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**BAE SYSTEMS**

**M J Turner CBE**  
**Chief Executive Officer**

26<sup>th</sup> July 2007

The Rt Hon Gordon Brown MP  
Prime Minister  
10 Downing Street  
London  
SW1A 2AA

*Dear Prime Minister,*

#### **SUPPORT FOR DEFENCE EXPORTS**

I am writing to express my considerable concern about the announcement released yesterday on the intention to move the responsibility for defence exports out of the Ministry of Defence and into UK Trade and Investment under the Department for Business.

I am very disappointed about the complete lack of consultation with the industry stakeholders. This is quite contrary to the intent set out in the Defence Industrial Strategy document and seems to be out of keeping with your own statements about consultation with the business community. Over a period of months, and through a variety of channels including the National Defence Industries Council, the defence industry has been making clear to the Ministry of Defence that it greatly values the support of DESO and was seeking confirmation that this support would continue. At no stage was any indication given by the MoD or any other government department that a change of this significance was being planned.

DESO provides a world-class capability in terms of government support to this sector. The nature of the defence market, including the customer base of other governments seeking to provide for their national security needs, is such that home government support is an essential ingredient for success. DESO's particular brand of support is one of the reasons why the UK's defence export performance is second only to that of the USA, despite the overwhelming weight of support offered by other governments normally at the very highest levels (eg US, France, Russia). Competitors envy the targeted and coherent export promotion offered by DESO, and the French in particular have been seeking to emulate DESO. I can think of no benefit that 'synergy' with UK T&I can offer that can begin to outweigh the lost excellence of the DESO operation.

Moving the responsibility out of MoD ignores the benefit that arises from the crucial linkage between the industry and the user, in the shape of the hugely respected British Armed Forces. It is completely unclear how this linkage will be consistently maintained under the new arrangements. Moreover, the MoD directly benefits from the success of UK defence industry in the export market. Independent analysis has demonstrated that this is an overall net financial benefit accounting for the costs of DESO and other government activities. More importantly, the Defence Industrial Strategy was clear about the benefits to the MoD from a domestic industry that is able to sustain a very healthy 25% of its output for export, thereby maintaining capability in the UK industrial base for future needs and – crucially at present – in support of current operations.

The UK defence industry is one of the UK's few remaining success stories in terms of a high skilled manufacturing and engineering sector delivering major export success for the nation. Across the defence industrial base, we play a significant role in terms of R&D spend, supporting science, engineering and technology in schools and colleges, providing first class engineering apprentices. With such high social returns, we would have expected the government to continue supporting this sector.

For all these reasons, I and my senior colleagues in the sector are profoundly concerned about this decision and the manner in which it has been reached. I appreciate that at least the announcement signals keeping Government-to-Government arrangements, including the all-important Saudi contracting arrangements, under the MoD.

At the very least, I hope that the government will fully and openly consult with the defence industry how in practice the changes should be implemented to minimise the damage to this successful export sector.

I would appreciate the opportunity to discuss these matters with you when I am in the UK week commencing 6 August.

With best wishes,



**Mike Turner**

Copy to: Secretary of State for Defence  
Secretary of State for Business, Enterprise and Regulatory Reform  
Members of the Defence Industries Council  
Director General of the CBI