UNITED KINGDOM

Overview

Political stability, low rates of direct taxation, assured intellectual property rights, a flexible labor market, first-class financial markets, and membership in the European Union (EU), make the UK an especially attractive market for U.S. exporters and investors. Market entry for U.S. firms is greatly facilitated by a common language and legal environment, and similar business institutions and practices.

For the last 17 years, the UK Government has pursued policies to reduce the role of the state in the economy, cut public spending, and revive UK industry. Specific measures that have been included: tax reforms; privatization of state-owned industries and utilities; deregulation of financial services, telecommunications and transportation; and labor law reforms. As a result, the UK has experienced a period of sustained, if modest, economic expansion driven by a leaner, more competitive business sector. The UK Government wants to ensure a stable economic environment with low inflation and sound public finances, and to provide an infrastructure able to sustain this positive business development.

Defense Industry Environment

The UK defense budget

The UK defense budget for fiscal year 1996 is just over US $33 billion, of which approximately 42 percent is designated for procurement and R&D. This amount represents about 3.5 percent of GDP, and breaks down as follows (in U.S. dollars): $5.3 billion for the acquisition of air systems, $3.1 billion for sea systems, $2.4 billion for land systems, and $3.1 billion for general support. An additional $900 million is included for total R&D. Over the next two years, a small decline, in real terms, in UK defense expenditures is anticipated, with a relatively consistent proportion being devoted to procurement and R&D. Current planned expenditures for 1997 and 1998 are $34 billion and $35.1 billion, respectively.

Domestic Industry Structure

The defense industry is now largely privatized: the formerly Government-owned Royal Ordinance Factory (ROF) ammunition production business was sold to British Aerospace; the ROF armored fighting vehicle business was sold to Vickers PLC; and the Royal Naval Dockyards at Devonport and Rosyth are being operated by management buy-out teams. The UK defense industry is dominated by three large contractors (British Aerospace, GEC-Marconi, and GKN), as well as by a second tier of smaller, more specialized companies.

Major defense contractors include:

- *British Aerospace PLC* - Military aircraft, artillery and ammunition, simulation and training systems, missiles and space equipment.

- *Cobham PLC* - In-flight aircraft refueling systems, pylon-mounted equipment, helicopter equipment, carrier above and below-deck handling equipment, targets and drones.

- *General Electric Co PLC* - Command, control and communications equipment; radar, sonar and guidance equipment; surface warships and submarines.

- *GKN Defence Ltd* - Light/medium tracked and wheeled armored vehicles.

- *Hunting Engineering Ltd* - Guided and ballistic missiles, payload delivery systems, launchers, decoy systems, warheads, runway/area denial mines, and ordinance disposal equipment.

- *Marshall of Cambridge (Engineering) Ltd* - Maintenance and modification of fixed wing aircraft and helicopters.

- *Racal Electronics PLC* - Radio communications, radar and avionics, mine countermeasures, microwave components and subsystems, security systems.

- *Rolls-Royce PLC* - Ship, aircraft, and tank engines.

- *Short Bros PLC* - Aircraft, armor, and missile systems.

- *Smiths Industries PLC* - Avionics and fuel systems.

- *Vickers PLC* - Main battle tanks, combat engineering, and bridging equipment.

- *Vosper Thornycroft Ltd* - Warship design and construction, naval systems integration.

- *Westland Group PLC (owned by GKN)* - Helicopters, hovercraft, weapon systems integration.

Defense Opportunities

The major areas with opportunities for defense equipment sales are: aircraft and related parts, electronics industry production and test equipment, electronic components, airport and ground support equipment, lasers and electro-optics, and telecommunications equipment. Architectural and construction engineering services and computer software and services present the best prospects for future service-sector business.

Future upgrade opportunities, including service, support, and logistics, will be found in cruise missile systems, parts for fixed-wing aircraft and helicopter maintenance, and aircraft replacement programs and mission systems integration technology for various major equipment procurement programs (as prime contractor or subcontractor). Best prospects for subcontracting are in the electronic systems and telecommunications equipment fields.

Leading defense competitions for new systems and major platforms during the next two years include: ASTOR ground surveillance aircraft, BOWMAN combat radio, tactical reconnaissance armored combat equipment requirement (TRACER), unmanned aerial vehicles, common new generation frigate (CNGF), joint strike fighter, sonar 2087, and the future medium-range air-to-air missile (FMRAAM).

MOD Defense Plan

The MOD's defense plan is based on the "front line first" principle, which proposes to eliminate the unnecessary and maintain the essential. Front line forces are given priority with the intention of maintaining their capability, while cutting costs elsewhere. As a result, rear-echelon supply and support units bear a large share of the budget cuts and stocks of munitions and spares are reduced.

Despite severe budgetary pressures, the UK government does not have a formal policy to protect its core defense industrial base. The MOD's "Best Value for Money" procurement policy has forced UK defense companies to rationalize the industrial base in order to remain competitive internationally. Senior UK MOD officials have, however, indicated that certain sectors of the defense industrial base (aerospace, tanks, shipbuilding and nuclear technology) will not be allowed to perish. Increased emphasis on UK "Industrial Participation" (offsets) in contracts awarded to offshore firms is used to bolster strategic economic sectors and maintain quality jobs.

Defense Procurement Process

The NATO nations have reciprocal procurement Memoranda of Understanding (MOU) that apply to defense equipment. These agreements represent an effort by each government to look at each other’s military equipment first to satisfy their requirements. Of all our military allies, the UK enjoys the closest operational relationship with U.S. forces. As a result, many UK procurements of American, or U.S.-compatible defense equipment, have been made over the years.

UK defense equipment acquisition programs are driven by operational requirements, much like in the United States. The Central Staff (land, sea, air, and joint systems) are responsible for defining these requirements. Once approved for acquisition, the MOD's procurement executive acts as the main executive agent for program competition in the UK. The U.S. Embassy Office of Defense Cooperation (ODC) maintains a close liaison with all of these organizations. Additionally, the MOD's new suppliers services and defense export services organizations are excellent sources of information for U.S. companies interested in learning more about the procedures for getting on the MOD's defense contractors list, the MOD's acquisition organizational structure, and UK industry points of contact for teaming and subcontract possibilities.

Every two weeks, the MOD publishes the "MOD contracts bulletin," which lists military purchasing requirements exceeding 500,000 pounds sterling (approx. US $845,000) or 250,000 pounds sterling (approx. US $422,500) for consultancy and clothing contracts. The bulletin is available from:

Cequel Publishing Ltd.
P.O. Box 1335
Lewes, East Sussex
BN7 3ZF
Fax: 011-44-171-931-8377

Purchasing

The MOD procurement executive is currently being restructured, and is relocating to Abbey Wood near Bristol. The relocation, expected to be complete in 1997, will consolidate the procurement executive, allowing for efficiencies and savings in personnel strength and support costs. MOD requirements are generally purchased in one of three ways: directly through MOD contracts branches (located in London, Bath, Glasgow, Liverpool, Portsmouth and Weymouth), by designated local purchase officers of MOD/service units and establishments in the UK and overseas, or indirectly through subcontracts placed by MOD prime contractors.

To the maximum extent possible, the MOD purchases its requirements through direct contracts. The MOD's acquisition policy employs competitive "firm fixed price" contracting, wherever possible, and the MOD will rarely fund development costs for a program. The majority of its requirements are focused on "off-the-shelf" purchases, often requiring contractor development. The MOD's policy is to amortize this cost over the production run of the system.

In procurements valued in excess of 10 million pounds sterling (US $16.9 million), non-EU bidders are "invited" to bring defense-related work to the UK. This industrial participation requirement has led to U.S.-UK commercial alliances that often benefit both countries. In some programs, U.S. contractors have chosen a UK firm to lead the bidding as a prime contractor in order to overcome any "buy national" competitive advantage which local competitors may possess.

Specific agencies and privatized entities are responsible for purchasing certain types of goods and services. For example, the *Central Computer and Telecommunications Agency (CCTA)* procures administrative, general-purpose and scientific computers and related software packages that will not be incorporated into a weapons system. Interested firms should contact MOD’s industry liaison officer for advice before directly approaching the CCTA.

Diversification/Commercial Opportunities

A commitment to maintain the UKs defense capability in an ever-decreasing budgetary environment has intensified MOD’s search for best value solutions that often incorporate commercial-off-the-shelf (COTS) technology. Although recent collaborative programs and proposals favor European defense cooperation over transatlantic partnerships, there are a number of procurement opportunities for U.S. defense firms in this country.

The UK Government continues to insist that all departments apply its "competing for quality" policy to all services they perform. Competing for quality is the process by which any activity, previously performed in-house, is exposed to competition from the private sector in order to establish the best value for money. For the MOD, this policy has resulted in such traditionally in-house tasks as aircraft maintenance, flight training, and academic instruction being contracted out to the private sector. This policy advocates searching for alternate suppliers and generally allows U.S. bidders to compete for business on an equal basis.

Dual-use and related technology fields

Decreases in defense-related spending have caused British defense contractors to turn, increasingly to civilian products and services, including the production and operation of systems for: aviation, marine and road traffic management; police, fire, and emergency services; weather forecasting; medical technology; industrial imaging; contract research and development; oceanology services; and land remediation. In the aerospace sector, civil aircraft programs have kept much of the UK's airframe manufacturing capacity intact. UK manufacturers will consider U.S. firms as subcontractors in sectors that use technologies such as advanced manufacturing techniques, specialty metals, and composite materials.

Key Non-Defense Ministries

Non-defense ministries and government agencies that have cushioned the impact of defense spending cuts through placing private-sector contracts include the Civil Aviation Authority (CAA), the Home Office, and the Departments of Health, Environment, Trade and Industry, and Transport. In addition, the Treasury and the Department of Social Security have ambitious plans to streamline both the collection of taxes and the payment of benefits, which will probably involve out-sourcing of current in-house activities to companies that are traditional defense industry contractors.

Certain agencies are responsible for defense construction work, including new buildings and extensions, as well as repairs and maintenance:

- *The Buying Agency* - furniture and furnishings, domestic equipment, some mechanical and electrical equipment.

- *HM Stationery Office* - Stationery and office supplies (including office machinery).

Technical specifications are usually included in the request for proposal or bid package. If they are not included, specifications may be obtained from the address given in the tender document.

- *Contracts* - While the MOD does not have an equivalent of the U.S. Federal Acquisition Regulations, there is the "Standard Conditions of Government Contracts for Stores Purchases" (GC/STORES/l). In addition, the MOD has a list of special defence contract conditions (DEFCON). This information is available from the MOD Directorate of Standardization/Stan 1.

Contract Provisions

MOD basic patent/technical data rights contract provisions are also contained within its standard conditions and DEFCON forms. Ownership of intellectual property rights generally resides with the design contractor, while the MOD retains free user rights for its own purposes, including seeking competitive bids for production.

For large contracts of long duration, interim or progress payments may be negotiated. Payments are made against the completion of achievement milestones, with a significant percentage of the price retained until the satisfactory completion of the contract. Contracts include a timetable for the submission of invoices. Invoices are normally paid within 7-10 days of the specified submission date.

The prime contractor is ultimately responsible for the selection of its subcontractors. The MOD does not normally interfere with the relationship between the prime and its subcontractors. However, maximum competition between subcontractors is expected. MOD practice in this area is outlined by DEFCON Guide No. 8, the "Code of Practice for Competitive Subcontracting."

Contract administration is normally managed and performed by the procuring department staffs, which may be assisted, where necessary, by quality assurance , technical and finance personnel.

Pre-award Surveys

The UK usually relies on U.S. official assistance in performing pre-award surveys to assess the technical and financial competency of U.S. suppliers. A bilateral audit agreement between the U.S. and the UK enables each country to accept the other's audit standards.

Classified Information

UK classified program documentation must be handled in accordance with the U.S./UK general security agreement. The U.S. Embassy's ODC can assist U.S. industry in the data transfer process. Facilities must be security approved before classified contracts information may be supplied. Personnel must be approved for access to related classified information in order to attend classified conferences or seminars. The unwritten practice is to require a clearance level one step above that of the related information.

Restrictions on Foreign Competition

Competition is the cornerstone of MOD policy. In accordance with its own open competition policy, the MOD will acquire defense equipment from foreign sources when the advantages of cost, performance, and delivery schedule outweigh the benefits of buying the British alternative. The main exceptions to this policy include the hull and superstructure of warships (not including support systems), nuclear weapons and propulsion systems, toxic and radioactive agents, and cryptographic equipment. There may be additional exemptions for reasons of national security or urgency. There are no exemptions, however, based on a policy of support for the domestic industrial base.

Dispute/Challenge System

Notices to unsuccessful bidders are always sent out; and the extent of the debriefing generally relies on the size and complexity of the project. There are no procedures, however, that require the award of a contract to be deferred if a pre- award protest is lodged by the contractor. The decision by the MOD with respect to contract awards, regardless of any challenge, is usually final and conclusive.

Duty-free Entry Certificates

The department awarding the contract arranges for the duty-free entry of defense goods, notifies Customs and Excise at the port of entry, and provides the contractor or his freight forwarder, with the required documentation.

Doing Business in the U.K.

The UK remains the United States' largest European market and fourth largest worldwide after Canada, Japan and Mexico. In 1995, American exports to the UK reached $28.3 billion, generating a $1.9 billion U.S. trade surplus. The UK market is based on a commitment to the principles of free enterprise and open competition and international trade is vital to its economy. The absence of major trade barriers and the relative ease of doing business ensure that the UK remains an attractive marketplace.

The UK imposes few impediments to foreign ownership and no restrictions to the free flow of capital. Its regulatory environment is pragmatic, featuring a de-regulatory trend consistent with the Government's intention to provide a stable and unfettered commercial environment in which private enterprise can flourish. Within the EU, the government has shown itself to be a strong defender of the rights of any British-registered company, irrespective of the nationality of its ownership.

Trade and Export Controls

There are no major barriers to U.S. contractors in the UK defense sector, aside from those previously mentioned: the attraction toward European-wide defense production consortia, and the existence of various national security exclusions, and industrial participation requirements previously mentioned. U.S. industry officials have pointed to the U.S. defense export licensing process as a critical factor in the successful bidding for, and award of, UK acquisition contracts.

The U.S. Embassy's Commercial Section and the ODC can be of assistance in supporting U.S. contractor applications.

U.S. Government Points of Contact

The U.S. Embassy's Commercial Section and its ODC are both excellent sources of information on the UK defense industry. They provide information on UK industrial capabilities, as well as various advocacy and consultancy services.

U.S. Embassy
24 Grosvenor Square
W1A 1AE London
United Kingdom

Office of Defense Cooperation (ODC)
Tel: 44-171-629-8028

The Commercial Service
Tel: 44-171-408-8019/8046

UK Government Points of Contact

Ministry of Defence

Defence Suppliers Service
Maple 2B #22
Abbey Wood
P.O. Box 702
Bristol BS12 7DU
Tel: 44-1179-132-844

Directorate of Standardization/Stan 1
Room 5138, Kentigern House
65 Brown Street
Glasgow G2 8EX
Tel: 44-141-248-7890, ext 2532

Competing for Quality Team
Room 432, Northumberland House
Northumberland Ave
London WC2N 5BP
Tel: 44-171-218-0221

UK Trade Associations

Association of Electronics,
Telecommunications and
Business Equipment Industries
Russell Square House
10-12 Russell Square
London WCLB 5EE
Mr. Robert F l Cook, Director General
Tel: 44-171-331-2000

Society of British Aerospace Companies
(Organizer of the Farnborough Air Show)
60 Petty France

London SWLH 9EU
Tel: 44-171-227-1000

Electronics Components Industry Federation
Romano House
399-401 The Strand
London WC2R OLT
Dr. J C J Thynne, Director General
Tel: 44-171-497-2311

British Naval Equipment Association
Fourth floor
30 Guildford Street
London SEL OH6
Commander Mark Whelan (RN-RETD),
Director
Tel: 44-171-928-9199

Defence Manufacturer's Association
Marlborough House
Headley Road
Grayshott, Hindhead
Surrey GU26 6lG
Brigadier B J Lowe, Director General
Tel: 44-1428-607788

Defence Industries Council
29 King Street
London SWLY 6RD
Mr. G Woodcock, Assistant Secretary
Tel: 44-171-839-3231