

THURSDAY 11 DECEMBER 2008

Present

Anderson of Swansea, L
Crickhowell, L
Hamilton of Epsom, L
Jay of Ewelme, L
Jones, L
Selkirk of Douglas, L
Symons of Vernham Dean, B
Teverson, L (Chairman)

Witnesses: **Rt Hon Baroness Taylor of Bolton**, PC, Minister for International Defence and Security, **Mr Andrew Mathewson**, Director for Policy on International Organisations, and **Mr Ian Hall**, Head of International Research Collaboration, Ministry of Defence, examined.

Q1 Chairman: Minister, can I welcome you. I believe it is the first time you have undertaken one of these particular sessions and it is the first meeting for a number of us so we will see how it goes. As you are aware, these sessions are webcast but there will be an opportunity in terms of the written record to look at that and to add any information or whatever afterwards; that is the usual procedure there. I wonder whether you would like to introduce your team, particularly for the new members, and indeed is there anything you want to say as a very brief introduction.

Baroness Taylor: Thank you very much, My Lord Chairman, it is my first appearance here so we are both learning together. My team, who might be familiar to some members of the Committee, are Andrew Mathewson – who has just been described as my heavy by Lord Hamilton ---

Q2 Lord Hamilton of Epsom: I know him well.

Baroness Taylor: --- is the head of the NATO European Policy Division, and Ian Hall was until this week Head of Research Collaboration, he is now moving on to other things but it seems appropriate that he should be here given his close involvement. In terms of opening statements, one of the things I am keen to do is to make sure that people look at the EDA in its wider context in terms of Europe. It is not a body that operates totally in isolation and it is important that we get that context, but I am sure that some of that will come out during your questioning.

Q3 Chairman: One other thing I would like to say is I know Lady Symons has to go to Questions at 11 o'clock and so will be out of the meeting for part of the time and Lord Jones might have to leave early as well, but I am sure they will be participating in the rest of the meeting. Just before we move into the EDA area in particular, in terms of our scrutiny role I know the Committee has been slightly concerned about the timing of the response from the Department around, particularly, the report by the heads of the EDA to the Council and Council guidelines for the EDA's work in 2009 which this Committee has been scrutinising and will be looking at later on today. There was concern really that we could have been given more information about this earlier on and it has really not enabled us to look at this area before effectively decisions have been made; I just wondered whether you have any comment to make on that.

Baroness Taylor: In general terms we always want to keep committees informed. It is my view, held for many, many years, that it is always in the Government's interest actually to tell committees as much as possible because then you do not get taken by surprise and nor do they. When you are dealing with some of these institutions sometimes it is the case that things change very late on, things do not always go to the timetables that are anticipated. There are on occasions difficulties and sometimes it is difficult when departments are trying themselves to get things in order. I think we need to keep the pressure on to minimise those

occasions but I do not think there is any deliberate conspiracy to hold back information, it is usually a combination of circumstances which are usually to do with the actual documents and discussions that go around them rather than any attempt to withhold information.

Q4 Lord Anderson of Swansea: The allegation is essentially not a conspiracy but general tardiness, and the particular points of concern are the Council guidelines, which were submitted to us effectively two weeks before, and they must have been available, at least in draft form, well before the date of submission to the Committee because they were discussed at the GAERC on November 10. Equally there are similar concerns about the report by the head of the agency which must have been available, so it is really a slowness and, dare I say, on the whole the Committee has been very appreciative of what we have had from the FCO and the MOD has been a little less ready to submit in a timely fashion. Perhaps we could give you a note and you could look at these particular examples, then hopefully there will be a benchmark for the future.

Baroness Taylor: I am certainly happy to look at that if there are specific examples. As I say, I do not think there is anything deliberate there, it may be that sometimes when things are in draft we are waiting for an extra draft because very often that is the case, that there is a second draft or something, but I will take the point and try to make sure that we do in fact have things as promptly as possible, but it is not always the case that things are available well in advance of any discussions, things do change from time to time.

Q5 Lord Crickhowell: I just would press the point because it has come up again and again. We have had examples and I should give a warning that this Committee does pursue them pretty relentlessly because we do feel very strongly about the matter and these do seem to be very odd cases. We would like to have drafts if it is at all possible because to be left to comment long after the event is not really the way we can operate effectively.

Baroness Taylor: I take that point entirely and if there are examples that you want to write to me about then certainly I am happy to look at them.

Q6 Chairman: Thank you, that is useful, and we will do that in this particular instance. Perhaps we could move into the main business then and if I could start at rather a strategic level we would like to ask how the EDA has contributed to meeting the United Kingdom's defence objectives and the European Security and Defence policy goals on capability development? What is the UK's vision for the EDA in the medium to long term?

Baroness Taylor: There are three separate questions there really and perhaps I can divide them up slightly, because in terms of how the EDA contributes to meeting the UK's defence objectives I think we ought to be very clear from the outset that the EDA is never going to be the organisation that we look to first when we have a defence requirement, or certainly not every time we have a defence requirement. The situation is pretty clear because Britain is a very high spender on defence compared with almost all of our European allies. We and the French spend on comparable levels, though you could argue about how they make up their spending in terms of the gendarmerie; we are the two big spenders on equipment, the two big spenders on research and technology and research and development and we are the countries that also have very big defence industries, so there is a lot that we have in the pipeline in terms of the big projects that we are involved in, mainly independently but not exclusively, where we have the capacity to fulfil our own requirements. I think that co-operation between countries is extremely important. It is not always easy; countries when they want to co-operate have got to be in a situation where they have got a very similar requirement, a similar timescale and a similar budget available, so we have a big industry, we are a big spender, so are the French. Other countries are much smaller in that respect so perhaps in some ways the EDA could be considered more important for them. It is true that there is a role for EDA. It is more of an enabling role, a facilitator, rather than a direct provider in that sense and I think

that is how we would see their future and their vision for the future. It is good that they can do that but I do not think that we see EDA as the driver of all of our equipment requirements, far from it.

Q7 Lord Hamilton of Epsom: Do you think that the Ministry of Defence's judgment has been somewhat coloured by the joint ventures that we have done with Europe in the past and which, from my experience, have been almost uniformly disastrous? They have been incredibly late, very, very expensive and very often we have pulled out of them because they have not fulfilled any of our requirements. I happen to know that tranche three of Eurofighter is something that we would still like to be getting out of, and that of course was an air defence capability designed to resist the Soviet Union in the Cold War. I was there when the decision was taken in 1988 to go ahead with it; it has taken a very, very long time for this to happen, it has been incredibly expensive and now that we have got it we do not want it. Is this just not an example of where European defence collaboration in terms of procurement has taken us?

Baroness Taylor: Where do I start with that one? Actually Eurofighter is something that the RAF value quite highly and rate quite highly so I do not think it is simply the situation that now we have got it and we do not want it, I do not think that is true. In terms of how long these projects take I think that that is an issue, but it is an issue for all sorts of defence procurement and not just defence procurement that is conducted on a multilateral basis. Many of the projects that we have are very ambitious and one of the problems that we have – as a former minister I am sure Lord Hamilton will accept this – is that the lead time for so many of the big ambitious projects is so long that actually it is very difficult at the beginning of the project to set out clearly exactly what you will achieve and what the timescale will be and certainly what the cost will be, yet we have had a habit of anticipating all of those things from the outset of a programme and personally I think we need a much more incremental approach. We as ministers of any political party need to be somewhat circumspect in terms of

how we declare what any particular project will achieve, when and what it will cost because very often, especially when we are embarking on relatively new ground and ambitious projects it is just impossible to be certain about those, so I would want a more incremental approach. As I said earlier joint ventures are quite difficult; you have to have a similar analysis on the part of all the players as to what the requirement actually is. You have got to have an ambition about timescale which is similar, you have got to be in a situation where all of those countries can provide the money for their parts of the programme and, as you say, sometimes the costs of these escalate and sometimes certain countries can be put into difficulties. Yes, it is a difficult thing to achieve but I do not think it is something that we can turn our backs on because these days the big projects at the cutting edge, which is where we will always want to be, are incredibly expensive and therefore to consider that we could embark upon all aspects of defence procurement in isolation is, I think, a non-starter. If we were doing that it would be capping our aspirations very significantly and I do not think that we can possibly do that. If we want to have a role and have the leading edge and be able to provide the best in equipment terms then I think in some areas we will only be able to do that if we are able to co-operate with other countries.

Q8 Lord Anderson of Swansea: Absolutely, collaborative projects are necessary and the problems are not limited to joint projects because of the long lead terms. I just mention the word “Upholder” which Lord Hamilton knows rather well and the problems associated with that. You were asked by My Lord Chairman about what is our vision for the EDA in the medium to long term. I would not go so far as to say that we have a presumption against participating, but would you agree that compared with the French, for example, who have a similar big spend there is at least not a presumption in favour of participating in EDA projects on the part of the British Government?

Baroness Taylor: No, it depends on the kind of project. It is important to remember that there are two different kinds of projects that EDA does: category A where there is an assumption that all members will participate and category B which is a more ad hoc approach, which says if people want to come along then they can participate in that.

Q9 Lord Anderson of Swansea: A coalition of the willing.

Baroness Taylor: A coalition of the willing – your words, but yes, it is a voluntary sign-in procedure. We think that the latter approach is much more likely to succeed, where you have got people who positively want to co-operate on a particular project and that that is really the way through. There are some people who want more emphasis on EDA having a budget and then deciding what it is that it should do; we would say that actually EDA is a facilitator, an enabler, it helps to bring people together, it does help to be a forum for discussion about capabilities and capability shortfalls but we would rather projects were ones which people were asked if they wanted to be involved in rather than told we are doing this, all pay up. That is a more positive approach.

Chairman: Perhaps we could take this subject on further in the questions later on in the session. Perhaps I could ask Lord Jones to move us on.

Q10 Lord Jones: Thank you, My Lord Chairman. Minister, where does the EDA fit into the existing European security and defence architecture and how does it relate to existing organisations and initiatives such as NATO, OCCAR and the Letter of Intent? Just to follow on from that is there any overlap between the activities of the EDA and NATO's Research and Technology Organisation?

Baroness Taylor: Thank you Lord Jones. This is almost the big question in terms of how all of this can work and be put together and you obviously need a diagram in order to see your way through because nobody has actually sat down and said how should Europeans co-

operate in the area of defence, let us have a logical approach to this. These different organisations have grown up and have had to mould themselves together and find ways in which they can co-operate and have their role. We do think that the EDA can help nations come together with common requirements as I mentioned earlier. OCCAR is more on the project management side and obviously NATO and the EDP will look at capabilities and look at their roles, one more on the military side and one more on the civilian crisis management side. We have to be careful that people are not stepping on each other's toes and totally duplicating things, which is one of the reasons why we do not want some of these processes to become more bureaucratic than they need to and, as my colleague Andrew Mathewson has suggested to me and I am sure he has suggested to this Committee, the idea that the EDA should be the sort of dating agency in all of this, the one that brings together the willing who are wanting to participate, based on the work that others do in terms of looking at what the capabilities need to be and whether there may be a potential capability shortfall. So it is a peculiar diagram that would exist and, as I say, it is not one thing that somebody has sat down and structured from the beginning, but somehow in the way that these things happen the different organisations are learning and developing how they work with each other.

Q11 Lord Crickhowell: Listening to that description of the structure and the latter modern approach it seems to me the obvious question is Britain being the big spender, having its close links with the United States, a key role in NATO, is it not one of the obvious players to actually produce modelling into this structure? If we are as negative as your opening statement indicated about the EDA are we not actually missing an opportunity to try and get some logical progress and some structure under way. If we basically said we are doing it all much better outside and we do not want to be involved, I think it is the kind of evidence that Mr Mathewson gave us when we cross-examined him not very long ago in this Committee; if

it is a real positive benefit this particular thing we will go into it, but otherwise we will stay out. How can we give a lead in getting logic?

Baroness Taylor: I am not saying that we do not participate, we do participate and there are some areas later where we would be happy to give some examples of that. What I am saying is that it is not the sort of prime focus of all our procurement approach, I do not think that is going to change and I do not think it was ever really intended that that should be the case. If you look at the original joint action which provides a legal basis for the Agency going back to 2004, the joint action actually says that the mission of the EDA is “to support the European Council and Member States in their efforts to improve the EU defence capabilities in the field of crisis management and to sustain the ESDP as it stands now and develops in the future”, and it says that the Agency was tasked to develop European capabilities, promote armaments co-operation, improve the infrastructure, promote collaborative defence research. So it was not that the EDA was going to take on itself a role of doing all of those things, it was actually promoting and improving and developing the work that was going on, and we are quite happy to participate in it in that respect. It is only if you see the EDA as the structure that is the driving force alone for all that change that you have a difficulty. So we are happy to encourage it to facilitate all of that good work but we do not see it as the big structure through which all forms of procurement discussion should go.

Q12 Lord Selkirk of Douglas: May I ask the Minister, given the very strong intent put forward in the introductory speech to the debate on the Queen’s Speech, to persuade other EU members of NATO to pull their weight in Afghanistan, what practical effect will this have on the United Kingdom’s relationship with those same states in the context of the European Defence Agency and wider European Security and Defence Policy?

Baroness Taylor: We have got to have a very mature relationship with our colleagues. The fact that we are working with them across a whole range of areas and have worked with them

on Kosovo, in Afghanistan –a whole range of areas – and the fact that we do not always have the same approach to operations or indeed any other problem is something that we can have grown-up discussions about. I have in the last few weeks had quite a number of discussions with colleagues from other European countries and I have spoken to people from a whole range of interests about this. We have got to be very straightforward. We are a very significant contributor to the international situation that is backing the action in Afghanistan and I am more than happy to remind our allies that we are there under a United Nations resolution with 41 countries and we are there primarily because it is in the domestic interests of each of us that we should contain the scope for terrorism that originated in that country some years ago and is still originating there. I think we can therefore be on good terms with our allies whilst still being blunt with them about the fact that we are more than meeting our contribution there, both in terms of the numbers of people, the equipment, the areas in which we work and that we are concerned that the sharing is not as good as it should be, there are not enough contributors to that international action and that for some of them there are significant caveats that restrict the work that they will do. Those limitations are limitations on the whole operation and I think it is quite right that we should remind people of that, even though we regard them as good allies.

Q13 Lord Anderson of Swansea: We can be as blunt as we like but are we, alas, reconciled to the fact that any increased contribution from our allies or the greater part of any such contribution, because of the state of public opinion in those allies, will be not in the narrow military field but in the wider civilian field?

Baroness Taylor: I am not sure that we can absolutely make that assumption. I think we all know that President Obama is going to be asking for increased contributions. It may be that some of our European allies may feel inclined to respond to him a little more positively than they responded to President Bush; that remains to be seen. We of course have had some

significant changes: the French have changed their attitude very dramatically since the election of President Sarkozy, so things can change and people sometimes reassess the situation. I do think that we have actually got a responsibility to remind our allies, just as we have got a responsibility to remind people in this country why we are actually in Afghanistan because I think it is quite some time since the operation started and at the beginning people saw the direct relevance to domestic security. As time has gone on perhaps people's minds have got confused and they sometimes confuse Iraq and Afghanistan, they sometimes lose the clarity of purpose. I think from time to time we need to be reminding people of that, both domestically and in other European capitals.

Q14 Lord Hamilton of Epsom: Do you not think we would see a pivotal change in a country say like Germany if there was a massive atrocity that killed a very large number of Germans in Munich or something that could be attributed to al-Qaeda?

Baroness Taylor: I do not think we would wish that on anyone and I am sure you do not any more than I would.

Q15 Lord Hamilton of Epsom: I am not wishing it on them, but I suspect it is almost inevitable.

Baroness Taylor: It is a fact that when we had the dreadful bombings in London and when we had the Madrid bombings the whole focus of attention changed again, people are reminded of that situation. Maybe they should be because of Mumbai, but maybe because it is in another continent that will not have as much impact. I am sure you are right; we hope that people do not learn that way but the whole point of the action we are taking is to make sure that things like that do not happen.

Chairman: Lord Jay, you want to move on to two particular areas.

Q16 Lord Jay of Ewelme: I wanted to return, Minister, to the European architecture for research and technology. I was personally very pleased that at the Franco-British summit in April of this year there was agreement on a 100 million Euros Franco-British fund for joint defence research, but I would be interested in how you see that Franco-British fund relating to the EDA's work on defence research and technology. Will they complement each other, is there a risk that they will conflict with each other and what would you see as the relative importance between these two operations?

Baroness Taylor: The money that was announced at the summit and indeed the whole summit itself was, I think, a very significant step forward. We said at the time that we would make a budget available of £35 million for this project and the French were going to meet that. Since that time the high level working group, which is a group that I chair for our side – joint chairman with the French – has discussed some of these projects and some of the work that is in hand. What is happening is that we are drawing up a list of potential collaborative research areas. It is proving quite positive and I think there is a great deal of willingness on both sides to co-operate on the research side. We are also looking at other areas of co-operation in terms of projects as well. I do not think that this needs to conflict with anything else that people are doing. It is perhaps worth remembering that between ourselves and the French we account for, I think, two-thirds of the whole research budget on defence in Europe so we are already doing a great deal of that work; what we are not doing is quite as much of that work together as we possibly could. There is nothing in the understanding that we have that would say that if the French and the British started a project but then wanted to involve third parties we could not do that; it would be possible to expand in that way. If you look at the budgets that other countries have on research and technology they are in fact at a much lower level – I think I said it was two-thirds of the whole of the European budget that came from France and Britain. If you take in Germany it goes up to about 80 per cent, so the other contributors are

actually very minor contributors and so when you bear that in mind it puts into perspective just how much we are doing and the logic of doing things on a large scale for those projects that do absorb quite a lot of money with the French.

Q17 Lord Jay of Ewelme: Thank you for that. If I could just develop that a little bit, clearly as you have been saying the collaboration between us and our European partners on research and technology is both essential but also very difficult, and I just wondered if you could say a little bit about what the main mechanisms and institutions are for ensuring that all these various operations fit together in a coherent way, sort of facilitating co-operation among all EU Member States.

Baroness Taylor: Ian has been spending all his time up to now on this particular thing so I am going to ask Ian to come in and give more detail.

Mr Hall: Essentially we ensure that, My Lord Chairman, by having multiple different ways of engaging with the various nations. We have got, of course, the NATO Research and Technology Organisation which allows us to both link North America to Europeans – and we negotiate that – and we have also got the European Defence Agency. Prior to that there was, as well, the Western European Armaments Organisation, so these provide what I would say is a multiplicity of fora by which we can work out who is likely to be seriously interested in taking part in collaboration, fairly organic in nature, such that one can sound out who is likely to be interested and who is likely to be capable. Overlaid on top of that we tend to have our perhaps far bigger, bilateral activities, and the main one we have in Europe is of course with France, and we do that both via the High Level Working Group and also via something called the Anglo-French Defence Research Group which meets very regularly and which looks to try and align our respective research programmes and looks for value. It really is only by having this multiplicity of approaches that you are able to find out a pragmatic way forward.

Q18 Lord Jay of Ewelme: It does not sound very streamlined.

Mr Hall: One can streamline it; however, I think you would tend to lose some issues, you would tend to lose a bit of strength and depth certainly, and I think it is certainly useful to have the multilateral fora there as a means to identify potential partners, which you could not easily do without the multilateral fora. Just because you have the multilateral fora it does not mean you go forward in big multilateral groups, but it enables you to identify who has got similar problems and who is likely to be amenable to similar solutions.

Q19 Lord Crickhowell: Just one question. I understand that one of the reasons given for not going into joint investment programmes in the EDA in the past was that we disapproved of the system of subscribing funds first and negotiating exactly how to spend them later. Is that not exactly what we have done with the French?

Baroness Taylor: I see where you are coming from with that. What we are saying with the French is part of a wider agreement that we have there and as I pointed out and as Ian mentioned the scale of our spend with the French is just so different from some of the other countries and I think that that is very significant. We identified when we were in early discussions with the French some of the areas that might be most likely so it was not just a blank sheet of paper, find some money and go and find ways of spending it, what we are looking at is what we are already committed to doing in terms of research and development, what the French are already committed to doing in research and development, look for where they could be working in parallel, look for where if we go on our own paths we will be duplicating things and try to make sure that we put the money in whichever country is in a joint operation where it could be most productive, which could then free up other money for actually having more research in another area. We have got a very big programme, they have got a big programme, let us not just duplicate, let us see what we are all doing and let us see where we can make the most of it.

Q20 Lord Crickhowell: Is the French approach to the EDA different from ours or similar to ours?

Baroness Taylor: I suspect it depends who you talk to in France actually, which might be the case here as well. I have not had a great deal of contact with the French on the EDA; I have had a great deal of contact with the French through the high level working group on specific programmes and projects and some of this research work, and I have found them very keen to work with us and very keen to recognise that they are big spenders as we are, they have got ambitious programmes as we have and they understand that the extra costs of some of the bigger projects that we would all like to have now could be prohibitive unless you at least look at the scope for collaboration.

Q21 Lord Anderson of Swansea: Can I take it that the fund is denominated in Euros so that the actual spend for us will be nearer £40 million rather than £35 million and eight months after the agreement, Minister, can you give any concrete examples of something which is now being realised or is under way which was not under way at that time? What are the real effects of that agreement in April in terms of the project?

Baroness Taylor: Could I just say, Lord Anderson, that I think that you like me should declare an interest on the value of the Euro as we both have houses rather close to each other in France so we do have a particular interest in these matters. In fact the amount of spending was declared in pounds for us and in Euros for the French which might be a very good deal in the end, but we will see. In terms of where this goes, April may seem a long way away but it does not in terms of the speed of these discussions. We are now in the situation where we have got people drawing up specific plans. We have asked for bids as to where it might be best to co-operate and we have had a good number of those. We are evaluating which ones to take further forward with the French, but what we do not want to do is just say yes, these projects can develop in this way in order to tick the box, we want to make sure that we use

this money to its best effect to make sure that, as I have said, those where we have been working parallel will come together and free up other research money for other work, other ones that we take forward, and we have a group of people led by a very lively and involved person within MOD looking at these. There is a great deal of enthusiasm for that kind of work and quite a degree of confidence that good things are coming out of it. Would you like to add anything?

Mr Hall: Going back to Lord Crickhowell's point, you talk about trying to liken it to the Joint Investment Programme. I think it is important to bear in mind that the difference between the UK and the rest of Europe is that there is an order of magnitude greater alignment in French and British interests than there is with other European countries. Therefore, setting the goal is really a means of galvanising people to actually try and go down a better vector and try and increase co-operation. Certainly there is far more scope for improved collaboration with France than there is with any other European country, either singly or collectively, and I think that is why it does make sense to do so in this case.

Lord Hamilton of Epsom: It sounds to me as if the jury is still out on this and so it is a bit premature for Lord Jay to say that this is essential because we do not really know where it is going to go.

Q22 Lord Jay of Ewelme: I did not say this was essential, I said collaboration was essential.

Baroness Taylor: I agree that collaboration is essential and we have actually got quite a history of collaboration, both on projects and indeed on the research side, and not just with European countries but with the United States and some of the Commonwealth countries. Collaboration is not unique to this area but it is important in this area as it is elsewhere.

Q23 Lord Hamilton of Epsom: I very much welcome the fact that the proposed budget for the EDA has been reduced from 40 million Euros down to 30 million Euros. Can you just run

us through how this happened and who supported us on this and who did not and what the negotiations were?

Baroness Taylor: Would you like to hear from the negotiator? Andrew was actually at those meetings.

Mr Mathewson: We had the usual autumn budget negotiation but it felt a bit different this year, we felt slightly less exposed in our stance this year, and indeed that was evidenced in the fact that we concluded the negotiations rather sooner before the ministerial council. Just to provide the baseline, last year the budget was set at up to 34 million Euros, there was six million Euros in the budget which was available if a business case was presented – sorry, that is this year’s budget, the 2008 budget was up to 34 million Euros. It looks as though the outturn this year will be about 27.5 million Euros, i.e. they failed to make the case to spend the last 6.5 million Euros or so of what they had asked for. This year they came to us with a bid for 40 million and we reduced it to 30 million. In part we reduced the staff bill that they came to us with – they had asked for a number of new staff and we reduced the staff bill by saying they could have only two new permanent staff but we were more generous in terms of what are called the seconded national experts, i.e. experts that countries send essentially at their own expense. The main discussion though was over the element of the budget called “earmarked revenue” where they come to us and say we want to spend X million Euros in the coming year in this area. Last year we had a very difficult discussion with them over earmarked revenue on a project to insert UAVs into regulated airspace and this year they wanted 10 million Euros of earmarked revenue for projects: to continue the UAV project, to do air safety work and for some intelligence training. We essentially negotiated that a long way down to about £2 million added onto the operational budget. One of the problems with the Agency’s approach to this is that it is simply too late in our budget cycle to come to us in September of one year and expect us to find money in our next year’s budget, and we are

trying to persuade the Agency that it is perfectly legitimate to use this mechanism of earmarked revenue but they need to start talking to us about their proposals three years out so that our budget planners can be thinking about it for three years out and not come to us in September of one year for money that they will need to spend in the following year, it is just too late in our budget cycle. To summarise, we reduced the budget in terms of staff and we reduced it by knocking back their aspirations on earmarked revenue. The overall bid came down from 40 to 30, of which an element is still subject to a business case being made.

Q24 Lord Hamilton of Epsom: Can I come to a wider point? The revenue stream for the European Union comes from VAT receipts. If the whole of the Eurozone and indeed the EU generally is going to be in recession, for the first time VAT receipts are going to drop, are they not? Has any thought been given to that in the wider terms?

Mr Mathewson: I do not know, we would have to pass that question to other departments. It is not a question of the EDA, the EDA is funded by payments from the Ministry of Defence and all participating Member States fund their participation in the same way, through payments from the MOD. We pay our 17 per cent share of the 30 million Euros from the defence budget.

Chairman: Perhaps we can move on to the longer term perspective or three years. Lord Selkirk.

Q25 Lord Selkirk of Douglas: May I ask the Minister what are the prospects for the Government being able to agree to a three-year financial framework for the EDA in 2009? We have already touched on this subject.

Baroness Taylor: As Andrew was saying there have been two attempts which have failed, but it is something that we may go back to next year.

Mr Mathewson: I think the prospects are uncertain. The Agency tried and failed twice to set the three-year financial framework, essentially because it is relatively easy to do a deal on the budget for next year but that much harder to do a deal on the budget in the second and particularly the third year. In setting the 2009 budget the Agency agreed not to try to set the three-year financial framework but just to focus on getting the one-year budget deal, but to try to come back in 2009 to see whether we could find a basis at the end of this year to set a three-year framework. What we are trying to persuade the Agency is that they need to deal with their budget and their work programme in parallel and that if we can see that the three-year financial framework is related to a three-year work programme and we can see a good connection between the work that they expect to do and the three-year financial framework then the chances will be better of agreeing the three-year financial framework. We also want to find a way of having a three-year financial framework that allows us to prioritise elements of the work programme, so that this is not a simple wish list which is sometimes how the Agency seems to compile its work programme, but a prioritised work programme that we can resource according to the level of resources that defence ministries are prepared to put into the Agency.

Q26 Chairman: Can I just ask on that, it seems to me that that is such an obvious approach, and as I understand it from the papers there has already been agreement in principle that there should be three-year budgets. Presumably everybody is signed up to that concept, are they not, in terms of the budgets recognising potential work programmes? I still do not understand why that is so difficult.

Mr Mathewson: I could share your question. At the moment the Agency does not have the processes that connect its work programme in any very solid way to its three-year budget. In fact it does not have a three-year budget, the phrase is the three-year financial framework and it is simply a ceiling. The problem has been that for the first year we can relate it to a work

programme and so it is a budget in the first year but by the third year it is just a ceiling, it is a ceiling within which future budget decisions can be taken and we would like to make it a rather better connection between the budget and the work plan in the later years rather than just agree now that the ceiling in the third year will be up to a specified level. Given that the actual budget decision in that third year would then be taken by a QMV we would feel rather exposed to have a ceiling already in place.

Q27 Lord Crickhowell: Your answers prompt me to ask a question and I probably should know the answer; how is this thing managed, is there a chief executive and a finance director, what is the structure, because you would have thought that if you had a normal management structure one of the first things that the chief executive and the finance director would address is exactly this issue.

Baroness Taylor: There is a chief executive but it is partly going back to what we were talking about earlier, as to whether you give a budget and then allow some discussion about the work or whether the budget should be output-related, but they have a structure. We have had a British chief executive.

Mr Mathewson: There is a chief executive, the head of the Agency is Javier Solana, the chief executive is currently Alexander Weis, a German. He does not have a finance director and one of our concerns is that it is becoming clear that the centre of the Agency is relatively weak. Underneath the chief executive there are two deputy chief executives and then there are directors for industry and markets, armaments, capabilities and R and T. Our growing sense is that actually the processes at the centre of the Agency that are tying all this together into a coherent process that relates the work programme to the budget are not as well-developed as they ought to be.

Q28 Lord Anderson of Swansea: There is no finance director.

Mr Mathewson: Not specified as such.

Chairman: It is something we find as an interesting outcome of the question. Lord Hamilton, we will move on to number 8.

Q29 Lord Hamilton of Epsom: There seems to be a voluntary spending target of 20 per cent of national defence research and technology funds in collaboration with other EU Member States. Do we still subscribe to that? Apparently it was approved by the Ministerial EDA Steering Board on 19 November 2007.

Baroness Taylor: We are not convinced by the target and part of the difficulty is the one that was mentioned earlier about the actual scale of our budgets and the scale of the work that we do. We do not want to block others getting their targets and seeing things in their way but I think we have to be realistic about the nature of the work that we are doing, its scale and its relevance and perhaps also to bear in mind that because we are so involved in operations we have actually learnt a great deal and a lot of the work that we have been doing, indeed a lot of the change that has been happening has been driven by things we have learnt from operations and some of the R and T that has actually had to go with that. That is one of our big concerns, that we are bigger and our actual experience is a bit different as well.

Q30 Lord Hamilton of Epsom: What did we actually sign up to then in the Ministerial Steering Board, did we say we would try and meet this objective or that we would meet it?

Baroness Taylor: We said throughout that we did not think it was sensible from our point of view and we have got other relationships with, obviously, the United States and we made that clear to the EDA at the time, but we did not want to block what others might be doing.

Mr Mathewson: Also, if I may, it would be more accurate to call it a benchmark – and that term is chosen deliberately because many other Member States in the Agency were reluctant to see targets as it were imposed upon them. So it was a benchmark and, as the Minister said,

it was a benchmark which we recognised and we certainly made the case at the time that it made more sense for some than others. The Agency clearly recognises our distinct position in terms of collaboration with other partners. The sense was though that even with that it was worthwhile having this benchmark just to allow an informed discussion about how people are spending their R and T money. But there is not a target in the sense that we could be censured for failing to meet a target.

Q31 Lord Hamilton of Epsom: Can I ask a slightly different question to that? It seems to me that actually the EDA has not taken anybody anywhere very far and if anything is going to happen it is going to be on bilateral collaboration with the French. Have we thought of other people – I mean, the Italians for instance have quite a sophisticated electronics industry; have we not thought of similar deals with them, and the Germans indeed have a tremendous armoured capability. The other countries do have something to bring other than the French.

Baroness Taylor: Absolutely, and I did see that even on the British-French agreement from the high level working group there was nothing to preclude things that come in multilateral on that basis. Ian, do you want to come in?

Mr Hall: Certainly in Europe the collaboration is likely to follow industrial links and you are quite correct that the link with SELEX in particular is something where one may expect to see co-operation growing. We do not know whether that will be government to government or government to industry, but I suspect in the Italian case they were more looking at industry to industry because of the disparity between our spend on R and T and theirs, so you are starting to see things happening on a transnational company basis. We do not have a great deal of collaboration with Germany but again that largely tends to follow from the lack of joint industrial companies which we have with Germany. Where we do have very profitable engagement with lots of European countries is in things such as NATO where we are able to get together, exchange information and then solve mutually beneficial problems for

governments. I think you are likely to see a bit of a patchwork quilt in Europe with France and the UK tending to be the leaders and the other entities forming along industry to industry lines, occasionally with government help.

Q32 Lord Crickhowell: That rather neatly takes us to the next two questions which we might take together. In talking about scale there has been passing reference to collaboration with the United States; what is the percentage of UK defence research money spent in collaboration with EU partners over the last five years and what percentage has been spent in collaboration with others, notably the United States? How does our relationship with the United States on defence issues impact on the issues we have been discussing?

Baroness Taylor: In terms of the actual spend we spend about ten per cent of the budget in collaboration with others: three per cent in Europe, six per cent with the United States and the remaining one is mainly with Australia and Canada. Members of the Committee may be aware that there is an organisation called the Technical Co-operation Programme – perhaps Lord Hamilton remembers it from his time. I think it celebrated its 50th anniversary this last year and that is a technical co-operation programme which started between the United Kingdom and the United States but now also includes Australia, Canada and New Zealand. That is an extremely important programme for all of us. Obviously the United States spends an awful lot more than everybody else in this area. Some of the work we do we do in collaboration and some is information exchange. We think that money spent in that way is extremely good value and that we do actually get a lot from that technical co-operation programme with all those countries, just as we expected a lot in terms of European collaboration as well.

Q33 Lord Crickhowell: Does the relationship, particularly with the United States on pretty important areas of technology and defence spending, inhibit relationships and collaboration

with Europe? Are there security issues and issues on the terms on which we do business with the United States for example which do act as a barrier to possible collaboration in Europe, or is that not a factor?

Baroness Taylor: We have specific programmes where we work very closely with the United States and we will continue to do so. For some of those programmes there would not be a European dimension or alternative to them and I think that when we have been talking to the French about areas of co-operation there are probably some areas where they themselves would not want to co-operate because we all have our own barriers in terms of operational sovereignty. There are certain areas where operational sovereignty is extremely important to us and we would want to continue to develop capabilities and others where we would work to a certain extent with the United States or with someone else, but I do not think there is any lack of realism on the part of the French or indeed anybody else about the scope for co-operation because everybody has their own red lines in terms of operational sovereignty.

Q34 Lord Anderson of Swansea: To what extent do we still continue to enjoy a privileged relationship because of security considerations with the US and those security considerations prevent us sharing knowledge and experience with our European partners?

Mr Hall: I think, My Lord Chairman, that the issue is where we get the best benefit and if one goes into a very specific collaboration with one country such as France on, for example, complex weapons, it is true that one for various reasons cannot co-operate with another country in that exact same area. The main issue with the United States is both scale and also the degree of sensitive information which we are prepared to share, and that means that in a lot of areas we do get far better value by collaborating with the United States and countries such as Australia and Canada that we would not get otherwise. The issue is not really closing off avenues for co-operation but working out who the best partner is. Certainly with the emphasis that has been given to UK-French collaboration over the last year we are starting to

see perhaps a far more active look at where it is best for us to go to find the right collaborative partner. I would look at it in those terms, in terms of working out where one gets best net value from rather than in terms of actually closing off collaboration because one has got a habitual partner which one always works with. It really does not work like that in most things.

Q35 Lord Jay of Ewelme: Am I right in thinking that there is a bit of a triangular relationship here because of course the French and the US are collaborating as well on a number of things, so it is not just a choice about siding with the French or with the United States.

Mr Hall: The United States seems to be warming to France a lot more and vice versa, and that tends to make life easier from our perspective, particularly when they are talking about the more sensitive type of issues. There is another change which we see in France's stance towards collaboration in that in the last few months, particularly over the last year and with its involvement in Afghanistan, it has started to become more and more focused on what I would class as the operational issues whereas before it had been focused on the "grands projets", the large industrial-type projects. Again, when France starts to talk to the United States and obviously to ourselves at a level of operations and how research and technology can help operations, it becomes far, far easier for us to collaborate and to find mutually beneficial ends.

Q36 Lord Anderson of Swansea: Basically trying to read objectively through your helpful letter, Minister, of 5 November, where you set out the agenda for the meeting on 11 November, your letter was scattered with phrases like, for example, the second item, yes, we agree with the strategy, but we will not participate in the project – this is the European Defence Research and Technology Strategy – "on this occasion". On the third item, we have no objection to the launch of the study. We agreed the fourth but on the fifth we decided on

balance “that the UK will not participate”. Again on the fifth we “will be exploring whether there is any potential for future involvement.” On the next item, we have “decided not to participate in either of these projects” and so on. An objective reading of that would suggest that is a very semi-detached view of the Agency as such which is hardly likely to endear us to partners with whom we hope to co-operate.

Baroness Taylor: I am going to ask Ian to come in on some of the specifics but I would go back to the point I made about the difference between the category A approach and the category B approach and the fact that if there are category A projects which are not considered to be priorities for us or are areas where we have already done a great deal of work and we do not think that this is something new or something from which we could benefit, then it is right that we should be selective. I did ask for examples on the other side of where we have been co-operative and there are some of those, so I am going to ask Ian and perhaps Andrew would like to come in as well.

Mr Hall: Certainly on the examples of where we have been collaborating, if we look at the second category of projects which the Minister talked about, which were category B projects, by the end of 2008 we will have been involved in 62 per cent of them by value – we have been involved in a portfolio of €27 million out of €44 million. That far exceeds the Agency’s Joint Investment Programme on ICET which I think is capped at about £15 million, so it is important here to get a balanced picture and see things overall. The projects which we are looking at are things which are important to us. There is one called SIMCLAIRS which is essentially a multi-function radar and electronic warfare apparatus for UAVs; there are critical optical devices for future integrated sampling architectures; and production of vulnerability technology for large composites. These are all fairly pragmatic stuff, useful things, which perhaps does not attract big headlines but is useful stuff which helps the UK defence. I think it is important not to get too fixated on the Joint Investment Programmes. On the Joint

Investment Programmes I think I disagree that we are semi-detached. The reality is that if you look at the Joint Investment Programme the first one on force protection had quite a strong political element. A lot of nations signed up to it, it was I think 55 million Euros and 19 or so nations took part. The second one on innovative concepts in emerging technologies, 11 nations took part. What that tells me is that nations want to know what they are getting for their money and they are making a choice about where to invest their money. There is indeed nothing wrong in that, which we are doing. In terms of the specifics on ICET, we eventually assessed that there was not a lot in it for us and we would best spend our money elsewhere, and I do not think there is anything to prevent us taking part in a lot of other European activities, as do other countries.

Q37 Lord Anderson of Swansea: Looking at the first JIP involving 19 Member States and Norway, in this we do not participate and apparently the reasons keep shifting. First “we have no interest in investing further in force protection”. Then the next reason was “we disapprove of this sort of joint endeavour because it does not generally tend new money” when half the subscribed funds in fact came from Member States who had not traditionally done defence R and T, so the reasons given shift. Although you say there is a substantial proportion in value which we participate in, we have really kept very apart from the project. I wonder whether this is a matter of principle or whether there is a reassessment in prospect for future programmes.

Baroness Taylor: The point in principle is that we would prefer to work with category B but we do not exclude category A should they prove to be something that we think is worthwhile. In terms of programmes on force protection you have got to put that amount of money, 45 million Euros, in the context of all that we have spent on urgent operational requirements over the last few years where we have made very, very significant breakthroughs, so the real question is, is there something extra and new that we could get there given the scale of our

spend in this area over recent years, again driven by operations and indeed our experience. Had these been things that we felt could bring some benefit then I think we would have participated but we did not see where the benefit was going to come.

Q38 Lord Anderson of Swansea: But does not the scale of our spend and our operational experience put us in an excellent position for helping our partners along this road?

Baroness Taylor: We have been helping people and indeed we are helping some of those who are involved in operations with us in terms of some of the things that we have been able to develop from our urgent operational requirements. That is a process which is incredibly speedy and responsive because it has to be, because it has been as a result of experience in operations, and we have probably got an awful lot more out of the internal work that we have done on force protection than we would have done through going down this particular route.

Mr Mathewson: A characterisation of us as being semi-detached is wrong in that we are engaged across the full breadth of the Agency's work and we have provided a chief executive, we now provide one of the directors, the capability director, and we are very fully involved across the full breadth of the Agency's programmes. We have particular difficulties with the Agency when they try to come forward with these as it were directed projects where they are trying to find a scope of work which would appeal equally to all Member States. When you consider the breadth of military engagement from the UK and France at one end to Ireland and Malta at the other end, and to try to structure a project which will appeal equally to those is difficult. We do find ourselves in a particular difficulty; so we have found ourselves in difficulties over the two joint investment projects because we have not found that the project has been pitched at a level which is of interest to us, and also for the two occasions on which the Agency has tried to invoke the earmarked revenue mechanism, but that is a reflection of our particular capability relative to others. I also think it is not unhelpful to see a model developing of countries forming up these ad hoc coalitions and proceeding in groups that

select themselves. Europe does not have to advance always by agreeing at 27 on a common project; this was an idea which was built into the Lisbon Treaty, the idea of structured co-operation, the idea that groups could form where they have a common interest and go forward in that area subject to their own requirements.

Q39 Lord Anderson of Swansea: Minister, in your letter to us of 5 November you say we will not participate in the second joint investment programme “on this occasion”. How should we interpret that?

Baroness Taylor: As I mentioned earlier if there is something that has direct relevance to the challenges that we are facing then we would want to look at what the scope was but it has to have direct relevance which is why there is this difficulty as Andrew is outlining. If it is something where people are volunteering to come forward they are coming forward because it is relevant. If it is a structured programme that is asking for a buy-in then the chances of it being relevant are not as great.

Q40 Lord Anderson of Swansea: Would we object, for example, if we thought the projects were better done under the auspices of NATO, for example on UAVs I think there has been quite a substantial NATO project.

Baroness Taylor: What you are touching on is very relevant in terms of approaches because one of the difficulties is if people see EDA as the only forum for discussion for collaboration then people will think that there is a limited commitment but the EDA is by no means the only forum for collaboration, there is collaboration in a whole range of areas and I think that is why we have got to get EDA work into perspective.

Chairman: I am very aware of the time here but I have Lord Crickhowell, Lord Selkirk and Lord Jay who would like to put some further questions on this.

Q41 Lord Crickhowell: A specific question on ICET. I cited what Mr Hall said about expenditure elsewhere on this and I think indeed he was saying that we have actually spent quite a lot on ICET. The reason given, Minister, in your letter is that you do not judge this subject a priority for the UK defence research budget. That seems rather surprising; surely it is a priority subject and often the real reason – am I wrong – that we have done a lot of work which we think more productive elsewhere. Was your phrase rather misleading?

Baroness Taylor: We do not see it a priority in that context because we have done so much work by ourselves and we have done so much work on other things with the Americans. On ICET we were saying that we were not sure there was much that was particularly innovative that we were not already involved in and it was not cutting edge as far as we were concerned.

Lord Crickhowell: I think we would have avoided the question if you had actually given that as the reason but it is not actually what you say in the letter.

Q42 Lord Selkirk of Douglas: Perhaps I should declare an interest as the squadron with which I am associated is involved in force protection. Could I ask a question, would it be fair to say that we give priority to force protection as far as our own Armed Services are concerned, especially in theatre, but is it the case that we wish to avoid duplication and lack of necessity and also the diversion of resources unnecessarily? Can the Minister put this in context?

Baroness Taylor: Can I put it in the context of the operations that we have been involved in because it is important to remember that our experience on the front line in operations has generated a great deal of interest and research and development on force protection. We have actually spent billions of pounds over the last few years on force protection. Partly because we have collaborative programmes with the United States and we get some of the benefit of their experience as well we had benefits from their developments on force protection, but we have been at the sharp end in terms of our experiences which means that we have spent and

developed and improved what we can do on force protection, way beyond anything that we thought could be offered by this particular programme. Force protection has been a priority for us ever since we went into operations, it is an area which is developing all the time with a great deal of co-operation from industry. Some of the things that have been done very quickly have shown the military, the MOD and industry working superbly together and that is why we have been able to develop so much more by way of force protection and that is why we are so much more ahead of the game that this kind of investment just would not have been worthwhile.

Mr Mathewson: A small point if I may in addition; in that context we have been willing to share our experience with partners, particularly those operating alongside us in Afghanistan. I know that we have initiated discussions with the Netherlands, for example, on improvised explosive devices and this partly answer Lord Anderson's point about sharing experience. There are other ways to share experience than through the Agency.

Q43 Lord Jay of Ewelme: I probably ought to know the answer to this question but have we in the past or are we now considering areas or suggestions that we might put forward ourselves which would suit us for collaboration amongst all Member States rather than, as it were, saying this is a bit too difficult and we would rather do it alone?

Mr Hall: We would not approach it by saying what should we co-operate on amongst all Member States. We would approach it by identifying what is a problem and then looking for partners to solve it. We would do that either via NATO bilaterally or via the EDA. It is very important that we do not get on the hook and feel that we have got to co-operate at all 26; we should look at the problems which need to be solved first and then look at the mechanism for doing it later. I think a lot of the problems we have had on Joint Investment Programmes is that in some quarters in the Agency there has been an almost ideological desire to do things at 26 as opposed to actually working out what would be really useful to do and who to do it

with. Mr Mathewson mentioned earlier that we do a lot with other nations in some very sensitive areas; the nature of the work we do is that we do not publicise it very often whereas the Agency can of course publicise what it does and so one can often get an unbalanced view.

Baroness Taylor: Perhaps I could mention the UK-French helicopter initiative which is something that we are doing together in order to try to improve the availability of helicopters to the allies in Afghanistan. We have had quite a lot of discussions with other countries about contributions that they might make, either in terms of helicopters that could be upgraded or contributions in monetary terms or indeed in terms of training. We have been talking to the EDA who are going to take on responsibility for training elements – some of the helicopter tactics projects, some of the potential work on simulators, so that is an area where we have a joint proposal between ourselves and the French and some of the delivery of that is going to come through EDA.

Mr Mathewson: If I may add, backed by a British resource we have appointed a seconded national expert to the Agency, an RAF Wing Commander, who will lead the Agency's work on helicopter training. This is not only us putting a project to the Agency but putting some resource in to try to deliver an outcome.

Q44 Chairman: Minister, I am aware that we really need to end this session by midday and that we have one other item outside the EDA which we would just like to take the opportunity to ask you, but could I just ask you finally to comment on why we did not participate in the A400M project? Coming back to your opening statement I was very struck by the fact – emphasised again by Lord Crickhowell – that we see the EDA not as our first priority. I get the impression we are maybe not semi-detached but maybe the EDA is okay for the medium powers but for the grown-ups, ourselves and France, it really maybe is not the thing. What is the other participating Member States' view of us, do they see us as vital or are we

somewhere on the wings, that they like to have there, or are we just someone that preaches at them but lets them get on with the job?

Baroness Taylor: On A400M we are of course participating in that project and we are significant players in that, not in terms of the European air transport fleet, which is probably more appropriate for smaller players, but A400M is only one part of our air transport fleet and we do not think it makes sense to operate one part of our fleet nationally and another part of it as part of a European effort. Our needs are different and, again, I would throw in operational experience and the fact that A400M it was hoped would be of significant help in terms of our operations, so as I say we have not got alternative programmes as well. We are therefore participating in the project but it is the nature of that co-operation between smaller countries which is appropriate for them but we do not think it is for us. In terms of our overall approach on EDA the last example that I gave shows the way in which we are being serious about looking for the contribution that can be made. There is this multiplicity of organisations and levels of co-operation and we have got to use whatever is appropriate in terms of different kinds of experiences. The UK-French helicopter initiative and what we are doing on training through the EDA is a very good example of where we are saying that where it is appropriate we will use it, we will put resources in and we will back it up, but it is not actually going to be what is required and what is appropriate on every occasion. In fact, on the French helicopter initiative it is a NATO organisation that is going to be responsible for upgrading and maintenance and, again, that shows the complementarity that we would like to see developing in terms of any individual project. It is not all your eggs in one basket, only one way of doing these things and I think the more other countries realise this the more they will appreciate that we should be selective and use whatever is the appropriate mechanism depending on the project, depending on the capability that is required and looking for very practical solutions rather than always looking for an institutional answer.

Chairman: Thank you very much, Minister. We have one last question on a rather different area which I am going to ask Lord Hamilton to raise.

Q45 Lord Hamilton of Epsom: It has been rumoured in the press, Minister, that we are going to have an announcement today on the carrier and when you talked to us previously you said that there was a desire to bring together all the major procurement projects and have them in one single announcement. Is it going to be made today and can you tell us what is going to be in it?

Baroness Taylor: All I can say is yes, it is being made today and there is a written ministerial statement.

Q46 Lord Hamilton of Epsom: Will it include other things, other than the carrier?

Baroness Taylor: Yes it will.

Q47 Lord Hamilton of Epsom: When will it come out?

Baroness Taylor: 12.30.

Q48 Lord Hamilton of Epsom: And we cannot have advance notice of it.

Baroness Taylor: No, I think I would be in trouble if I did that. I will make sure you get a copy Lord Hamilton.

Chairman: Minister, can I thank you very much for coming and talking to us today, going through the questions, and your team as well and we look forward to welcoming you back on another occasion.