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Position Paper

The Strategic Defence and Security Review 2010

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Introduction

One of the key issues with the Defence sector in the UK is the challenge presented by the conflicting goals of industry and government. In the past the procurement process in the UK, coupled with the Defence Industrial Strategy, ensured a period of prolonged investment and support for the sector which has allowed the defence industry to become one of the major manufacturing success stories in the UK and globally.

Defence products produced in the UK are not only commissioned by the UK government but are also bought by other nation states around the world and have an impressive and positive transference to other manufacturing sectors. Any review of government spending on defence must acknowledge this fact.

Research and development, innovation and the skilled workforce in the defence sector cannot be replicated and all play a vital role in creating substantial income for the UK economy. This role should not be underestimated, least of all by a newly elected coalition government that is desperate to cut defence costs in the short term without looking to the impact on the UK economy of the those cuts in the long term. The companies in the sector are outstanding in their commitment to manufacturing in the UK, their level of investment in R&D and innovation and their focus on maintaining and supporting a highly skilled workforce.

What is also clear is that government spending on defence has already been reduced from 4.4% of GDP 20 years ago to 2.3% now¹, while other department budgets have increased exponentially and where other countries have significantly increased their defence spending². This is despite the fact that UK troops are involved in two separate overseas conflicts and the prospect of future global uncertainty is ever more present.

Unite believes there must be a realistic and objective approach to any review of the current level of defence spending which must include a proper consultation with all interested stakeholders. Unite is appalled that government is making decisions about the jobs, livelihoods, communities and companies in the UK defence sector without considering the strategic impact any cuts will have to the local economies involved and the wider UK economy.

¹ See www.adsgroup.org.uk

² See <http://www.telegraph.co.uk/news/newstopics/politics/defence/8002911/Defence-spending-the-worlds-biggest-armies-in-stats.html>

Defence sector

The current defence sector in the UK employs over 300,000 people, many of which are located in areas of high deprivation. The industry generated over £35 billion in turnover and £7.2 billion in exports in 2009³ and was one of only a handful of industrial sectors which was not significantly affected by the global economic downturn. Ian Godden, Chairman of ADS⁴ said "Overall this is an extraordinary performance during a world-wide recession with an increase in revenues, a rise in productivity and industrial stability within our highly skilled workforce"⁵. Unite believes that any government who thinks this level of income can be lost to the UK economy needs a lesson in macro-economics.

Unite is deeply concerned that manufacturing is about to re-enter a period of boom and bust economic strategy which laid waste to most of manufacturing industry in the UK between the 1970's and the early 1990's. The past 10 years have provided a period of strategic investment and stability for manufacturing which included the Defence Industrial Strategy (DIS) and which encouraged inward investment into the UK economy at a level which was unprecedented.

Government must understand that £100 million investment in the defence industry generates an increase in gross output of £3,227 million, and increases Exchequer revenue by £11.5 million⁶. This means the industry has an output multiplier of 2.3, ranking it above the median of 27 sectors considered. According to the government's 2009 Value Added Scoreboard, the aerospace and defence sector added £312 billion in value to the economy and the average value-added per employee in the industry was £61,200 which is well above the automotive, construction and electronics sectors⁷.

These economic circumstances cannot be ignored, the defence sector in the UK is highly profitable, provides for an unprecedented level of R&D and technological innovation which transposes to many other industries in the manufacturing sector and which makes the UK the centre for technologically advanced systems and products made by highly skilled designers, technicians and engineers. The UK economy cannot afford to lose this level of expertise and income, this cannot be allowed to happen.

This level of complex technological design, research and production must remain in the UK, retaining the intellectual property and ensuring that jobs in the defence industry also remain in the UK. This is not a frivolous notion, it is based on the fact that the workers in the defence sector in the UK are second to none in the world for their level of skill, experience and knowledge. There are already skills gaps and shortages in the sector. Any attempt to delay or put back strategic contracts will decimate the skills sets for the sector.

The sector remains number one in Europe and is second only to the USA in the global economy. The industry consists of over 2,600 high value manufacturers and service providers with a significant number of small and medium sized enterprises (SMEs) and a nationwide footprint. The sector is incredibly competitive with two thirds of income coming from exports and productivity at a consistent long term rate of 6% of GDP⁸. All of this is aiding the income levels of the UK economy at a time when the Exchequer needs every penny it can get in revenue at this time of economic uncertainty. What is crucial to all of this is the confidence and high level support from government.

If this support is reduced or stopped altogether for the defence sector the knock-on effect for the commercial aerospace sector will be profound. Any reduction will inevitably cause critical mass problems particularly for SMEs and also for some of the larger companies too. This is a terrible prospect and Unite is bitterly opposed to any UK based company being forced to move work abroad because of the decision making process of an inexperienced, unsophisticated and short sighted government.

³ OpCit

⁴ Advancing UK Aerospace, Defence and Security Industries.

⁵ ADS News Release – Tuesday 13th July 2010.

⁶ ADS Aerospace Industry Fact Sheet, page 5.

⁷ ibid

⁸ OpCit

"This government's fundamental misunderstand of the defence industry could permanently damage the UK's sovereignty to manufacture defence equipment in this strategic and highly skilled industry. Government's plans would also have a knock-on effect on the wider manufacturing sector, as the research and development and technological innovation created in the defence industry is transferred to other strategically important sectors such as aerospace, automotive and energy.

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Commercial aerospace sector

Unite is concerned about the lack of understanding by government around the symbiotic relationship between the defence and commercial aerospace industries in the UK. The last decade has seen dynamic change in the commercial aerospace sector especially in relation to R&D and new technologies to tackle emissions and push forward the 'green' manufacturing agenda. Some of the most highly concentrated work on reducing CO2 emissions has come via the commercial aerospace sector but this would not have been possible without the critical mass produced in relation to the work undertaken in the defence sector by these companies.

The link between the two sectors is a crucial lever for companies when it comes to utilising products and services created for one market, then used – often for export - in another market place. For companies such as Goodrich, serious economic decisions will be made about moving the commercial aerospace work away from the UK if the contracts for the defence sector are reduced or cut completely. This is an untenable situation for Unite members. It is clear that the only way these issues can be raised is by a formal consultation process which allows for all parties concerned to inform government about the wider implications and long term consequences to any proposed cuts.

Unite would also like to raise the issue of the combined supply chain for the two sectors, which can also transpose across to the automotive sector. Much of the innovative work in the manufacturing sector comes from SMEs as they are in a position to respond quickly and creatively to demands from the big Tier 1 companies, as such any decisions by these companies to move away from the UK could have a devastating effect on SMEs which account for 80% of the UK manufacturing sector. This will in turn impact on the wider economy in the areas where they are located and the devastation that happened at MG Rover⁹ could be replicated across the UK manufacturing sector.

Procurement

One of the main concerns Unite has about the Strategic Defence and Security Review (SDSR) is whether government has considered the impact of the MoD decision making process in relation to continuous delays in procurement contracting arrangements, slippage times and not being prepared to work to maintain the drum beat of operational capability, resulting in spending on defence projects costing billions of pounds more than the initial contracts were worth. This is not the fault of the companies who were contracted to do the work, not the fault of the workers producing the goods and services and certainly not the fault of the armed forces who need high quality, technologically proficient defence equipment that will assist them to do their job.

⁹ http://www.curs.bham.ac.uk/research_consultancy/pdfs/Bailey-Chapain-presentation.pdf

These issues have blighted the defence manufacturing sector in the UK for decades. As a result this has created job losses, skills shortages and in some cases a reduction in the size and number of projects completed or projects launched with reduced capability. Unite believes the SDSR will not solve the problems of the MoD procurement and contracting process but will be a process of slash and burn cuts to existing projects which will have a totally devastating impact on the industry as a whole and the wider manufacturing sector.

In proposing a reform agenda for defence procurement while in office, Lord Drayson said, "The fundamental problem is deep seated cost pressures... we still have a planning system that isn't as rigorous or as transparent as it needs to be with ongoing weaknesses in procurement decisions and where short term pressures interfere with long term priorities"¹⁰

The National Audit Office (NAO) in its Major Projects Report 2009, examined the 30 largest defence projects in the UK in relation to contracting costs and time scales and performance. The report shows that two thirds of the gross cost increases reflect deliberate decisions on the part of the MoD to slip projects to address a gap between estimated funding and the cost of the defence budget over the next ten years.

A report from the House of Commons Public Accounts Committee (PAC) found that the MoD had one of its worst years in the handling of major defence projects in 2009. The top 20 major defence projects are £28 billion over budget and 40 years late¹¹. The impact this has on the defence manufacturing sector and the workers within the sector cannot be ignored, it is vital that the sector is not made the scapegoat again for a lack of government rigour and MoD incompetence.

Unite believes that ineffectual corporate decisions made by the MoD faced with the uncertainty of different governments approach to defence spending has resulted in significant increases in procurement costs and according to the NAO represent poor value for money for the tax payer. What the NAO does not mention is the industrial uncertainty, job losses, company restructuring and work being sent abroad that has occurred because of this lack of strategic and consistent planning by government.

One classic example from many is the final decision on the procurement of the Astute Class submarines. The MoD decided to slow the production of boats 2-7 which led to a net increase in forecast costs of £400 million, as a result of reducing expenditure by £139 million up to 2013/14.

In addition this decision has meant that in the period between 2015 and 2021 there will be a shortfall in the submarines availability against MoD stated requirements. Added to this the slippage on the contracting of the Astute class submarines, additional costs of £38 million will be incurred to continue running the existing, less capable Trafalgar class submarine.

Azza Samms, Unite rep at BAE Systems in Barrow said, "Barrow and Furness and its economy depends on the shipyard, 5,000 people are employed directly and indirectly in the yard – the Barrow community depends on submarine design and build to sustain and grow the workforce and sustain and grow the economy, government must understand the extent to which the MoD procurement process impacts on peoples lives, livelihoods and communities"

Source: NAO Major Projects Report 2009.

Other projects that have been victims of cost increases, slippage, reductions or capability amendments are the Queen Elizabeth Class aircraft carriers, the Lynx Wildcat and Merlin MK2 fleets, the Typhoon Future capability programme, FRES armoured vehicles and the A400M transport aircraft¹². All of which have affected Unite members who work on these projects.

¹⁰ www.defencemanagement.com

¹¹ http://www.publications.parliament.uk

¹² NAO Major Projects Report 2009, summary, page 5.

One of the biggest companies in the defence industry in the UK, BAe Systems, has consistently offered to sit down with the MoD and make proposals for where considerable savings could be made in the defence budget. There are new ways of delivering capability for less, but part of this process is that the MoD itself manages its procurement budget effectively.

The companies in the defence sector have indicated that government must be clear about raising its ambitions for the export of products and services manufactured in the UK for the defence industry. As Unite has mentioned previously this is an area which already brings in a significant amount of income into the UK economy and in particular the Exchequer. There must be support for this process and an acknowledgement from government departments that this is a crucial element in off-setting defence costs to the tax payer.

Sustainable communities

It is vital that government realises the socio-economic impact of any decisions to cancel or delay contracts in the defence sector. To highlight issues around sustainable communities and the role the defence sector has in the community Unite believes it is useful to highlight a number of regional unitary areas and the impact the SDSR could have on the community and the people therein.

Barrow and Furness

For much of the twentieth century Barrow shipyard employed up to 14,000¹³ people and by 1990 the yard directly or indirectly supported around a third of all employment in the area. However, during 1990 and 1995 13,000 jobs were lost due to the reduction in work at the shipyard and the closure of other large manufacturing employers, this represented 30%¹⁴ of all employment at the time. These closures also had a significant effect on the supply chain and the SMEs in the area, many of which were solely reliant on the shipyard for their work.

This level of economic decline brought with it problems of deprivation and the government's 2007 Deprivation Indices ranked Barrow as the 29th most deprived local authority out of 354 in England.¹⁵ It is clear to see that any reduction or cancellation in the current Astute programme will have dire consequences in an area that already suffers deprivation and unemployment levels above the national average. In Barrow currently 13% of the workforce has been out of work for over 12 months.

Barrow remains at the heart of the UK shipbuilding industry and is still recognised throughout the world as a centre of excellence for marine engineering and the construction of highly sophisticated military ships and submarines. Any delays in making a decision about Trident means the development work currently underway will cease, as there is no other work. Consequently, engineers at Barrow will become redundant resulting in a loss of specialist skills, knowledge and experience that cannot be replaced.

Yorkshire

It is clear that the supply chain for the defence industry is large and sophisticated, with many of the SMEs involved producing goods and services which transfer across many manufacturing sectors. However, in the defence industry hundreds of local jobs and contracts with local firms are located in the Sheffield, Rotherham and South Yorkshire area. All of these companies will be at risk if there are cuts to the defence budget.

Clive Betts, MP for Sheffield South East said "there is a huge misconception that the debate about the security and defence review has no implications for local economies... nothing could be farther from the truth, the reality is there are thousands of highly-skilled jobs in the Sheffield area which are dependent on defence expenditure"¹⁶.

¹³ A Sustainable Community strategy for Barrow and Furness, page 10.

¹⁴ ibid

¹⁵ http://www.neighbourhood.statistics.gov.uk/dissemination/Info.do?page=news/newsitems/7-december-2007-indices-of-deprivation-2007.htm

¹⁶ See www.labourmatters.com

In the Sheffield and Rotherham area there are around 30 companies which make up the supply chain for the Astute submarine programme being built in Barrow. This is a vitally important example of where a local economy could face a massive recessionary reaction because of the high dependency on the defence sector.

In East Yorkshire the impact of the review will be the same, the BAe Systems site at Brough where the manufacturing is undertaken for the Hawk and Typhoon projects has already been in the firing line where job losses are concerned but the SDSR will have an even bigger impact and BAe Systems have intimated that job losses have to be considered where contracts are under review.

The big Tier 1 companies are under extreme pressure in relation to contracts but Unite is aware that breaking contracts with the companies could end up costing government as much as the projects themselves. This is clearly a ludicrous situation and must be considered in the SDSR decision making process.

It is of crucial importance that in the SDSR government would be negligent if it did not acknowledge the implications of any decisions around cuts or cancellations to defence projects for the economic prospects of local companies and the employment prospects and sustainable communities for hundreds of workers in Sheffield and South Yorkshire. Unite believes the issues around defence spending are far wider and more encompassing than government has realised and this must be brought to their attention.

North West

The aerospace sector in the North West of England has long been recognised as one of Europe's leading industrial clusters and a model for development opportunities. The sector drives the UK's aerospace economy, employing more skilled people and generating more overseas income than any other region in the UK. However, the North West is facing the fact that if the SDSR goes ahead there could be thousands of job cuts with projects shelved or cancelled completely. For example the BAe Systems MAS accounts for 4,100 jobs at the Salmsbury site and 7,000 at the Warton site¹⁷.

Unite fears that the latest order for Eurofighter could be shelved and the impact this will have on the North West economy is inestimable. Research carried out into the economic impact of the aerospace industry in the North West showed that defence contracts in the region generated £329 million for North West companies in the supply chain and also generated £4 million in taxes to local councils¹⁸ The report also showed that BAe Systems invests significant amounts on education locally, including a £1million partnership with the University of Central Lancashire for research into energy management.

The report mirrors what is happening across the whole of the UK in relation to the defence sector and the companies within the sector. How the industry brings employment opportunities for workers, economic stability, highly paid jobs and thriving communities, investment in education and training and the commitment to the provision of apprenticeship schemes. The high value added for each region where an employer manufacturing goods and services for the defence industry is located cannot be underestimated.

South West

The Devonport naval facility is seen as a national strategic asset with unique capabilities for the defence sector and Babcock is Devon and Cornwall's largest private sector employer. Because of this the naval facility is a fundamental cornerstone of the South West's regional economy and as such has a vital role in sustaining communities and the supply chain across Devon and Cornwall. This again is an example where any cuts arising from the SDSR could have serious economic and social impact on a regional community. In 2008, the naval base and dockyards were valued at more than £850 million to the local economy¹⁹.

¹⁷ See www.lancashire-ep.org.uk

¹⁸ *ibid*

¹⁹ See www.thisisdevon.co.uk

The naval base employs 2,000 people directly and a further 24,000 people in the supply chain. In May 2010, the then Shadow Defence Minister Liam Fox said "For reasons of safety in a very dangerous world, it makes sense for us to have three main dockyards"²⁰. Following the very significant socio-economic difficulties caused by cutbacks in the defence budget in the late 1980's and early 1990's Plymouth's economy has made a significant recovery. However, the dockyard/naval base and their employment of local workers are fundamental to Plymouth's continued economic well being and the sustainability of the economic community in the South West.

In Bristol, Rolls-Royce workers are currently working on the RB (ROCET) programme which if confirmed in full by the MoD would result in up to 15 years work for the Bristol site. The decision to confirm the project has been delayed until October 2010. With the SDSR the project could quite easily be shelved or cancelled. Thousands of people have highly-skilled jobs at key private-sector firms such as Airbus, GKN Aerospace, BAe Systems, Thales, Babcock, AugustaWestland and others. More than one in 10 manufacturing jobs in South Gloucestershire, South Somerset and Dorset are in the defence sector, with 43,000 full time jobs across the South West as a whole.

Projects at risk include two major aircraft-building programmes, the A330 refueling plane and the A400M military transporter, which would hit Airbus at Filton and would also have a huge impact on the supply chain of smaller firms, engine production for the Typhoon and lift fan for the Joint Strike Fighter (JSF). This would also hit the wider community, with every defence industry job creating 1.6 jobs elsewhere in the South West, the retention of these economically viable contracts is crucial to the region and the communities therein.

Jon Locke, Unite representative at Rolls-Royce, Bristol said, "We are very worried about the damage the defence review will do to jobs, the skills base and the wider economy. We firmly believe the threat of losing sovereign capability will threaten the long-term sustainability of UK high-tech engineering and manufacturing jobs, many thousands of which are located in the South West."

Portsmouth

The Portsmouth Naval Base has a combined workforce of just under 35,000 jobs, 22,000²¹ of which are in the defence industry. The naval base is at the heart of the defence supply chain with many small specialist suppliers working directly or indirectly for the tier 1 company located on the base – BAe Systems.

The reduction of the naval base would mean the output in demand for the defence companies would be reduced as ships would be relocated elsewhere in the UK. This would mean the loss of around 22,000 jobs affecting Portsmouth, Gosport and Fareham disproportionately.

The impact of these job losses on the local economy could be in the region of £350 million across the sub-region²² with more than £270 million coming from Portsmouth, Gosport and Fareham. This loss of income will have a devastating effect on household spending, impacting severely on local shops, leisure facilities and also tourists.

Northern Ireland

Unite believes that part of the economic and social regeneration of Northern Ireland has been the availability of highly skilled work which has encouraged a growth in manufacturing output in the area. However, if projects such as 'Team Complex Weapons', support for the new LMM Missile and the new launch platform called Multi Mission System (MMS) are reduced, shelved or stopped entirely then there will be significant job losses, a lack of growth, no investment in R&D, capital expenditure or technological innovation. Unite believes the impact on the communities where these projects are manufactured is untenable and the impact on the companies and workers in the supply chain will be devastating.

²⁰ *ibid*

²¹ University of Portsmouth – Socio-economic impact of Portsmouth Naval Base.

²² *ibid*

As such the future for the defence sector and the companies, jobs and communities linked to the sector will be very bleak. David Kane, representative at Thales in Belfast said, "Manufacturing is essential to help us through this recession and sustain jobs, not only on this site but also in the supply chain and all the companies that partner us in many of our projects. If, as Lord Drayson advocated "there is a need for sovereign capability" then support for the industry is vital.

Scotland

In Scotland the defence position is as severe as in the rest of the UK. Unite is very concerned about the workers involved in the £5.2 billion aircraft carrier projects. There are 10,000 jobs at jeopardy on the Clyde and at Rosyth and the future of the shipbuilding industry in the UK is dependent on the retention of those highly skilled and experienced workers. Unite believes the loss of industrial capability could be devastating for UK manufacturing but the impact on Scottish communities will be even worse.

If the aircraft carriers are cancelled as many as 11 major contractors from Aberdeen to Lanarkshire, with contracts relating to the carrier project worth over £372 million, including Selex in Edinburgh and Thales in Glasgow could find themselves in serious economic circumstances or will be contemplating moving their business outside of the UK.²³ The level of economic instability and the impact on local communities will be huge.

The biggest impact however, will be in the loss of skills, experience and knowledge expressly linked to the capability of the Scottish defence sector. Because of this the Scottish shipyards will be at a significant disadvantage when trying to win any future defence and export contracts which would undermine not only the UK defence industry, but also UK sovereign capability.

The SDSR could effectively end manufacturing in Scotland for the foreseeable future. The impact on the supply chain and the wider manufacturing sector which is totally reliant on work from the defence projects would be devastating. Alex Salmond, First Minister has lobbied the Defence Secretary for the retention of Faslane and Trident and has admitted that "while there are differing political views about the future of Trident, there is an all party agreement that HMNB Clyde provides a specific deep water facility and specific skills base in the area"²⁴

²³ www.telegraph.co.uk

²⁴ www.telegraph.co.uk

Unite recommendations

Unite believes that it is vital that government accepts that the defence industry plays a crucial role in sustaining a large number of communities in the UK. Many of these are communities that would sink into a mire of economic despondency if there were cuts to the current defence projects list.

It is also vital that government consults with all the stakeholders involved in the sector, in particular the workers, trade unions and SMEs. The last recession has shown government that there must be a more balanced economy in the UK and that the Treasury cannot rely on the service sector alone. It is through manufacturing that the UK economy can be regenerated.

Government must acknowledge that the companies in the sector are outstanding in their commitment to manufacturing in the UK, their level of investment in R&D and technological innovation and their focus on maintaining and supporting a highly skilled workforce. They also support an extensive supply chain across the UK economy.

The loss of skills, knowledge and expertise cannot be underestimated if there are cuts to the defence projects list. What is also untenable is any breakdown in the crucial link between the collaborative research work undertaken by the defence sector companies and universities in the UK.

Economic circumstances cannot be ignored, the defence sector in the UK is highly profitable, provides for an unprecedented level of R&D and technological innovation which transposes to many other industries in the manufacturing sector and which makes the UK the centre for technologically advanced systems and products made by highly skilled designers, technicians and engineers.

Unite believes there should be an objective and pragmatic defence review in the long term strategic interests of the nations security and defence – not purely a Treasury led cuts agenda.

This government should follow the example of the previous government regarding the creation and implementation of the Defence Industrial Strategy (DIS) This agreement brokered the strategic interests of industry, workers, trade unions and government to provide for the long term capability and drum beat the defence sector requires.

Unite believes that a more rigorous procurement process for the MoD, stopping slippage and cancellations would enable defence companies to plan for the long term strategic capability of their projects and would also save the tax payer significant amounts of money which could be reinvested into R&D for the future prosperity of the UK manufacturing sector.