



House of Commons  
Trade and Industry Committee

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**UK Aerospace Industry:  
Government Response  
to the Committee's  
Fifteenth Report of  
Session 2004–05**

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**Seventh Special Report of  
Session 2005–06**

*Ordered by The House of Commons  
to be printed 19 July 2005*

## The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

### Current membership

Peter Luff MP (*Conservative, Mid Worcestershire*) (Chairman)  
Roger Berry MP (*Labour, Kingswood*)  
Mr Peter Bone MP (*Conservative, Wellingborough*)  
Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)  
Mrs Claire Curtis-Thomas MP (*Labour, Crosby*)  
Mr Lindsay Hoyle MP (*Labour, Chorley*)  
Miss Julie Kirkbride MP (*Conservative, Bromsgrove*)  
Judy Mallaber MP (*Labour, Amber Valley*)  
Rob Marris MP (*Labour, Wolverhampton South West*)  
Mrs Maria Miller MP (*Conservative, Basingstoke*)  
Anne Moffat MP (*Labour, East Lothian*)  
Sir Robert Smith MP (*Liberal Democrat, West Aberdeenshire and Kincardine*)  
Mr Mike Weir MP (*Scottish National Party, Angus*)  
Mr Anthony Wright MP (*Labour, Great Yarmouth*)

### Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [http://www.parliament.uk/parliamentary\\_committees/trade\\_and\\_industry.cfm](http://www.parliament.uk/parliamentary_committees/trade_and_industry.cfm).

### Committee staff

The current staff of the Committee are Elizabeth Flood (Clerk), Philip Larkin (Committee Specialist), Grahame Allen (Inquiry Manager), Clare Genis (Committee Assistant) and Joanne Larcombe (Secretary).

### Contacts

All correspondence should be addressed to the Clerks of the Trade and Industry Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is [tradeindcom@parliament.uk](mailto:tradeindcom@parliament.uk).

# Seventh Special Report

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The previous Committee published its Fifteenth Report<sup>1</sup> of Session 2004-05 on 5 April 2005. The Government's response to this Report was received on 11 July 2005 and is published as an Appendix to this Special Report.

## Government response

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The Government considers the Committee's report to be a fair and balanced assessment of the competitive issues facing the UK Aerospace industry. The Department of Trade and Industry is committed to working collaboratively with the aerospace industry to realise the vision that "the UK will offer a global Aerospace Industry the world's most innovative and productive location, leading to sustainable growth for all its stakeholders". Primarily this means continuing to support the National Aerospace Technology Strategy.

### Technology transfer

**1. The UK aerospace industry (UKAI) requires Government help to reduce barriers to trade in terms of technology transfer, especially in the US. We recommend that the UK Government should continue to press the US Administration to support increased access to US technology for UKAI companies through an International Traffic in Arms Regulations (ITAR) waiver for UKAI companies. (Paragraph 48)<sup>2</sup>**

The Ministry of Defence lead on this policy issue. Last November, Congress once again deleted the necessary legislative provision for an amendment to the US International Traffic in Arms Regulations. Had the provision been enacted, it would have permitted certain unclassified but controlled items to be exported without a US export licence to any UK companies pre-approved by the US Government for this purpose. The Government continues to attach high importance to close cooperation on defence equipment and technology across the Atlantic, and is therefore continuing to discuss with the US the way in which controls are applied to such transfers.

### Study of emerging competitors

**2. We conclude that the challenge from the emergent competitors, be they lower cost economies or other developing economies, is growing. Subcontracting abroad is increasing as a result of lower cost or more favourable incentives, such as public R&D investment. As far as we can see, there has been no official study into the 'threat' from emerging competitors to the UKAI. Research which has been carried out has tended to focus only on the UKAI's developed competitors. We recommend that the UK Government should undertake a study of these emerging aerospace industries as soon as possible to gauge the future challenge to the UKAI. (Paragraph 53)**

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1 Fifteenth Report from the Trade and Industry Committee, Session 2004-05, *UK Aerospace Industry*, HC 151-I

2 All paragraphs in bold type are quotations from the Committee's Report.

The Government agrees that it is important to gauge the threat of emergent competitors and will, therefore, undertake a study. We will work with industry on this.

### **Repayable launch investment to equipment makers**

**3. We believe that the development of aerospace equipment has become increasingly complex, risky and expensive and in some cases these investments may represent a proportionally larger financial commitment by the companies concerned than investments which are currently supported by repayable launch investment (RLI). We recommend that the DTI adopts a more positive attitude towards applications by equipment makers for RLI, and that it takes into account the size and resources of equipment companies when assessing whether or not projects require RLI to go ahead. (Paragraph 73)**

The Government acknowledges that the nature of aerospace projects has changed in recent years so that equipment manufacturers are being asked to bear an increased proportion of the risk associated with those projects—most often by funding non-recurring development costs themselves.

The Government's policy is that it will consider applications for RLI on their merits on a case-by-case basis. In discussions with the industry, the Department has clarified the position that it is open to all aerospace companies to make applications for RLI. All RLI applications are treated on the same basis regardless of the size and resources of the company. The key judgement to be made in appraising applications for RLI is whether making the investment in question would represent a net economic benefit or a net cost to the UK economy. The Department also has to consider whether the project in question would go ahead without government investment or whether other sources of finance might be available.

Equipment suppliers are correct in stating that they have not been successful in their applications for RLI. This is because they have not been able to present cases to the Department satisfying the economic tests described above.

When considering RLI applications the Government needs to be mindful of the issue of affordability and the implications of the WTO trade dispute between the US and the EU dealing with support for Boeing and Airbus.

### **Study of European subsidies**

**4. We recommend that the Government conducts a study into subsidies which are available to other aerospace industries within the EU. If such a study suggests that the UK's European competitors are giving aid to their aerospace industries which could infringe state aid rules, this should be reported to the European Commission at the earliest opportunity. If other EU members appear uncooperative, the UK Government should ask the European Commission to carry out its own investigation of assistance given to the aerospace industry across the EU. (Paragraph 76)**

The Government agrees that there is value in having a clear view of the assistance available to other European aerospace industries and their application. We will, therefore, review the current schemes.

## Research and development funding

**5. We conclude that Government support for UKAI R&D has fallen over the last few years. The recent re-organisation of DTI funding programmes has opened new opportunities for aerospace R&D funding through the Technology Programmes, such as the Collaborative Research & Development grants and Knowledge Transfer Networks programmes. Aerospace companies are also able to benefit from R&D tax credits. There is, as yet, little evidence as to whether these new funding streams will compensate the UKAI for the loss of the Civil Aircraft Research and Technology Demonstration (CARAD) programme. However, evidence from the distribution of latest round of Technology Programme funding, where the aerospace industry received a quarter of the £60 million, suggests to us that they might. (Paragraph 77)**

It is acknowledged that support for aerospace research and development has fallen in real terms over a twenty-year period, but Government and industry are working together to reverse that trend.

The results of the Technology Programme call launched in October 2004 will become available in June. At the outline proposal stage, about half of aerospace bids were asked to submit full bids compared with the average success rate of less than a third.

All the relevant public bodies are working together under the chairmanship of Lord Sainsbury to bridge the funding gap to realise the National Aerospace Technology Strategy goal of £70 million of funding per year.

## National Aerospace Technology Strategy

**6. We are content that the DTI holds a watching brief over the implementation of the National Aerospace Technology Strategy (NATS) by the Aerospace Technology Steering Group (ATSG) and the co-ordination of funding for the NATS by the National Aerospace Strategy Group (NASG). However, we believe that there is a wider public interest which needs to be addressed. We therefore recommend that a report be made to Parliament annually by the Government on the progress that has been made towards the NATS. This should, as a minimum, include a report on the work of the ATSG and the progress that has been made by the NASG. (Paragraph 100)**

**7. Aerospace is a technology-intensive industry and the benefits from public sector investment in aerospace R&D are not confined solely to the industry itself. This is witnessed by the number of technology spill-overs into the wider economy which has allowed other sectors, such as the UK motor racing industry, to be world beaters. We recommend that the work of the National Aerospace Strategy Group should be prioritised and the public funding requirements of the NATS be granted so that the vision of the Aerospace Innovation and Growth Team, that the UK will continue to be recognised as one of the world's most innovative and productive locations, can be realised. (Paragraph 101)**

The Government agrees that it would be a valuable management tool to have an annual progress report of the National Aerospace Technology Strategy, and we, therefore, propose that the Department will produce an annual report in collaboration with industry for the Secretary of State.

The Government has a mission to promote world-class science and technology, and has substantially increased spending on science. The Technology Programme is a crucial part of the Government's Science and Innovation Investment Framework.

The business-led Technology Strategy Board is responsible for determining the priorities for the Technology Programme and the criteria for project selection. Projects are independently assessed. The National Aerospace Technology Strategy provides the framework for the industry to prioritise its needs and help inform development of the technology strategy and prioritisation of the Technology Programme. The Department is assisting industry to ensure that the quality of the applications for Technology Programme funding stand the best possible chance of success.

The Technology Programme has so far made £250 million available through competitions for funding. The Technology Strategy Board allocated £100 million to the April 2005 competition, with £30 million allocated specifically to the validation of complex systems—a priority for the aerospace sector. In previous competitions a total of £20 million has been awarded to successful aerospace projects. The Government will continue to monitor and support the success of the aerospace industry in securing funds through the Technology Programme.

## **Aerospace Innovation and Growth team**

**8. The work of the Aerospace Innovation and Growth Team (AeIGT) is a prime example of what can be achieved for an industry through the willing collaboration of all its stakeholders. The UKAI is one of the most important sectors of the UK economy and we believe that, through its support for the AeIGT, this has been recognised by the Government. (Paragraph 112)**

**9. With a target date of 2022 for the implementation of the recommendations of the AeIGT's Report on the future of the UKAI, we believe it will be some time before a meaningful assessment of progress towards the vision of the AeIGT can be made with any degree of confidence. However, the progress which has been reported to us suggests that a 'good start' has already been made. We have no doubts that our successors will wish to investigate the competitiveness of the UKAI before 2022. The progress made towards the AeIGT's vision, that by 2022 "the UK will offer a global Aerospace Industry the world's most innovative and productive location, leading to sustainable growth for all its stakeholders", would doubtless be one of the main areas that they would wish to look at. (Paragraph 113)**

The Government is very keen to continue working collaboratively with the aerospace industry. This method of working has reaped significant benefits through sharing a common understanding and approach to the regulatory, business and economic issues confronting the industry. We agree that good progress has been made on implementing

the AeIGT's recommendations, but recognise there is still a lot more to be done. We all need to make a concerted effort to realise the AeIGT's vision.