By Nick Watts

The government's proposed Defence Industrial Technology Policy (DITP) will be published in December. Or rather, it will be the basis for a discussion between industry and government. Both sides have much at stake, so the outcome is important. Getting the right answers means asking the right questions. The government and the MOD each need to ask three questions when formulating the DITP:

How can the UK secure the necessary operational sovereignty to guarantee the provision of key strategic capability into the future?How best can the government partner with industry to ensure the continuation of a viable defence sector in the UK?How can the government help the UK's defence sector to explore and exploit opportunities in the export market?

For its part Industry also needs to collectively consider three questions, as it engages with the government and MOD:

How will industry adjust to the stated aim of MOD to reduce the number of operating platforms: how will this enable the UK to retain a viable defence industry? To what extent can exports help pull through programmes for the UK market?How can industry help MOD reform its acquisition process, to ensure that programmes get developed quickly and that equipment is delivered on time and on budget?

The DITP will be a Green Paper, a discussion document. This is intended to guide the subsequent discussions so that a White Paper can result. The White Paper will represent the government's settled view on the future of the MOD's industrial and technology policy for the life of this parliament, and at least until the next SDR in 2015. In the context of the SDSR and the CSR, there is much gloomy talk in the air. Yet both sides of this discussion have a mutual interest in ensuring that the other survives to fight another day.

The context, while not promising could be a lot worse. After the fall of communism the subsequent peace dividend took its toll on both the armed forces of the west and the defence industry. The notorious "Last supper" of 1993 encapsulated this. US Defence Secretary Aspin told the leaders of the 15 largest US defence contractors that the DOD was not going to solve industry's over capacity problem. The result was a wave of consolidation which has produced stronger contractors now. In Europe and the UK a similar series of consolidations took place.

The world in 2010 is far different from 1990, when policy makers were trying to get their heads around what the changes of 1989 meant. The SDSR set the context within which the industrial and technology questions need to be considered. The arithmetic of the CSR is another factor affecting the DITP. The contemporary setting does not allow the laissez faire approach adopted by Les Aspin in 1993, however much the government may wish.

The changes wrought by the wave of mergers in the 1990s and parallel developments in technology provide a more challenging landscape for MOD and for the UK's defence sector. There are fewer players today. In opposition William Hague in his IISS speech of 21st July 2009, expressed a wish that there should be no "strategic shrinkage" in the UK's world role as a result of the SDSR. This was echoed at the Prime Minister's recent Mansion House speech on 15th November. The coalition's stated aim is to be a useful partner to the US and our other allies. To do this the UK must bring some niche capabilities to the party, not just boots on the ground.

The financial settlement in the CSR provides both the MOD and the UK's defence sector with a headache if they are to resolve this dilemma. Real terms spending on defence will be cut by 8% over the period of the current spending round (2010 – 15). Front line capability has had to be deleted because of an overheated equipment programme, among other factors. An already low level of spending on defence funded R & T investment will be cut by 4% according to Peter Luff, speaking at Chatham House on 23rd November.

The answers to the above questions are not straight forward. Relations between the MOD and industry have had their ups and downs in recent history, but it must be hoped that the present circumstances will concentrate both sets of minds. The government must recognize that defence is a very particular sector and not like the car industry or any other industry. Buying off the shelf does not always guarantee best value for money, when allies are also industrial competitors.

Industry for its part must recognize that the MOD may not be able to fully fund every research and development project; problematic when some technologies require long term investment. Strategic partnerships or Terms of Business Arrangements, which in effect guarantee on-going work for key sectors, can result in the sort of imbroglio highlighted by the recent CVF decision. This latter example speaks of a need for a much better dialogue between both parties, to achieve the best outcome. Contractors should not be lead to believe that they are too big to fail, however.

Globalisation provides a further complication. Many British contractors have invested in overseas markets to the extent that the MOD is no longer their largest customer. When foreign governments invest in R & D facilities for a "British" company, they expect the subsequent production to be based in their country, as well as the Intellectual Property Rights. An example - if the MOD wishes to sell the now redundant Harrier GR9s, it must bear in mind that a high proportion of their equipment is covered by the US's ITAR regulations on the sale of US equipment. The vexed question of operational and commercial sovereignty will get harder to resolve unless robust agreements are arrived at. The new UK government must stand up for the interests of British defence manufacturers in the global marketplace, something its predecessor failed to do.

Both the Franco-British Treaty signed at the beginning of November and the long overdue ratification by the US Senate of the Defence Trade Co-operation Treaty in July provides some clues on how this matter can be addressed. A collaborative approach to developing critical technologies must be the best route in the long term. Joint marketing efforts have been established through seeking customers for the Eurofighter Typhoon. As Peter Luff put it in his November 23rd speech at Chatham House: "we believe that (defence) science and technology can lead our economic recovery". But exporting will be tough, and customers will be demanding in their terms of trade. The new government must back up the export effort with more defence diplomacy to deepen the defence relationship between the UK and its customers.

If collaboration is going to work, MOD must re-gain its capacity to be an intelligent customer. The Gray report highlighted this. Whilst Lord Drayson's Defence Industrial Strategy of December 2005 and the subsequent Defence Technology Strategy were welcomed, they came after a long policy vacuum. Industry needs predictability if it is going to invest in such things as technology demonstrators. As a result of the CSR the 2011 budget for MOD will be very tight. This seems to reflect the government's approach to MOD which amounts to placing it in Special Measures. Part of this process will involve a thorough overhaul of the equipment acquisition process, something which is included in Lord Levene's work with the Defence Reform Unit (DRU). The DRU has to report its recommendations by July 2011, with an implementation plan due in place by the following September

This timetable is going to be tricky. As well as carrying out the necessary structural reforms, the renewing of DE&S is also going to need the importation of skills identified as being deficient in the Gray report. This means experienced contract negotiators, project managers, cost management accountants etc. This will need delicate handling while overall numbers of personnel are being reduced. DE&S must aspire to become a world class agency. It is in UK plc's interest that this happens quickly, as well as in the interests of service personnel on operations.

In the House of Commons debate on the SDSR on 4th November, Liam Fox summed up how he saw the state of the country's defence by quoting Tony Benn: "the jam we thought was for tomorrow, we've already eaten". In a Financial Times interview on 1st November, Peter Luff described the 2011 public spending round for MOD as needing "eye watering" savings. What prospect does this offer the UK's defence sector? The FT reported on 26th November that service chiefs are asking for a 2% increase in defence funding above inflation after 2015. This may be in an attempt to forestall any "peace dividend" after operations in Afghanistan are due to cease. 2015 will be halfway towards the creation of Future Force 2020. It must be hoped that "events" do not overtake this carefully choreographed process. However it is achieved, by 2020 the UK's defence sector has still got to be dancing.