Dear Dr. Lewis,

Thank you for your letter of 17 October 2018 regarding concerns raised by Saab following the announcement that the Ministry of Defence (MOD) had entered into discussions with Boeing to potentially procure the E-7 aircraft to meet its pressing Airborne Warning and Control System (AWACS) requirement.

I hope that our discussion on 23 October 2018 has allayed some of your concerns and provided more context behind our decision to proceed with single source discussions with Boeing. I would like to emphasise that a final decision has not been made on the AWACS requirement and further discussions are set to take place before any investment decision.

I can also assure you that we have taken due consideration of other options, including that presented by Airbus and Saab, before taking this decision. This has involved discussions with industry and close allies, as well as conducting market analysis. Our prime driver, of course, is improving our AWACS capability with a solution that meets the pressing needs of our Armed Forces, but which also secures value for money for the taxpayer. Our market analysis has led us to conclude that a competition would not identify options that could satisfy our requirements faster or at better value for money against the pressing need.

In considering the E-7 Wedgetail, there was such a clear distinction over any other options it was felt that running any type of competition would unnecessarily consume MOD and industry resources and valuable time, whilst the gap between UK capability and the evolving threat would be expected to widen.

Turning to the specific solution presented by Saab and Airbus, their proposition was submitted to us in September 2017. This was then followed by a formal presentation to officials at Air Command, High Wycombe, in January 2018. There are fundamental issues with the Airbus/Saab solution that, in our view, make it incompatible with the pressing need and I hope that this letter, together with our briefing, will go some way to clarifying the reasons behind that.

The Rt Hon Dr Julian Lewis MP
Chairman, Defence Select Committee
House of Commons
London
SW1A 0AA

Enclosure(s)
Overall, the Airbus/Saab solution was predicated on use of existing Voyager aircraft, however analysis concluded that the Air Transport and Air to Air refuelling capability that Voyager provides is not compatible with an Airborne Early Warning and Control role. Airbus/Saab proposed making use of the Voyager surge fleet, but this is required to be available at times of tension and we cannot take risk against this by releasing the aircraft to be modified and then conduct a new role. This means that, essentially, new aircraft would have to be procured and modified to meet the AWACS need. Furthermore, changing the finance arrangements of the Voyager PFI as proposed by Airbus and Saab was deemed not in the MOD or taxpayer’s best interest. This inevitably weakens many of the overarching value for money arguments for the Airbus/Saab solution. The MOD has offered to explain to Airbus and Saab some of the issues stemming from flawed assumptions in their white paper, in particular regarding spare capacity within the Voyager fleet.

You also touched upon UK prosperity in our discussions. As the UK Government lead for the Partnering for Prosperity agreement with Boeing, which was made in the margins of the Farnborough Air Show in 2016, I thought it might be useful to set out some of the work that has been undertaken with the company to promote inward investment into the UK and opportunities for the UK supply chain:

- Boeing is making significant capital investments in the UK. At Gatwick, the company is building an £88 million commercial aircraft maintenance facility and is also investing to expand its training campus there, now its biggest outside of the US. Boeing is partnering with the MOD to build a Strategic Facility at RAF Lossiemouth, a maintenance and training hub not just for UK P-8 Poseidon aircraft but also for the use of other nations such as Norway and the US, helping underpin our joint commitment to ensuring that the North Atlantic remains secure from the threat of Russian submarines. Just last week, the Secretary of State for Business, Energy and Industrial Strategy, the Rt. Hon. Greg Clark MP, opened Boeing’s first European manufacturing facility in Sheffield. The factory will produce just under 10,000 components per month for Boeing’s 767 and 737 aircraft fleets (including our P-8 aircraft) employing over 50 skilled workers and more than 20 apprentices.

- Last month, Boeing announced the establishment of an Office of UK Industrial Capability, overseen by a joint UK Government/Boeing Steering Committee, which will drive forward our work on the prosperity agenda by promoting UK suppliers into Boeing and increasing bid opportunities to UK suppliers. To date, this programme has held bid workshops involving 64 UK companies, and three supplier engagement events in the US, involving 104 UK companies. Boeing have reported that this work has already led to increased bidding opportunities for UK companies. It is worth noting that the company reports that its UK supply chain spend has more than doubled over the past five years. On recent MOD orders for AH-64E Apache and P-8 Poseidon, I am delighted that world-class UK suppliers have secured work across these larger global fleets, offering significant high-value and long-term work beyond just the UK order. The potential procurement of Wedgetail will also have dividends for the UK: Boeing will use companies across the breadth and depth of the UK to make the military modifications to the commercial 737 aircraft, creating an estimated 500 direct and 800 indirect jobs as a result of the programme.
I attach more detailed responses to the specific questions that the Committee has raised. However, I would like to reinforce that the analysis undertaken by the MOD explored a range of factors before commencing sole source discussions with Boeing for the potential procurement of the E-7 Wedgetail. As with all such decisions, this was subject to scrutiny within the Department and will be re-tested at the initial investment decision.

I hope that these answers provide some more context behind our decision. I should also like to reiterate that the Government’s default position on Defence procurement remains competition wherever appropriate. In this case, however, the threat has advanced and is forecast to advance to such a degree that decisive and rapid action is required now to protect national security interests. An investment decision will only be taken once the MOD and HM Treasury are satisfied that the price offered by Boeing is fair and reasonable and represents good value for money. The MOD will now follow its stringent approvals process to ensure the aircraft meets the military requirement and represents value for money for the taxpayer.

Yours,

STUART ANDREW MP
DETALLE ANSWERS TO THE SPECIFIC QUESTIONS IN YOUR LETTER
DATED 17 OCTOBER 2018

Why was Saab’s offer of classified technical information relating to the performance of Erieye declined? Without this information how and on what basis was the decision made that Erieye's performance would be inadequate?

In early 2018, technical specialists from the Defence Science and Technology Laboratory (DSTL) and Air Command visited Sweden to receive briefings on Saab's Erieye Extended Range radar. Unfortunately, Saab had not been able to get the appropriate clearances from the Swedish government to provide a classified brief at the time. Instead, the team were provided with an unclassified briefing which informed subsequent decision making. Saab later approached the MOD to say the classified information could be made available through a direct approach to the Swedish Government but, by this time, analysis conducted by the MOD meant that it was felt unnecessary to do this. DSTL had already been able to extrapolate radar performance characteristics, and it was concluded that further detailed radar performance information would not materially change the procurement strategy recommendation.

On what basis was the risk relating to systems integration considered to be unacceptably high, given the track record of Erieye integration across a range of different platforms?

While we recognise that previous versions of Erieye have been integrated onto other platforms, the radar and mission system has never been integrated on an aircraft of the A330’s size, or in the twin radar array configuration as offered. This configuration is thought to be required to overcome wing blanking issues associated with the much larger A330 wings and has not previously been fielded by Saab to the best of our knowledge. There is also the integration of complex communications and other systems that need to be considered beyond the basic radar and mission system.

Furthermore, certification of the whole integration requires significant effort. To have an already-certified platform in-service with one of our close allies, for which a full test and evaluation and certification programme has already been conducted, is a significant risk reduction measure.

On what basis were the risks relating to threat, spiral development and interoperability considered to be unacceptably high?

I have outlined some of the integration risks above, but the MOD primarily has broader concerns in relation to the Airbus/Saab proposal. When considering the offer in isolation, separated from the Voyager solution, we found a series of risks that in combination caused concern.
Firstly, the Erieye Extended Range mission and radar system, the latest evolution of the Saab Erieye radar, has great potential but has yet to be fully developed and proven in any coalition operations of scale. It is also yet to prove its interoperability with our key allies. Only its predecessor system, Erieye, has proven itself and only in a limited role with smaller air forces.

Whilst there are several opportunities for joint working with allies on Voyager, there are no close allies using the proposed Saab and Airbus solution today and, whilst Airbus imply this may change in the future, there are no known expressions of interest by any close ally. In comparison, there is a known close ally (Australia) operating the E-7 today, which offers a range of opportunities for joint working and cooperation to reduce costs through-life, including on spiral development. For example, to have a proven training solution with a close ally to partner with against the full range and scale of operations required of the Royal Air Force is another significant risk reduction measure to support an early initial operating capability.

**Have the other advantages of the Airbus/Erieye offer, such as survivability, availability and airframe continuity been properly considered alongside these matters?**

Yes. As with all defence procurement, we balance schedule, capabilities, risk and cost to determine the best value for money proposition.

On survivability, E-7 offers a marked improvement over the E-3 Sentry with a sophisticated Defensive Aids Suite.

From an availability perspective both the Airbus/Saab proposition and the E-7 are based on modern aircraft and radars offering high availability. The E-7 has been achieving in excess of 95% availability on operations.

In terms of airframe continuity, as explained above, the Airborne Early Warning mission is not compatible or complementary with the current Voyager role. This means we would need to procure additional aircraft. This would not be cost effective: A330s are significantly more expensive to procure and operate than the 737. Whilst the A330 is already in use under the Voyager construct, the 737-based E-7 also offers commonality with the 737-based P-8 Poseidon, the first of which we will take delivery of next year. This offers both support and training synergies.
FURTHER POINTS RAISED BY THE COMMITTEE DURING THE BRIEFING ON 23 OCTOBER AND EVIDENCE SESSION WITH CEO DE&S ON 24 OCTOBER

If we knew that the Airbus/Saab offering didn’t meet our requirements why didn’t we inform them in February?

In early 2018, after considerable analysis, it was recommended to begin discussions on the potential single source acquisition of the mature and operationally proven E-7 Wedgetail. This evidence and recommendation was then subjected to considerable scrutiny and review by the Department's Investment Approvals Committee and subsequently by both MOD and HMT Ministers before we could notify Parliament and the market of our actions.

Why doesn’t the MOD have an offset policy?

The MOD does not currently use offsets in defence procurement as they are not permitted under European Union procurement law. They are restrictive measures which potentially discriminate against procurement from other member states, and impede the free movement of goods and services. I would, however, refer you to the UK prosperity investments that I set out in the main body of this letter that Boeing has made over the last few years working with the UK Government and I would reinforce again that world-class UK suppliers have won work by merit on both the global AH-64E programme and the wider P-8 Poseidon programme that we estimate exceeds in total value, the UK acquisition costs of these aircraft.

How many NATO allies use the Saab radar as opposed to Wedgetail?

No NATO members operate the Erieye Extended Range radar being offered by Saab; however, Greece do operate a previous evolution of the system, Erieye, on a smaller business jet platform.

Furthermore, as I have explained above, there are no close allies using the proposed Airbus and Saab solution today, while our close ally Australia is operating the E-7. This offers a range of opportunities for joint working and cooperation to reduce costs through life. Additionally, Turkey, a full NATO member, currently operates the E-7, which could provide further opportunities.

The Airbus solution includes four Voyager aircraft - did the value for money assessment take account of this?

Any options presented to the MOD Investment Approvals Committee balance schedule, capabilities, risk and cost to determine the best value for money proposition. As outlined earlier in this letter, the Voyager-based proposition has fundamental issues that, in our view, make it incompatible with the pressing need. The Voyager surge fleet is required to meet the Air-to-Air Refuelling and Air Transport requirements in the most demanding defence planning scenarios. The Airborne Early Warning mission is not
compatible or complementary with either role. This means that, essentially, new aircraft would have to be procured and modified to meet the AWACS need.

The Airbus and Saab white paper speculated on the possibility of modifying Voyagers first to meet the AWACS need, then the MOD procuring boom-capable replacements for the surge fleet. There is no endorsed requirement for this additional boom capability over and above the probe and drogue capability already utilised, therefore, against current requirements, this approach is not deemed cost effective. Furthermore, changing the finance arrangements of the Voyager PFI as proposed was deemed not in the MOD or taxpayer's best interest. This inevitably weakens many of the overarching value for money arguments for the solution.