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Time to switch on to 'offset'

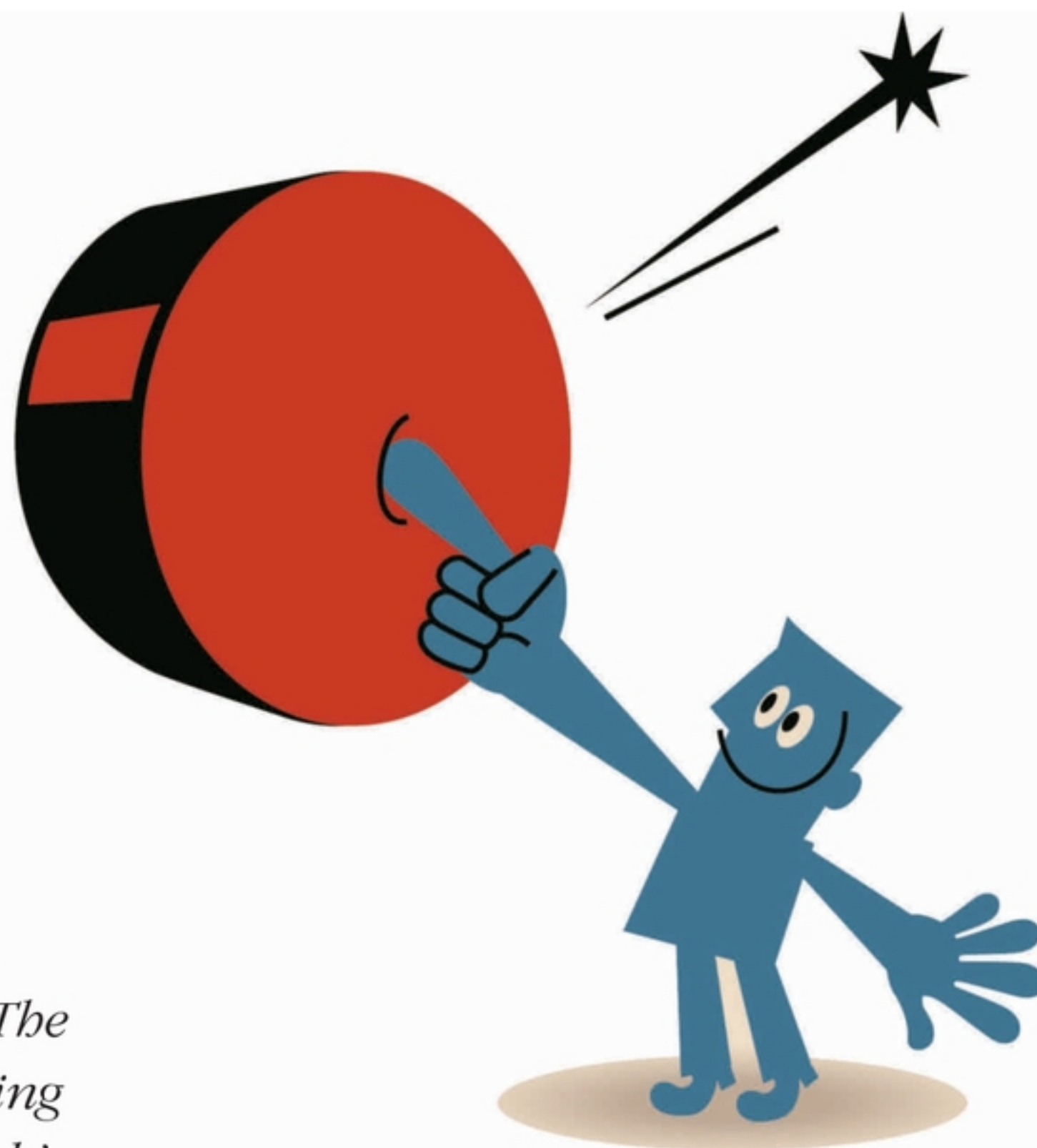


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*Industry is keen to work with the UK Government on new industrial participation policies that will benefit the domestic aerospace and defence sectors. The challenge, as **Chuck Grieve** reports, is finding the right balance between 'carrot and stick'.*

The world has changed since the UK mothballed its successful industrial participation policy a decade ago to conform to the controversial 2009 EU Defence and Security Procurement Directive, which was meant to put a stop to the practice.

Now, free of EU constraints but confronted with post-Covid realities, can the UK pick up where it left off with a new offshore procurement policy that secures inward investment and creates export sales opportunities?

Industry thinks it can, and is working with the UK Government to try to lay the foundations for a sustainable, coordinated policy of industrial participation/cooperation (IP/IC) – the preferred terminology now for offset – that brings broad socio-economic benefits to the wider economy.

Members of the British Industrial Participation and Offset group (BIPOG), an ADS special interest group bringing together government and industry representatives, are looking to engage with the MoD to flesh out proposals for meeting challenges and grasping opportunities in this important area of business.

In a letter setting out members' concerns, BIPOG said it is "important that we develop a more formalised approach" to the complex and often contentious issues of offset.

Visibility is a key consideration for a 'whole-of-UK' approach to both inward investment and export industrial participation policy. Andy Johnston, ADS defence policy advisor, says this amounts to understanding and cataloguing current obligations on UK exporters. "At the moment, industry doesn't get a sense of the real overall value of the work that is being done with other nations," he said. "If we had this, we'd be in a much better position to offer a joined-up, coherent UK export offering."

He noted there has been "good coordination" between the MoD, the Department for Business, Energy and Industrial Strategy (BEIS) and the Department for International Trade



PICTURE: ADS

"At the moment, industry doesn't get a sense of the real overall value of the work that is being done with other nations."
ANDY JOHNSTON

(DIT), especially the defence and security exports team.

A UK-wide approach, supported by a close relationship between industry and government, would encourage a long-term view across departments, accepting that some might not see immediate benefits and any return to the Exchequer could take 10-15 years to materialise.

"Companies that invest in the UK will know of that," Johnston said, adding: "They will have institutional expertise and experience that the government could make use of."

"It's about creating a balance between taxpayer value and working with the commercial realities of operating in these industries that we'd welcome in government. Civil servants have different metrics of performance. Industry can share real-world experience of how [industrial] participation works."

Professor Ron Matthews, chair of defence economics at Cranfield University, says offset programmes are becoming a developing country phenomenon. "When I look across the world, I can only think of Canada, among advanced countries, that has a formal offset policy – not that it doesn't exist elsewhere."

Most practitioners, he said, consider the US 'Buy America' policy is "effectively offset". For example, a condition of

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Britain's sale of the British Aerospace Harrier II to the US was that it be built in the US. It became the McDonnell Douglas (now Boeing) AV-8B Harrier II. The same happened with the BAE Systems Hawk, which was licenced for production in the US, where it became the McDonnell Douglas (now Boeing) T-45 Goshawk.

The overall sense was that the UK defence procurement policy, which sought up to 100% industrial participation, was working well when it was abandoned in 2011. However, there appears to be no appetite within the MoD at the moment for rigorous, prescriptive offset legislation – even light-touch.

"The hot debate now on linkage," said Matthews, "is not just between defence exports from the UK, but offset work coming into the UK linked to our imports of overseas military equipment – something that can produce spin-offs into the civil sector."

He believes it could lead to "the re-launch, and re-invigoration of UK's own offset policy – whatever it might look like".

Cambridge-based Marshall Aerospace and Defence derives almost half its revenue from export sales. Its senior manager offset, Stig Asak, said there's a



"growing trend" internationally toward more specialised and complex offset requirements.

"Our focus is, therefore, to engage in mutually beneficial opportunities where we can create cost-effective value and use offset as a positive tool to enhance our position in those countries and regions that align with our strategic growth ambitions."

Stephen Lewis, partner in the specialist corporate advisory and support firm, Constructive Edge, said IC is part of the market dynamic – simply put, it is a buyer leveraging its power over the supplier in an oligopsony market.

It's easy to see the socio-economic

Made in the USA: Under the 'Buy American' policy, British-designed Harrier IIs sold to the US had to be built in the USA.

PICTURE: US NAVY VIA WIKI COMMONS.

Upping things down under: Interest in the Australian market has grown since the Australians selected the BAE Systems Type 26 for its Hunter-class frigate programme.

PICTURE: BAE SYSTEMS

advantages for a country with a well-structured, well-planned policy. IC means that buying foreign equipment and services "is not just about price" but a long-term capability transfer.

"You can craft IC into anything the country wishes," said Lewis. "If you can remove the politics and allow foreign suppliers to use their industry strengths to provide long-term industry capabilities, the UK can generate all sorts of impact."

"After 20 years of seeing the benefits globally, I am excited to see this working in the UK."

"Countries realise that, by spending a bit more, they get factories, technology, education and training, etc. This is where the UK has suddenly realised it's lost out over the last decade."

Lewis said an industrial participation policy is to the UK's advantage; foreign companies would need to demonstrate a solid UK vertical and lateral industry engagement. It is a matter for government to engage with experienced practitioners.

Offset authority Dr Kogila Balakrishnan, director of client and business development for the Warwick Manufacturing Group (WMG) at the University of Warwick, said she expects to see a rise in protectionist policies in the post-Covid world.

"Covid has exposed huge vulnerabilities and inequalities," she said. "The destruction of supply chains and shortages of resources will see nations waking up to the need to be self-reliant."

"It's bad news in some ways. We want open free trade, but the pandemic has caused so much destruction in countries' economies."

In this context, government policies and tools, such as industrial participation, will become increasingly important. A deal to buy aircraft, for example, would carry provisos to create jobs, train people and build components in-country, and possibly undertake joint research and development (R&D).



ADS export webinars put focus on niche markets

Export-focused webinars are providing a new and welcome channel for ADS members of all sizes, especially in the current, challenging business environment.

The 'season' of virtual events organised by ADS, in conjunction with UK Defence and Security Exports (UKDSE) and various British embassies, is designed to raise awareness of opportunities in the likes of the US, Latin American and Australia, among others.

They provide a window to relatively 'obscure' markets, as well as potentially large ones, such as Australia, which has seen a "huge uplift in interest" since BAE Systems won the Hunter-class frigate programme with its Type 26 design.

Brinley Salzmann, director – overseas and export for ADS, said the approach builds on the successful monthly webinars conducted in 2017 to highlight niche US markets.

"It's an opportunity to promote British awareness for

basically no cost," said Salzmann. "All you need is an idle hour or two and a web connection to dial in."

Webinars are also showing promise as a means of facilitating networking between SMEs in different markets; this has been a challenge when trade shows were their main mechanism.

As for less obvious markets, Salzmann said the British embassy in Mexico City experienced "a wave of enquiries" after an ADS-hosted virtual seminar on Mexico attracted nearly 120 people. Events for Brazil, Argentina, Peru and Colombia had a similar impact.

"Small markets are often overlooked but still have potential, especially for SMEs," he said. "Many are not in the market for big-ticket items, but are interested in SME specialisations; the private sector in countries such as Panama, for example, is interested in UK-developed cyber security capabilities."