would only be to companies that genuinely comply with ILO standards of workers rights, the recognition of free and independent trade unions, have an adequate health and safety regime and do not pollute the atmosphere or contribute to global warming directly or indirectly over and above initially accepted standards.

It had been suggested in a number of circles that for MARS support ship order that construction of the hulls would be cheaper offshore in China. The CSEU would strongly object to this. We would point not only to the low wage, low health and safety regime where on average six people per day die in coal mining accidents. We would also point to the pollution and contribution to global warming that industrial production in China causes.

g) The vast majority of inward investment in the defence sector is about non UK firms obtaining a foothold in the UK market through mergers, takeovers and joint ventures. We believe that the Defence Industrial Strategy with its open market approach will continue to encourage this.

The CSEU is not opposed to this approach and in some areas it has been quite beneficial in both providing new and maintaining existing jobs in the UK. However, we have concerns that on some occasions this may be undertaken to obtain intellectual property rights and will result in work and technology being transferred out of the UK at some future date.

h) A growing concern across all sectors of the UK economy is the number of UK companies that have been purchased by foreign competitors in the last year. This has meant that where new technology and skills are created and where skills and intellectual property resides, has become more important than the location of the company head quarters.

i) However, with the potential loss of a large number of UK headquarters to overseas, where issues of UK national security may become second to that of the parent company’s country of origin. This along with the job loses is becoming a concern to the UK economy as a whole. This trend therefore needs to be reviewed in light of total UK industrial strategy.

j) The CSEU favours joint ventures both within the UK such as the type 45 vessels and with other European states such as the EuroFighter (Typhoon) in which there is a clear understanding of the intellectual property rights, the value of the joint venture and the number and type of jobs for each partner is clearly defined.

We strongly believe that any joint venture in receipt of MoD orders, must not only be considered in monetary value, but must also consider the value of jobs and intellectual property to the UK economy.

k) The Defence Industrial Strategy is designed to cover the next 20 years and needs to have enough contingency for changes in world stability, technology and UK industrial needs.

l) A big problem of the past for both the MoD's internal workforce and the private sector workforce has been the lack of continuity and cyclical nature of the MoD's work programmes. Even when MoD orders have been placed continuous changes to specifications have caused major delays in starting work. This has made planning a coherent work programme and retaining a skilled workforce difficult.

We are pleased to see the MoD recognises this in the Strategy and is looking at ways of providing improved continuity of work.

m) The CSEU believes that where possible skills and intellectual property must remain in the UK. One of the best ways of protecting this is to work to ensure that the MoD is able to undertake some of this work in house, either directly or in joint partnership with UK manufacturers. This requires the retention of specialist scientific skills and a good skilled industrial workforce who are able to respond to new technologies and working methods. In particular we are concerned at the loss of skills that are occurring with the proposed closure and transfer of work from St Athens site in South Wales where there is little alternative skilled work.

n) The Defence Industrial Strategy will require a number of changes to the way in which orders for the UK defence industry are placed and managed. This change should provide sufficient work for the UK defence industry to plan long term. In response to these changes the industry must restructure and rationalise. It is crucial that the MoD and government encourage industry to deliver this in a progressive fashion which will ensure the active involvement of the workforce in rising to this challenge.

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