By Jeffrey Sterling and Nick Butler

Over the next three weeks the coalition Government will make the most significant set of decisions on UK industrial policy which have faced any administration in the last four decades. Important enough in terms of Britain's strategic position in the world, the decisions on the defence budget to be announced by the Chancellor could also crucially shape the future of much of our remaining industrial and engineering base.
Attention, both within Whitehall and in the media has inevitably focused on the possible reductions in troop numbers, on the number of carriers and jet fighters we need, on the role of the Royal Air Force, and on the future of the UK's independent nuclear deterrent.

All are serious issues but equally important, and so far barely discussed at the meetings of the National Security Council which will advise the Prime Minister on defence issues, are the questions concerning the industrial capacity which must underpin any defence strategy.
No one can deny the serious economic circumstances facing the Government or the budget problems facing the Ministry of Defence in particular. The bow wave of commitments repeatedly "pushed to the right" - a piece of civil service jargon reflecting the tendency to extend the timescale of individual projects in order to spread the cost into future years - has been well documented. So too has the "bias to optimism" which has produced a persistent and repeated underestimation of costs.

Both are real and serious problems. As the Defence Secretary has said the MoD's finances are in a mess and must be sorted out. But Britain's future defence capability cannot be made the victim of punishment for past mistakes. Defence cannot be treated as just another Government department while soldiers are fighting and dying for their country in Afghanistan. Five years ago the UK devoted some 4.5 per cent of its GDP to defence. To reduce that proportion to only 1.6 per cent – which would be the effect of the proposals currently under consideration - would not only breach our commitment to NATO which has set a two per cent guideline but would also ignore the reality of the risks we face. Balancing the budget is important but so too is Britain's ability to defend itself and our strategic international interests in a dark and threatening world.

The definition of those interests and the scale of resources applied to their protection are matters for high political decision. But defence is not an abstract concept. The details of each assertion of defence policy depend on the underlying ability to deliver what is promised. In 2005 the Defence Industrial Review identified the key areas where Britain needed to protect and develop engineering and technical strengths to meet specific defence needs. The report was clear. While some equipment can be bought on the open, international, market other elements absolutely require indigenous industrial capability. The integration of complex information in the cockpits of planes , the management of information gathered from multiple sources which make up the most advanced Command and Control systems and cryptography – the protection of vital information – are not skills which can be outsourced even to suppliers located in countries with whom we are close allies.

At the heart of defence policy is the national interest and to protect that interest in extreme circumstances we need companies which can develop, manufacture, supply and then service each of key leading edge technologies. We need to retain the skills and experience of the individuals and teams spread across large and small businesses whose brain power has given Britain not just security but a source of real competitive advantage.

In many of areas UK companies hold world leading positions. Although some technology cannot easily be traded, much can – to the benefit of the balance of payments and to employment across the UK. Such trade can also bring direct benefits to our own defence. There are huge spin off benefits from a sector which now represents Britain's largest remaining investment in advanced manufacturing and high level engineering skills.

A prime example is in homeland security where the world leading technology developed in this country which tracks the movements and activities of individuals and groups through advanced data management technology helps protects both against terrorism and against organised crime. Much of that technology can be sold abroad and such sales can extend the security of people in this country by making other countries such as India and Pakistan safer against threats which respect no national frontier.

The analysis behind the 2005 Defence Industrial Review was extended and updated by work undertaken by the Ministry of Defence, the Department for Business and the Home Office before the General Election. That work, commissioned and led from No 10 by one of the authors, identified the crucial links between defence policy and industrial capability. That report also identified the extent and quality of the supply chains which underpin the strengths which exist today. Regrettably that report remains unpublished.

That report should be on the table for the National Security Council, the Chancellor and the Prime Minister as they take the crucial decisions on defence policy over the next few weeks.

Traditionally and beneficially major decisions on defence in the UK have been taken on a bipartisan basis. Both the Prime Ministers we have worked for, from their very different political perspectives, believed that defence was too important to be left to the bickering and pointscoring of party politics. That was the spirit in which the last Government launched the current Strategic Defence Review. The terms of reference were discussed on a cross party basis. The timetable for the review was deliberately set to run beyond the General Election and in order to ensure that the conclusions as far as possible could be reached without reference to short term political advantage.

The serious risk now is that hasty decisions driven solely by budget considerations will destroy that bipartisan approach and will pre-empt the serious work which needs to be done in analysing the threats and risks to our national interest. We need a defence strategy which is not only resilient in the face of a fluid and volatile set of risks but also and crucially a strategy which is matched at the industrial level by an absolute commitment to maintain the means of delivery.

Once destroyed by random budget cuts that capability cannot be recreated. To cut without thought for the consequences would be to imperil the security of the nation which is the first, and preeminent responsibility of any Government.

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This is an extended version of a letter published in the Financial Times yesterday.