

The news that Brexit negotiations between the UK Government and the EU have achieved "sufficient progress" to move to phase two means that the real negotiating can begin. This is the future trade relationship between the UK, Europe and the wider world. The future prosperity of the UK will be defined by how matters evolve during the next phase.

Paul Everitt is the Chief Executive of ADS the Trade Association of the Aerospace, Defence, Security and Space industries of the UK. In an exclusive interview he tells the U K Defence Forum's Nick Watts that the sector is of crucial importance to the UK economy, so securing a future under the new post-Brexit dispensation matters. According to ADS, in 2016 the turnover of the combined industries was £72 bn; 363,000 jobs and contributed £ 37 bn in exports. UKTI estimates that in 2016 the defence industry exports amounted to £ 5.9bn; on a rolling 10 year basis the UK is the second largest global defence exporter. The security industry export value amounted to £4.3 bn, moving the UK upwards to 5th place in the rankings.

The UK Government set out in its Future Partnership Paper, of September 2017, how it views its approach to foreign policy, defence and development. It rightly states that: *an important element of our future partnership will be maximising the effectiveness of the UK and the EU in defence and security*

(para 71). It goes on to state:

*as part of this deep and special partnership, the UK wants to explore how best to ensure that UK and European defence and security industries can continue to work together to deliver the capabilities that we need*

(para 75).

Putting this into effect will be the concern of industry. A 2015 study conducted by KPMG of the UK Aerospace, Defence, Security and Space industry's interaction with the EU, commissioned by ADS, reflects the high degree of integration between defence contractors and their supply chains. The advent of Brexit has thrown this into doubt, even if there is a deep reservoir of goodwill. Reflecting this concern Everitt notes: "For the defence and security sector, we need to understand how not being part of the EU impacts on both bilateral relations with European partners and our influence within NATO and other International institutions."

The challenge arises from the tightly integrated supply chain arrangements. "We believe there needs to be a high level of regulatory alignment, maintained through time." Exactly how "regulatory alignment" is finally defined will affect the UK's ability to work easily with European partners. Everitt recommends that the UK government adopts a nuanced approach.

“We need to have a serious debate on some of these issues” unless as an economy we can demonstrate a close alignment to the EU 27 and a commitment to maintain that through time, it's hard to see how we can get a deal which will provide easy access.

Everitt points out that in the civil sector the UK has already stated it wishes to remain part of the European Aviation Safety Agency (EASA), which, will ensure continued market access & participation in the existing regulatory framework. With regard to the specifics of the defence and security sector, however, “there are issues relating to the movement of goods with minimal disruption, as well as the skills challenge and access to large EU programmes.”

Everitt is cautiously confident that the UK's European partners will wish to continue the working arrangements which have existed up until now. “Many EU colleagues will want the UK to be involved; they recognise that the loss of UK involvement would be significant.” The UK has the most open defence market in Europe. There would be concerns on both sides if any protectionism arises. The exit of the UK from the EU could lead to re-shoring within EU, but he notes; “The UK is a large market; companies will wish to be here to exploit it.”

If trade relations are not adequately arranged, Everitt can see the problems: “how do we (UK) develop on-shore capability and IPR enabling us to export effectively?” He notes that European companies with a UK base would have to make adjustments if the UK was excluded from any future large projects. “Would they choose to use their UK facilities? They have operations in other countries, they could access R & D programmes from within them; where does that leave UK facilities and its supply chain?”

Everitt observes that not being part of any bigger European joint procurement would present affordability challenges which will become worse. Participation in these programmes enables the sharing of the aggregate costs with our European colleagues. It would make UK industry less competitive and drive up costs for MOD.

Everitt notes that previously EU did not fund research in the defence and security sector. This is about to change “just as the UK will be exiting: “We need to understand the consequences of the potential loss of opportunities to participate in EU funded R & T programmes which will drive future technology and products, and the impact of Brexit upon the way the industry functions in a new regime.”

Is this an opportunity to block the UK out? Everitt notes that the UK will be a third country, which creates a different dynamic on R & T and defence fund eligibility. "There is a lot of applied stuff within the Preparatory Action, which is a small programme of defence R & T; some 90 M Euros for 2018 & 19. It's a preparation for a larger programme of R & T investment post 2020, some 500 M EUR per annum." Everitt notes this would make the EU the 3<sup>rd</sup> or 4<sup>th</sup> largest investor in Europe. Everitt hopes that a mechanism can be agreed to enable UK industry to participate. If they are excluded, he fears this could erode our competitiveness.

ADS is a member of the European Aerospace and Defence Trade Association, confusingly called ASD. It is a non-EU association, so will enable the UK's industry to be aware of what is going on and to have some input. Everitt feels that as the UK remains one of the largest economies in Europe, other members will be glad to see a continuing participation in its activities, and hopefully in other EU endeavours into the future.

*Nick Watts is Deputy Director General of the U K Defence Forum. The U K Government's paper on Defence and Security will be the subject of a Parliamentary briefing on 13th December.*