

DEFENCE SUPPLIERS FORUM

SME FORUM

Record of Meeting – 21 October 2014

Government

Philip Dunne MP – Minister for Defence Equipment, Support and Technology [Chair]
Robin Little – Supplier Relations Team, Def Comrcl
David Morgan – Supplier Relations Team, Def Comrcl
Daniel Harrison – Aerospace Marine and Defence (BIS)
David Lines – Asst Dir Business Support (UKTI DSO)
Lewis Hedge – British Defence Staff in the United States (BDSUS)
Andy Nicholson – DSTL Head of Supplier Engagement & CDE
Jim Pennycook – Head of Operations, CDE DSTL
Andy Sams – Asst Head Industrial Policy
Tom Burden – PS/Min(DEST) MOD
Alyson Rees – Industrial Policy, MOD [Secretary]

Trade Associations

Clive Davenport – Federation of Small Businesses (FSB)
David Townsley – NDI
Paul Everitt – ADS
James Murphy – techUK
Christopher McHugh – SMI/BNEA

Invited SMEs

Bob Pitchford – SMS Electronics (NDI)
Jonathan Cunnison – RJD Technology Ltd (ADS)
Jay Abbott – Advance Security Consulting Ltd (techUK)

Guests

Steve Fitz Gerald – Marshalls Aerospace and Defence Group
Joe Baynes – Marshalls Aerospace and Defence Group
Pete Hughes – 2d3

Apologies

Mike Greatwich – MOD Commercial Director, and SME Champion
Huw Walters – Head of Aerospace Marine and Defence (BIS)
Gordon Morrison – techUK
Ed Bates – Society of Maritime Industries

Welcome and Introductions

1. Min(DEST) welcomed attendees to the third DSF SME Forum of 2014. He summarised key developments since the last SME Forum on 7 July 2014, including the announcement at the Farnborough International Air Show (FIAS) of the Defence Growth Partnership Implementation Plan 'Delivering Growth' and the publication of the third issue of MOD's SME Action Plan which was published on the Government's gov.uk website on 8 October.

2. Minister also remarked about the changing operational tempo of the Armed Forces. 95% of all UK equipment and supplies had left Camp Bastion in Afghanistan; the RAF had flown 37 combat missions against Islamic State targets in Iraq; and 750 members of the Armed Forces were being deployed to Sierra Leone to help combat the outbreak of the Ebola virus.

3. As a result of the Ministerial reshuffle in July Min(DEST) had resumed the MOD Ministerial portfolio in support of defence exports.

4. Min(DEST) also announced to the forum that this would be Robin Little's last appearance at the forum as he retires from the MOD at the end of the month. He thanked Robin for his role supporting the SME agenda and wished him well in the future.

Update: SMEs Obtaining Banking Services

5. Min(DEST) had a constructive session with Anthony Browne and Irene Graham from the British Bankers Association on the withdrawal of banking services from defence related SMEs. He had made clear that British firms that supply our Armed Forces and succeed in winning legitimate export orders should be serviced by UK-based banks.

6. Min(DEST) and the BBA agreed to hold a round table with the five major UK high-street banks in November to emphasise the importance the Government places on this problem, and to ensure that action is taken to prevent a downward spiral. In preparation for this session he asked trade associations to provide additional examples to the Secretary of the meeting, which will be anonymised and shown as evidence to the banks when the Minister meets them.

Action: Trade Associations to provide examples of their members who have had their banking facilities withdrawn or experienced other difficulties because of their association with defence (such as receiving export credit, obtaining funding) to the Secretary of the meeting by close of play 14 November.

Accessing the US Market

7. Lewis Hedge provided a overview of proposals on coupling knowledge of US defence requirements with knowledge of the UK supply base (in particular SMEs) to generate intelligence to assist companies in pursuing export opportunities.

8. The proposal is to establish a mechanism to connect demand and supply intelligence to identify strong UK companies that are well placed to compete in the US market. The aim is not to re-advertise published contract opportunities, but rather to use the intelligence within UK-based organisations including UKTI DSO and trade associations, to inform targeted interventions. Introducing companies at the early stages of the process to US DoD would have an advantage.

9. There was a general consensus in the Forum that this would be a useful avenue to pursue further, but that both BDS(US) and defence trade associations will need to work alongside each other to understand clearly what the US market opportunities are (and whether they are accessible), and the quality of UK suppliers which might want to pursue such proposals. The initiative also played into the emerging results from the Defence Growth Partnership (DGP).

Action: BDSUS to engage with Defence Trade Associations and the DGP to further mature this proposal.

Defence Growth Partnership (DGP) Value-Chain and Competitiveness Group

10. Steve Fitz-Gerald gave an update on the DGP Value Chain Competitiveness (VCC) Team work following the launch of *Delivering Growth* at the Farnborough International Air Show (FIAS). He welcomed the opportunity to brief the SME Forum directly and explained the importance he placed on ensuring the 'whole' value-chain is effectively engaged through the DGP. Steve also thanked Minister for his supportive comments of the value-chain work while at the FIAS.

11. The VCC Team is focused on engaging with the whole value chain not just the traditional Primes, inclusive of small, medium and large enterprises. There are four key pieces of work the VCC team is currently leading:

- a) development of a Dual Use Technology Cluster aimed at bidding for Advanced Manufacturing and Supply Chain Initiative (AMSCI) funding in the last quarter of this year;
- b) developing a "UK PLC" approach to Industrial Participation and Offset, allowing trading between companies of offset debits and credits. This was raised as a concern as countries both inside and outside the EU continued to set significant offset obligations;
- c) developing a Flotilla approach to group companies together to exploit defence opportunities; and
- d) establishing a Value Chain Engagement model to communicate and listen to the value-chain, particularly SMEs, as well as Primes and Mid-Tier companies.

12. Steve Fitz-Gerald said that much of the VCC work would need to reside within the UK Defence Solutions Centre, based in Farnborough, given its requirement to understand the whole of the UK value-chain.

CDE Promoting Innovation and Growth

13. Andy Nicholson (CDE) and Pete Hughes (2D3) provided an update on CDE's work to close the R&D 'valley of death'. While many good ideas at an early Technology Readiness Level (TRL) from SMEs continue to come into the S&T programme and in particular to be funded by CDE, the majority failed to be developed into commercial products because they were still at too early a TRL stage to be picked up by defence system primes to be offered into the DE&S or export marketplace; there is also a lack of business skills in SMEs as well as a lack of finance to mature a technology or product.

14. Over the last year CDE have sought solutions to this issue ranging from closer links to primes and the DGP to leveraging off investment in BIS and venture capitalists. This includes extending S&T investment through CDE follow-on funding and looking for industry to incorporate SME technologies into the development of 'whole' products and services.

15. Some successes have been achieved, and Pete Hughes gave his experience of benefitting from follow on CDE funding to mature 2D3's technology to a higher TRL, thus significantly increasing its chances of being taken up by a prime and in consequence being pulled through into future use by the UK Armed Forces. He said that the second stage of funding had made a significant difference in terms of staff retention and recruitment and had boosted 2D3's share price.

16. Trade Associations welcomed CDE's steps, but the forum recognised that other sources of funding and expertise would be required, given CDE's limited financial and manpower resources. CDE should also continue to work with the DGP and other parties to understand what other potential funding avenues are available.

Action: CDE to continue to engage with Trade Associations, the DGP, OGDs and private sector sources in support of finding finance and business advice to smaller companies attempting to mature their products to a higher TRL level.

Post Meeting Note: Following Minister's suggestion CDE to consider holding another marketplace in early 2015.

Any Other Business

17. The next DSF Main (chaired by SofS along with Min(DEST)) will be on 23 Oct, and Gordon Morison of techUK, with Graham Booth, 2iC, will represent the SME Forum. The first DSF Main of 2015 is planned for 5 March where the Federation of Small Businesses, along with one of their SMEs, will represent the SME Forum.

Date of Next Meeting

18. The next SME Forum is scheduled for 25 February 2015, timing and location to be confirmed.

Alyson Rees

DSF SME Forum Secretariat