

Speech by Michael Dugher MP
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INTRODUCTION

I would like to thank Prospect for hosting this conference as well as commissioning this report.

I think the report makes an important contribution to the ongoing debate surrounding the defence review and the future of defence procurement.

What stood out for me was how the report articulated the crucial role that the UK defence industry plays in helping to defend our country and in supporting our troops on the front line. In my experience, this contribution is not always widely understood or appreciated by the general public, or indeed the Government.

The report also does an excellent job in highlighting the importance of our defence industry to the UK economy as a whole. We must remember that it is something we in the UK do extremely well.

If you were to design, from scratch, an industry-of-the-future that offered large numbers of well-paid, high skilled jobs, with lots of opportunity for young people; an industry that contributed greatly to our export wealth and our national income; you would come up with something that looks very like our defence industry.

But can I begin by talking about the government's Strategic Defence and Security Review.

OPPORTUNITY MISSED

I'm sure everyone here would agree that the first responsibility of any Government is the safety and security of our country.

I think all of us, in all parties, understand this and carry that responsibility.

In Government, Labour was committed to defence - increasing spending by 10% in real terms between 1997 and 2010 - the largest sustained increase in over 20 years.

But despite all the investment and improvements, some problems continued and mistakes were made.

We commended the Government's decision to conduct a defence review. Indeed, this was a commitment we made before the election in the Green Paper: *Adaptability and Partnership: Issues for a Strategic Defence Review*. I think everyone agreed that a review was much needed and we support the commitment to hold a review every five years.

However, like many people here, and around the country, I was extremely disappointed by the nature of the process. The way it was rushed through in a few months without proper consultation and the way it was patently driven by the Treasury – not by the real security and defence issues facing our country.

It is instructive that the strategic defence review of 1998, which was widely respected and probably the most successful UK defence review for decades, was conducted over a 15 month period and involved much greater consultation and in-depth study than the recent process, which took less than six months to complete.

This flawed process has been widely reported and has drawn criticism from within the Armed Forces and across industry and academia. Our view is this was fundamentally a spending review, not a defence review.

The review was an opportunity to reshape the UK's military force and defence capability in what is an increasingly difficult and complex global security landscape. I agree with the 68% of the defence community that said in a recent RUSI survey that they feel it was a "lost opportunity".

What was needed was a more thorough examination of our defence needs to find ways to make defence more efficient in the long-term.

The real concern is that it has resulted in a number of strategic decisions that have been taken before their long-term impact on defence capabilities and the defence industry has been properly assessed.

CAPABILITY / CREDIBILITY GAP

The Government has repeatedly stated it wants the UK to maintain its status as a major political and military power that can "punch above its weight". Well, it certainly now must punch above its weight.

The SDSR sets out the reduction in the military capability that underpins our strategic position in the world.

You don't have to take my word for it, take the Government's own assessment: "Our decisions today will limit severely the options available to this and all future governments ... this process is looking less and less defensible as a proper SDSR". These are not my words, but the words of the Secretary of State for Defence in his leaked letter to the Prime Minister.

One of the biggest capability gaps will come from what Professor Clarke, the Director of RUSI, calls the Government's 'eccentric' decision to operate new aircraft carriers without being able to fly any aircraft off them until 2020.

Planes flown from our aircraft carriers have been used in almost every intervention in modern times. They allow us to protect our interests and power across the world, wherever we need to deploy troops.

We opposed the scrapping of the Harrier fleet on the grounds that its capability is required and could have been retained by cutting a portion of the Tornado fleet. The Harrier would have cost £900m until 2018 while Tornado is going to cost almost £5bn over the same period.

The proposal to operate new carriers, but be unable to fly a single fixed-wing aircraft off them for the next ten years is absurd. And the illogical position of the Government is revealed in this simple question: If the government feels sure that we can do without that strike capability for the next ten years, then why are they equally sure we will need it in ten years time?

This unwise decision illustrates that it was clearly driven by the need to find immediate cuts. The easiest and quickest way of achieving immediate savings is to take out people and activity like decommissioning warships, disbanding aircraft squadrons and reducing the size of the Army and Royal Navy.

So it is clear this was a spending review, not a defence review; I think everyone accepts this now, including the Secretary of State for Defence. But what is also becoming clear is that it was not a very good spending review either.

It has been calculated that the SDSR has left a £4.3bn black hole in the MoD's spending plans. The review stated that the MoD will make £4.3bn non-frontline savings before 2015 and specifies nine areas where savings will be made. But answers to numerous Parliamentary Questions have demonstrated that work has not even begun on costing these areas and it is unclear how this £4.3bn figure was settled upon.

Hidden initial costs have also been found. For example, the Government has committed to returning half of our 20,000 personnel in Germany to the UK by 2015 and the remainder by 2020. Nick Harvey has admitted on the floor of the House that returning personnel will "involve an initial up-front cost", but what he hasn't said is that this could be as high as £5bn.

It has also been reported that the SDSR potentially creates a £15bn overspend. According to Air Chief Marshall Sir Stephen Dalton, the only way to make it affordable is if you assume the MoD budget rises every year after 2015 by around 2 per cent above inflation. This will simply not happen.

So whilst the Government is creating severe capability gaps in our military, it seems its credibility gap is getting bigger and bigger too.

UK DEFENCE INDUSTRY

The establishment of the Defence Industrial Strategy in 2005 went some way in ensuring that our armed forces are provided with the equipment they require, at value for money, whilst maintaining sovereign capabilities. And it must be remembered that this came after the Defence Industries Council warned in 2004 that the continuation of the previous approach to acquisition would see the UK "lose almost completely the strong industrial base" that supplies our armed forces.

But their recent Green Paper has confirmed that rather than supporting a strategy for growth, jobs and skills, the emphasis will be more towards “buying off the shelf”. The “default position” will now be to protect crucial areas of domestic production only “where essential for national security”.

This approach will no doubt have a significant impact on the UK defence industry. In our view, it is short-sighted and will inevitably lead to further reductions in the size of the industry, resulting in capabilities being lost, job losses and skill shortages. As the Prospect report highlights: “Industrial capabilities depend on skill bases that are difficult to chart, difficult to understand and very difficult indeed to reconstitute once they have been broken up.”

I agree with the Defence Select Committee’s view that the examination of which capabilities are required for the UK’s security and defence should be “disconnected from the examination of how, when and at what cost those capabilities can be provided and sustained, and the vital skills base retained”.

To conclude, the UK defence industry is innovative and one of the world leading sectors we have retained. The review was a great opportunity to promote and utilise its strength. Allowing it to wither on the vine is a very short-sighted approach.

It is estimated that the UK defence industry employs over 300,000 people and generates over £35 billion per year to the UK economy.

Defence can and should be a major contributor to the UK’s economic recovery, driving jobs and growth.

Building military and industrial defence capabilities here in the UK should be a key element to a comprehensive industrial growth strategy.

LABOUR SHADOW DEFENCE TEAM REVIEW

The Shadow Defence Team recently launched a review into procurement reform which will aim to establish how we can best support our national security needs through a stronger, sustainable UK industrial base.

We are determined to bring together military, defence and business expertise to ensure our recommendations serve both security and industrial priorities.

So far, we have put together a great team. I am delighted that Bill Thomas, former Senior Vice President and General Manager for Hewlett-Packard, Tony Roulstone, former Managing Director of Rolls-Royce Nuclear and Lord Alan West, former Chief of the Naval Staff and First Sea Lord have agreed to be part our team.

Our review will be open and consultative, reflective of how we believe the relationships between the MoD, industry and the Armed Forces should be conducted. We are consulting academia, industry, former and current military figures and the general public through visits to each region of the UK.

This, we believe, is in stark contrast to the government's rushed and short term SDSR, and I urge Prospect, and everyone here, to engage and help inform the review. Our priority is to find ways to speed up and reduce costs of delivery. We are looking at how to tackle delay and overspend by better planning the management of risk in the equipment programme.

We are also looking at how we can increase adaptability in procurement programmes, learning from the successful Urgent Operational Requirements (UOR) process, and how this can be balanced with greater longer-term certainty of investment through effective use of the Research and Technology budget.

If we are to sustain world-class capabilities in the UK and provide value for the taxpayer we need to provide the conditions that persuade companies to invest in this country, especially at a time of budget cuts.

The review will explore how remaining skills gaps, in particular in specialist areas, can be dealt with. Finally, we will examine how international partnerships and co-operation can strengthen sovereign industrial and military capabilities.

We are determined that we learn the lessons of the past, including our own mistakes in Government, and make important recommendations to improve things in the future.

Defence procurement should be seen as an opportunity to strengthen our economy whilst at the same time, most importantly, better serving those who give such amazing service for the safety and security of our country.