We submit this evidence to the inquiry on *Brexit and the Implications for UK Business*. The content draws on a detailed submission by the same authors to the Public Accounts Committee (PAC), discussed at the PAC witness session on Monday 9th October 2017, which informed illuminating exchanges with senior civil service witnesses to that Committee and was subsequently published by PAC. A number of potentially important implications arise in relation to issues under discussion around Brexit.

This earlier evidence to PAC addressed the otherwise difficult-to-explain intensity of Government commitments to civil nuclear power in the face of growing recognition of the relative competitiveness of alternative UK low carbon energy investments. Multiple grounds were found for inferring that this persistent Government attachment is due, at least in part (and with no public discussion), to perceived needs to engineer a cross-subsidy from electricity consumers to help cover costs of a national nuclear industrial base that is deemed to be essential for maintaining UK military nuclear infrastructures.

The issues that arise are central to the general remit of the BEIS Committee. For instance, this recent evidence to the PAC documents significant statements by the National Audit Office, which suggest that UK military nuclear infrastructures are being bolstered by revenue flows to UK industry strategy in other sectors. Many statements in support of this interpretation are cited from defence policy discussions, acknowledging incentives to “mask” costs of military industrial strategy behind civil energy programmes. As a result, it is evident that Government-negotiated, high-price, guaranteed long-term contracts for civil nuclear power, are channelling revenues ultimately funded by electricity consumers towards a joint civil-military national nuclear industry base, whose full costs probably could not otherwise feasibly be covered by defence budgets alone. Resulting implications for wider industry strategy and energy policy have received effectively zero Parliamentary or other policy scrutiny.

Much other evidence was presented in submission to PAC, concerning this evidently significant-but-hidden influence on civil industry policy by military nuclear considerations. As a result, it seems that undetermined but likely large cross-subsidies are being engineered from UK electricity consumers, in order to cover otherwise insupportable costs of military nuclear industry strategies. In the present evidence we outline key implications for the BEIS Committee inquiry on nuclear implications of Brexit.

As the early part of the process of the BEIS Committee Brexit Inquiry has unfolded, the salience of this civil/military link is being further underscored in statements in which a number of relevant senior civil servants and ministers are confirming that the priority attached to UK military submarine capabilities is deeply entangled in strategic commitments to civil nuclear industry strategy. Several possibly serious implications therefore arise in relation to the particular circumstances of Brexit.

First, there are well-documented general concerns that Brexit-related pressures on the UK industrial base are likely to have a particular impact on large infrastructure projects, specifically including new nuclear build. If these developments unfold, then pressures are likely to intensify around the interlinkages between UK civil and military nuclear infrastructures. With foregone opportunities for industry strategy in other sectors (like offshore wind), the these Brexit-related implications for UK industrial strategy are central issues for the BEIS Committee, which remain unexplored elsewhere.

Second, there are concerns that the economic effects of Brexit may include current and possible continuing future depreciation of Sterling. If these effects transpire as variously predicted, then economic pressures will likely intensify to find ways to cross-subsidise growing military nuclear costs in some fashion that mitigates the impact on public spending. Brexit may thus exacerbate incentives to

The 2008 NAO report on the Trident Programme stated that “[o]ne assumption of the future deterrent programme is that the United Kingdom submarine industry will be sustainable and that the costs of supporting it will not fall directly on the future deterrent programme” (section 5.3 page 7 of 2008 National Audit Office (NAO) report, The United Kingdom’s future nuclear deterrent capability. Available here. This brief remark suggests that without wider costs of military industrial strategy being partly borne elsewhere (eg: in respect of civil nuclear industrial strategy), nuclear submarine infrastructures would be significantly more expensive. See paragraph 3.3 of PAC evidence cited at endnote 1. Under-specified ‘strategic benefits’ are also referred to repeatedly in the 2017 NAO report on Hinkley Point C here.

For instance, a report from the Royal United Services Institute authored by a former BAE Systems executive states: “In comparison to other [defence] capability areas, nuclear submarines suffer criticism because their through-life costs cannot be absorbed or masked by other programmes as can be the case with fast jets or large standing land forces”(page 25 in Ireland, G., 2007. Beyond Artful : Government and Industry Roles in Britain’s Future Submarine Design, Build and Support, London: Royal United Services Institute, available here). See paragraph 3.4 of PAC evidence cited at endnote 1.

See paragraphs 3.5 – 3.19 of the PAC evidence cited at endnote 1.

For instance, Mr Stephen Lovegrove is currently Permanent Secretary at the MoD (the official with overall responsibility for UK nuclear submarine programmes) and was formerly Permanent Secretary at DECC ( a lead figure in UK civil nuclear policy). On Monday 9th October, Lovegrove stated to the PAC that “there is very definitely an opportunity here for the nation to grasp in terms of building up its nuclear skills. I don’t think that’s going to happen by accident. It is going to require concerted Government action to make that happen and we are speaking to colleagues at BEIS fairly regularly about it and have a number of fora in which we’re doing that.” (unofficial transcription by the authors, with their own emphasis, of the witness session of the Public Accounts Committee Inquiry on Hinkley Point C. Exchange viewable on webcast timed between 17:30:40 and 17:32:10, available here).

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References


3 The 2008 NAO report on the Trident Programme stated that “[o]ne assumption of the future deterrent programme is that the United Kingdom submarine industry will be sustainable and that the costs of supporting it will not fall directly on the future deterrent programme” (section 5.3 page 7 of 2008 National Audit Office (NAO) report, The United Kingdom’s future nuclear deterrent capability. Available here. This brief remark suggests that without wider costs of military industrial strategy being partly borne elsewhere (eg: in respect of civil nuclear industrial strategy), nuclear submarine infrastructures would be significantly more expensive. See paragraph 3.3 of PAC evidence cited at endnote 1. Under-specified ‘strategic benefits’ are also referred to repeatedly in the 2017 NAO report on Hinkley Point C here.

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Recent answers to Parliamentary Questions corroborate this. Asked by Caroline Lucas MP on 14th September 2017 about discussions between BEIS and MoD on military pressures to maintain UK civil nuclear industry skills and supply chains, Defence Procurement Minister Harriett Baldwin answered on 10th October: “We engage regularly with counterparts from the Department for Business, Energy and Industrial Strategy (BEIS), other Government Departments and industry, to address the issue of nuclear skills across both the defence and civil nuclear sectors, and will continue to do so. The Ministry of Defence (MOD) and BEIS are represented on the cross-Government Nuclear Skills Strategy Group and Nuclear Industry Council, which provides senior level oversight. The MOD and BEIS co-chaired the UK Nuclear Skills Summit in March 2017, including key industry partners and the nuclear regulator, which discussed next steps for the work already underway across the nuclear skills agenda. In all discussions it is fully understood that civil and defence sectors must work together to make sure resource is prioritised appropriately for the protection and prosperity of the United Kingdom” (Authors’ emphasis).

7 For instance, see: Cooper C. (2016), Brexit campaigners admit ‘there is no plan’ for what comes next as rivals plan Tory leadership bids, The Independent, 26th June 2016 [available here]; Hookham M. & Fortson D. (2016), Heathrow runway and nuclear site left in doubt by EU fallout, The Times, 26th June 2016 [available here].


11 The authors would be pleased to submit further evidence or otherwise assist in whatever mays might be helpful to this or other inquiries undertaken by the BEIS Committee that may bear on these potentially very important issues.