

# May's EU Deal Risk to UK Shipyards and Defence Industry – Major-General Tim Cross

*UK shipyards, steelyards and specialist defence industry would be better off if the Government were to leave an EU directive which effectively sends UK defence work to the cheapest bidder abroad. Major-General Tim Cross says the Government must therefore scrap its current proposal to stay in this damaging directive after Brexit. This article was originally published on the Veterans for Britain website, where the full report on which this article is based can also be downloaded.*

When the World Trade Organisation approved the UK's future membership of the Government Procurement Agreement (GPA), it was barely noticed in Westminster. Yet this piece of good news has significant repercussions for UK defence industry, particularly those involved in competitions for contracts such as the one for the Royal Navy's supply vessels, the Fleet Solid Support (FSS) ships.

GPA's requirement for international tender for government contracts permits a general exemption for defence. This means that Government can choose to retain defence contracts in the UK's strategic defence industry if it so chooses. Our allies from the US to Japan and New Zealand all use this facility to the full.

By contrast, the EU Defence Procurement Directive imposes cross-border tendering and provides a tiny exemption for only the most sensitive defence contracts in which provable risks to national security can't be mitigated by EU protocols, an exemption very often misunderstood and misapplied

in Westminster. Stepping out of the EU directive and into GPA would also mean that contracts awards may be awarded with an eye on the retention of jobs, skills and the creation of local economic benefit – none of which are allowable under EU rules.

As the UK Government is the biggest defence purchaser in Europe, this right to exclusivity in defence contracts would be a significant win for UK industry, which needs overall reassurance that it will not be endangered in the future by the Government signing up to the long-term obligations in the EU's damaging defence procurement directive; removing exclusivity rights for UK companies in UK defence contracts would be a significant blow.

For example, under GPA, the FSS ship contract could be done as a UK-only process, using not only British shipyards and suppliers, but British steel too. Welcome news for the remaining British steelworks – a crucial message for shipyards such as those at Appledore and Liverpool.

In a recent report on this subject I and others called on the Government to scrap its proposal to tie the UK to the EU's new 'defence architecture' – including defence policy and central budgets – of which the directive is one of the requirements of attachments. Being a part of the EU directive after leaving the EU stands in real danger of costing the UK innumerable jobs and essential expertise. Such UK attachment in defence might well be seen as a sweetener to the rest of the exit deal, but putting control of defence policy and defence industrial policy on the negotiating table without grasping the consequences is dangerous.

The following points outline the scale of the problem, but also provide a way forward for Parliament and those involved in the policy process in Westminster who need a comprehensive understanding of the risk to UK industry from continued attachment to the EU Defence Procurement Directive if we are to ensure we leave it in full.

1. EU Defence integration is accelerating during the process of Brexit. The Government's current withdrawal proposals actually cement UK involvement, despite consent having been provided on the basis that the UK was leaving.
2. NATO now faces a threat of the EU developing a fully separate military identity and doctrine – a dangerous ambition with far less effective resources.
3. Defence procurement integration is closely and directly associated to the generation of Common EU Defence policy, structures and budgets. A real danger exists that the MoD is signing up to technical and industrial cooperation without fully appreciating the long-term ambitions, direction of travel, and consequences; a mistake the MoD and the FCO have made numerous times since 1998.
4. The paper focuses on procurement within this wider context. It demonstrates that there is a risk that the MoD gradually affiliates to a Single Market in Defence by the back door, which carries considerable political, economic and even social baggage.
5. Core to the process of EU Permanent Structured Cooperation (PESCO) is a central strategic role for the European Defence Agency. This expands on its original role as a procurement hub, but which has already been widening over the last few years.
6. The UK should aim to have a minimalist structural level of engagement with EU Defence after Brexit. This should include observers in the European Defence Agency to identify cooperative work of some mutual interest – which can then be better pursued multilaterally.
7. Helpfully, Item 18 of Annex II of the Council of Ministers agreement establishing PESCO names the multinational non-EU body OCCAR as “the preferred collaborative programme managing organization.” This direction needs to be locked in.
8. The UK should apply the British Army's Principles of

Logistics – Foresight, Economy, Simplicity, Co-operation and Flexibility. These reveal that UK engagement with future European procurement programmes must be entered into on a case-by-case basis; and we must not find ourselves tied into recent developments by default, wishful thinking or ignorance of what is happening.

9. The UK's position and options would be enhanced by leaving the EU Defence Procurement Directive and stepping into World Trade rules which offer a broad defence exemption under government procurement rules.
10. EU Defence Procurement is currently a potential weak point in UK Brexit planning. But it is readily redeemable.

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