

By Nick Watts, Defence Correspondent, Great North News Services

The government's SDSR has set the framework for the next phase, a Green paper on the future of the defence sector in the UK. A White paper will follow in the spring. The CSR gives the context of a defence budgetary framework for the next 5 years to 2014-15. This is estimated to be a real terms cut of 8%. Beyond the headlines though, the key question for industry is: so what and what next? What does this mean for the relationship between MoD and Industry?

Industry must take a "glass half full" approach if it is to successfully weather the current state of affairs. The MoD and government are determined to ensure that a UK based defence industry continues to be viable. Not only to supply our armed forces with good kit but also so that it can continue to earn export orders. So its going to take two to tango

This process is going to have to negotiate a relationship between government and the defence sector which is beset with contradictions. The UK's defence sector competes in a globalized market. The UK is an open market for defence contractors, which stimulates competition. The defence sector needs both a predictable stream of income to sustain its operations, as well as markets into which it can sell its products. The taxpayer wants value for money and the services need good equipment.

This poses two dilemmas for government. Firstly the diminishing number of "British" defence contractors means that foreign contractors must be included in the competitive process, when acquisitions are being considered. Secondly if the US becomes the largest market for British industries, how will this affect their relationship with the MoD, when their largest customer is the DoD? Implicit in this is the extent to which competition can drive value for money and efficiency where cutting edge technology is concerned.

The government's approach is likely to reflect the need to preserve Operational Sovereignty in the UK. The last government's Defence Technology Strategy of 2006 drew attention to the need for this. It represents the technologies the UK must retain. This means paying attention to the way MoD defines its requirements, and enabling industry to undertake work which will retain skills and develop new technology. This will not be easy in straitened financial circumstances. Both sides are going to have to invest more into their relationship.

Expenditure on R & T will be key. The additional funds on cyber capability and ISTAR mentioned in the SDSR stood along side the immediate deletion of the Nimrod MRA4 and possibly the Sentinel programme, once operations in Afghanistan are concluded. The sale of the defence stake in the telecommunications spectrum may save money in the short term, but could pose questions about secure communications in the longer term. The SDSR also mentioned that MoD would retain "essential" R&T development. It must be hoped that government will listen to industry and academia when considering just what "essential" is.

The new government has undertaken to "sort out" defence. With Lord Levene's Defence Reform Unit now looking at the running of the MoD itself, and a reform of DE & S expected to be one of the outcomes, defence contractors are going to have to shout just that little bit harder to get a hearing. The key will have to be more strategic partnerships, along the lines begun by the last government's DIS. This may be the only way to reconcile the dilemma both sides face.

Before making any submissions to government as part of the Green paper consultation defence contractors, both prime contractors and those in the supply chain, would do well to read two key documents: the Haddon Cave report into the 2006 fatal Nimrod crash and the Gray report on defence procurement reform, both published in October 2009. A key message from Haddon Cave concerns certification and the complicated relationship between integrators and systems manufacturers. For example if industry is going to pursue the path of greater collaboration or up-grading with COTS applications in future, this will need careful study.

Gray dealt with the dysfunctional relationship which had evolved between MoD at the centre and DE&S, and relations with contractors. The report also drew attention to a need for greater project management skill and commercial negotiating capacity in DE&S. This will feed into the wider relationship between the MoD and industry. In the SDSR the government referred to non frontline savings of £4.3bn over the current CSR / SDSR period. This includes revisiting its supply contracts.

This could be good or bad news depending on where exactly you are in the supply chain. The lower down you are the more squeezed you are likely to be. The government has also indicated that it wants to do what it can to help SMEs, who are likely to be the ones squeezed most. Both MoD and BIS need to recognize the need for small scale agile businesses that can contribute to defence to survive. At the top end prime contractors are likely to see key programmes stopped if they are going off track, like the Nimrod MRA4.

The export environment is also going to be challenging, as the US, China, Russia and France will all be out banging their respective drums in the bazaars. In Opposition Liam Fox made much of the "Fox Five" that he would be looking for from the defence industry. Along with such attributes as capability, affordability, inter-operability and adaptability is exportability. The SDSR refers to increased collaboration with countries such as the US and France, both of whom are keen competitors world-wide. How all of this works in practice will define the future of the sector.

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