



## **Confederation of Ship Building and Engineering Unions (CSEU)**

### **Comments on the MOD Defence Industrial Strategy for the House of Commons Select Committee February 2006**

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

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

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

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

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

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

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

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

- a) The UK defence market is the most open in the world; it is far more open than both the US and that of our European Union Partners. This may be beneficial in

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that allowing competition from companies outside the UK helps drive down price and improves the quality of defence products. However, this policy can have a downside in that it often result in jobs losses and a loss of intellectual property from the UK, while at the same time potentially reducing security of supply as we have to rely on elements outside the control of the UK.

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

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

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

- b) The strategy identifies that outside the US there is little ability for other western countries to maintain a cradle to grave industrial base. The CSEU does not disagree with the statement. However, we have a number of concerns over areas of work that strategy believes can or should be outsourced or undertaken offshore. Especially work on new platforms.
- c) The strategy recognises the importance of High Skills which are needed today to deal with advanced technology that are now part of the defence sector. We agree with the need to ensure that these skills and technology are maintained in the UK.

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

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

The CSEU believes this policy is fundamentally wrong. The construct of hulls and platforms may in some respects be less skilled than high tech information

communications technology and weapons systems. However, this is still part of modern day high tech engineering that has a very definite future in the UK. The skills involved are interchangeable with those of the offshore sector, engineering construction and the renewable energy sector. It is vital that the UK keeps a foothold in this sector.

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

- d) The CSEU also believes that the skills base in the UK needs improving. At the present time only 30% of school leavers continue on to university and the Basic Skills Agency estimate that some 7m of the working population do not have basic skills in reading and writing.

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

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

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

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

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

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

It had been suggested in a number of circles that for MARS support ship order that construction of the hulls would be cheaper offshore in China. The CSEU would strongly object to this. We would point not only to the low wage, low health and safety regime where on average 6 people per day die in coal mining accidents. We would also point to the pollution and contribution to global warming that industrial production in China causes.

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

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

- h) A growing concern across all sectors of the UK economy is the number of UK companies that have been purchased by foreign competitors in the last year. This has meant that where new technology and skills are created and where skills and Intellectual property resides has been more becomes more important than the location of the company head quarters.
- i) However, with the potential loss of a large number of UK head quarters to overseas where issues of UK national security may become second to that of the parent company's country of origin. This along with the job loses is becoming a concern to UK economy as whole. This trend therefore needs to be reviewed in light of total UK industrial strategy.
- j) The CSEU favours joint ventures both within the UK such as the type 45 vessels and with other European states such as the EuroFighter (Typhoon) in which there is a clear understanding of the intellectual property rights, the value of the joint venture and the number and type of jobs for each partner is clearly defined.

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

- k) The Defence industrial strategy is designed to cover the next 20 years and needs to have enough contingency for changes in world stability, technology and UK industrial needs.
- l) A big problem of the past for both the MOD's internal workforce and the private sector workforce has been the lack of continuity and cyclical nature of MOD work programme. Even when MOD orders have been placed continuous changes

to specifications have caused major delays in starting work. This has made planning a coherent work programme and retaining a skilled workforce difficult.

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

- m) The CSEU believes that where possible skills and intellectual property must remain in the UK. One of the best way of protecting this is to work is ensure that the MOD is able to undertake some of this work in house either directly or in joint partnership with UK manufactures. This requires the retention of specialist scientific skills and a good skilled industrial workforce who are able to respond to new technologies and working methods. In particular we are concerned at the loss of skills that are occurring with the proposed closure and transfer of work from St Athens site in South Wales where there is little alternative skilled work.
- n) The Defence Industrial Strategy will require a number of changes to the way in which orders for the UK defence industry are placed and managed. This change should provide sufficient work for the UK defence industry to plan long term. In response to these changes the industry must restructure and rationalise. It is crucial that the MOD and government encourage industry to deliver this in a progressive fashion which will ensure the active involvement of the workforce in rising to this challenge.

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On behalf of the CSEU

and in conjunction with the MOD Industrial trade unions

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