



BRIEFING PAPER

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Fleet Solid Support Ships

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The Government's procurement plans for up to three new support ships for the Royal Fleet Auxiliary are facing opposition from Labour, the SNP and trade unions.

The Government intends to compete the contract internationally. Labour, the SNP and the shipbuilding trade unions argue the contract should be restricted to UK shipyards to support the shipbuilding industry, secure jobs and retain skills. They argue the proposed ships are 'warships' and as such, the Government can use the Article 346 exemption to exclude the contract from EU procurement rules on national security grounds. The Government disagrees, defining warships as 'destroyers, frigates and aircraft carriers', and says all other surface vessels should be subject to open competition.

The programme is currently in the Assessment Phase with the competition expected to be formally launched towards the end of 2018 and a contract signed in 2020. The MOD says the contract will be for two ships with an option for a third. Two of the three Fleet Solid Support Ships (FSS) currently in service will retire in 2023/24.

Box 1: What Are Fleet Solid Support Ships?

The civilian-manned Royal Fleet Auxiliary provides logistical and operational support to the Royal Navy worldwide. The fleet includes Solid Support Ships, which supply ships at sea with food, ammunition and spares (solid cargo). Fuel (liquid cargo) is carried by dedicated tankers. Equipment and personnel are transported on Landing Ships.

The RFA has three Solid Support Ships: RFA Fort Austin, RFA Fort Rosalie and RFA Fort Victoria.¹ RFA Fort Austin is not currently deployed and is "alongside in the Liverpool area"² while RFA Fort Victoria is in refit. Austin and Rosalie were launched in the mid-1970s and in 2011 had their service life extended by a decade to 2023 and 2024 respectively.³ Fort Victoria was launched in 1990.⁴ RFA ships may be armed with an active weapons system for self-defence.⁵ Austin and Rosalie are equipped with the Phalanx close-in weapon to protect the ship from incoming missiles or enemy aircraft and a 20mm close range gun. The new FSS ships are likely to have a similar level of protection.⁶ See more at [Royal Fleet Auxiliary](#).

¹ RFA Fort Victoria is an auxiliary oiler and replenisher, which means it can supply both solid stores and fuel.

² [PQ66509](#), 10 March 2017

³ [HC Deb 11 June 2013 c241W](#); HC Deb 17 July 2006 213W

⁴ PQ HL2636, 22 October 2015. Her sister ship, Fort George, launched in XX was withdrawn early from service as a result of the 2010 Strategic Defence and Security Review ([HC Deb 15 December 2010 c103WS](#))

⁵ [PQ144851](#), 24 May 2018

⁶ [PQ137603](#), 27 April 2018

What is the Government's position?

Government policy is that defence procurement should be subject to open competition except when the UK judges it needs to protect its operational advantages and freedom of action for reasons of national security (see box 2). This was outlined in a [2012 White Paper](#) (Cm8278) and, regarding surface vessels, reaffirmed in the 2017 National Shipbuilding Strategy:

For reasons of national security, all Royal Navy warships (destroyers, frigates and aircraft carriers) will continue to have a UK-owned design, and, will be built and integrated in the UK. Warship build will be via competition between UK shipyards.⁷

The Strategy explicitly says all other naval ships, including Royal Fleet Auxiliary ships and other Navy ships such as patrol, mine countermeasures, hydrographic and amphibious ships, should be subject to open competition, unless there are compelling national security reasons to constrain a particular procurement to national providers. Military customisation – the integration of sensitive UK-specific systems – will be undertaken in the UK, usually after competition between UK providers. The Ministry of Defence rejects arguments (see below) that the Fleet Solid Support (FSS) Ships are warships:

The procurement of the Fleet Solid Support (FSS) ships through international competition reflects the fact that they are Naval Auxiliary Support Ships whose primary role is the replenishment of naval vessels with bulk stores. They are non-combatant ships, manned by civilian Royal Fleet Auxiliary crews and are equipped with weapons solely for self-defence. We are clear that FSS ships are not warships.

We are therefore required by law to procure them through international competition, under our obligations set out in the Defence and Security Public Contracts Regulations 2011 and as outlined in the National Shipbuilding Strategy.⁸

The MOD considers “there is no national security interest which requires the design and construct of the FSS ships to be limited to UK companies” and therefore Article 346 of the TFEU does not apply.⁹ However, military customisation of the ships *will* be limited to UK companies and this will be the subject of a separate competition later in the programme.¹⁰

The MOD adopted a similar approach to the procurement of four new RFA tankers in 2012, when it awarded the contract to a South Korean company, Daewoo Shipbuilding and Marine Engineering (DSME), after an international competition. The Government said at the time there was no need to build them in the UK because “the design, build and integration requirements are not as military specific as complex warship procurements.”¹¹ They will undergo military customisation work in the UK.¹²

⁷ [National Shipbuilding Strategy](#), September 2017, para 92. The Strategy does not discuss submarines but are also built solely in the UK for reasons of national security and are contracted on a ‘single source’ basis with BAE Systems. See also Commons Library paper [‘The National Shipbuilding Strategy: January 2018 update’](#), 9 January 2018, CBP08193

⁸ [PQ152792](#), 19 June 2018

⁹ [Letter dated 29 May 2018 from Guto Bebb MP, Min \(DP\) relating to Procurement of Fleet Solid Support ships, to chair of Defence Committee](#), Defence Committee, 5 June 2018

¹⁰ [PQ152792](#), 19 June 2018

¹¹ [HC Deb](#) 22 February 2012 c78WS

¹² [PQ71204](#), 25 April 2017

Box 2: What is Article 346?

EU law requires most government contracts to be procured via an open, competitive process. The main EU legislation in the defence domain is the [Defence and Security Directive](#) 2009/81/EC, transposed into UK law by [Defence and Security Public Contracts Regulations 2011](#).¹³

However, [Article 346](#) of the Treaty on the Functioning of the European Union (TFEU) provides for an exemption to the procurement rules where a country considers it to be necessary for national security reasons: “any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material”. Article 346 refers to a list drawn up in 1958 by the Council of Ministers of products to which the provisions of the Article apply. This list is [Council Decision 255/58](#) and includes the term “warships of all kinds”.

What are the arguments for a UK-only competition?

Two major unions, GMB and the Confederation of Shipbuilding and Engineering Unions (CSEU), have published reports outlining why they believe the ships should be classified as warships and why they should be competed domestically:

- [Fleet Solid Support Ships: Supporting the Royal Navy, Supporting the United Kingdom](#), CSEU, 15 May 2018 (prepared by Francis Tusa of *Defence Analysis*)
- [Turning the Tide: Rebuilding the UK's defence shipbuilding industry and the Fleet Solid Support Order](#), GMB, 4 April 2018

The Unions' arguments can be summarised as:

- The FSS should be seen as warships. They are armed and take part in counter-piracy and counter-narcotic missions;
- The Government's commitment to revitalising domestic naval shipbuilding (as espoused in the National Shipbuilding Strategy) will only be achievable with a steady stream of orders;
- Building the FSS in the UK will help protect the UK shipbuilding industry, protect jobs and retain skills: GMB estimates up to 6,500 jobs could be created or secured, including 1,805 shipyard jobs;
- Rosyth shipyard will have a gap between the completion of HMS Prince of Wales (the second aircraft carrier) in 2019 and the expected refit of HMS Queen Elizabeth (the first aircraft carrier) in 2030, and FSS work could keep the shipyard operational in between these dates;
- The UK will financially benefit from returns to the Treasury in the form of taxes and national insurance contributions and lower welfare payments: GMB estimates £285m of the estimated £1bn contract could be returned to taxpayers this way; CSEU estimates 20% of the contract cost could be returned to the Treasury;
- The Government should factor in the revenue that could be returned to the Treasury when scoring bids between domestic suppliers and foreign competitors;

¹³ An explanation of the regulatory regime imposed by the Defence and Security Public Contracts Regulations is set out in the Government's analysis of the [defence sector](#), as presented to the Committee on Exiting the European Union, December 2017

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- There isn't a level playing field as, the CSEU argues, "many foreign yards are either state owned, or receive significant direct or indirect subsidy... UK yards do not benefit in this way and are therefore at an unfair disadvantage."

The TUC has also assessed the Article 346 exemption argument. The [TUC](#) argues the Government "has the sole right to determine" what its essential national security interests are. The TUC claims "other European nations have used the exemption to place orders for similar support ships with their own shipyards since the Directive was introduced".

Box 3: Royal Fleet Auxiliary on operations

While their primary purpose is to replenish Royal Navy vessels, the RFA also provides operational support including for counter-piracy and counter-terrorism missions. RFA vessels may embark Royal Marines and/or helicopters and work with allies (e.g. the US Navy in the Caribbean) on these operations. [RFA Fort Victoria](#), for example, was involved in joint US/UK counter-narcotic operation in the Gulf which resulted in the seizure of £40m of heroin in March 2017, while a Sea King helicopter crew on [RFA Fort Rosalie](#) helped guide an Australian Frigate to a suspicious dhow carrying over £100m worth of drugs in the Indian Ocean earlier this year.

Views of Parliament

Jeremy Corby, the leader of the Opposition, endorsed the unions arguments in a [speech](#) in Govan shipyard in May 2018: "we are calling on the Government to guarantee that these three new ships for the Royal Fleet Auxiliary will be built in domestic shipyards."

Kevan Jones, the chair of the APPG on Shipbuilding and Repair, is similarly calling for the ships to be built in the UK. Madeleine Moon has [requested](#) a debate on the FSS with the Leader of the House. Douglas Chapman asked the Prime Minister why the MOD is pursuing an international competition when UK yards "have the skills, talent and infrastructure" to build them.¹⁴

Douglas Chapman sponsored an Early Day Motion calling for the competition to be restricted to the UK only. [EDM 1467](#) states:

That this House regrets the decision by the Government to tender the contract for the Royal Fleet Auxiliary Fleet Solid Support ships internationally; contends that these vessels should be treated as warships given the expectation that they will be armed with Phalanx close-range guns and other weaponry; recognises the practice of other European states such as France, Germany, Italy and Spain where similar auxiliary vessels have been procured internally and, in some cases, not competed internationally; notes that no other nation in the world competes vessels of this size or complexity internationally; welcomes the plethora of economic and social benefits that could be generated from building these ships in the UK, including significant job creation, retention of valuable skills, increased returns to the UK Treasury through tax and National Insurance contributions, potential support of other industries such as the UK steel industry, and much-needed continuation of work for UK shipyards such as Rosyth; acknowledges the evidence from other countries which indicates that for every £1 spent domestically on naval shipbuilding, £1.35 is generated in long-term benefits; and calls on the Government to consider restricting the Fleet Solid Support ships tender to domestic competition only.

Dr Julian Lewis, the Chair of the Defence Committee, asked a number of questions about the procurement process in a [letter](#) to the Defence Secretary on 8 May 2018, including some of the concerns of the Unions. Extracts from the Defence Procurement Minister's [response](#) are included in this briefing note.

¹⁴ [HC Deb 25 April 2018 c876](#)

Members of Parliament have discussed the wider naval shipbuilding industry extensively in Parliament.

What happens next?

- December 2018: formal issue of documentation inviting bids for the design and build contract
- 2020: Contract for design and build to be awarded¹⁵

Snapshot of the shipbuilding industry¹⁶

The following table summarises the economic contribution of the shipbuilding industry in Great Britain.¹⁷

Shipbuilding industry	
Great Britain, 2017	
Employees	32,000
Businesses	950
Economic output	£2.1 billion

Sources: Employees: ONS BRES, 2017

Businesses: ONS Business counts, 2017

Output: ONS, Quarterly National Accounts, Q1 2018

SIC code 30.1; Employee data are for 2016

There were 950 shipbuilding businesses in Great Britain in 2017, with 32,000 employees. The industry generated £2.1 billion of economic output (in terms of Gross Value Added, GVA, which is similar to GDP). All of these figures are less than 0.1% of the national total.

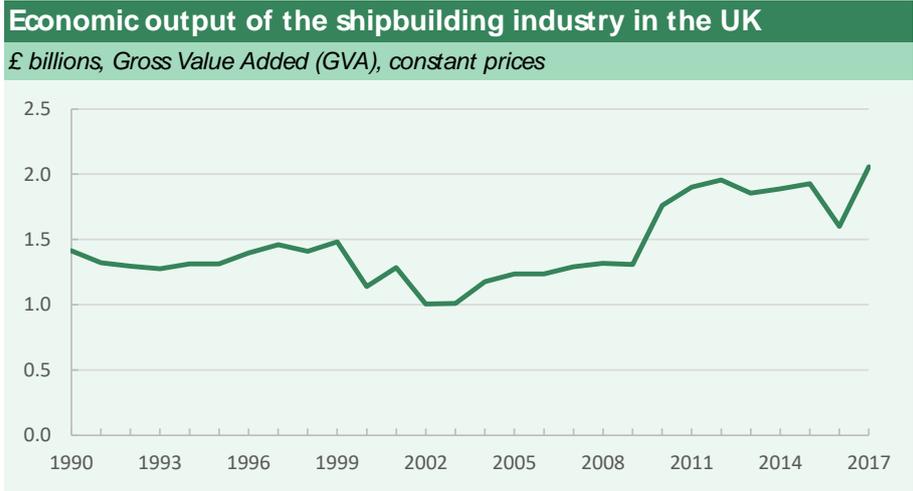
The following chart shows how the economic output of the shipbuilding industry has changed since 1990, in constant (inflation adjusted) prices.¹⁸

¹⁵ [Letter dated 29 May 2018 from Guto Bebb MP, Min \(DP\) relating to Procurement of Fleet Solid Support ships, to chair of Defence Committee](#), Defence Committee, 5 June 2018

¹⁶ Written by Library specialist Chris Rhodes

¹⁷ ONS, *Business register and employment survey (BRES)*, 2017, via [NOMIS database](#); ONS, *Business counts*, 2017, via [NOMIS database](#); ONS, *Quarterly National Accounts, Q1 2018*, June 2018, [Low level aggregates data](#). The shipbuilding industry is defined as Standard Industrial Classification (SIC) [code 30.1](#): the building of ships and boats.

¹⁸ ONS, *Quarterly National Accounts, Q1 2018*, June 2018, [Low level aggregates data](#), series KL6F. Chained Volume Measure (constant prices, adjusted for inflation)

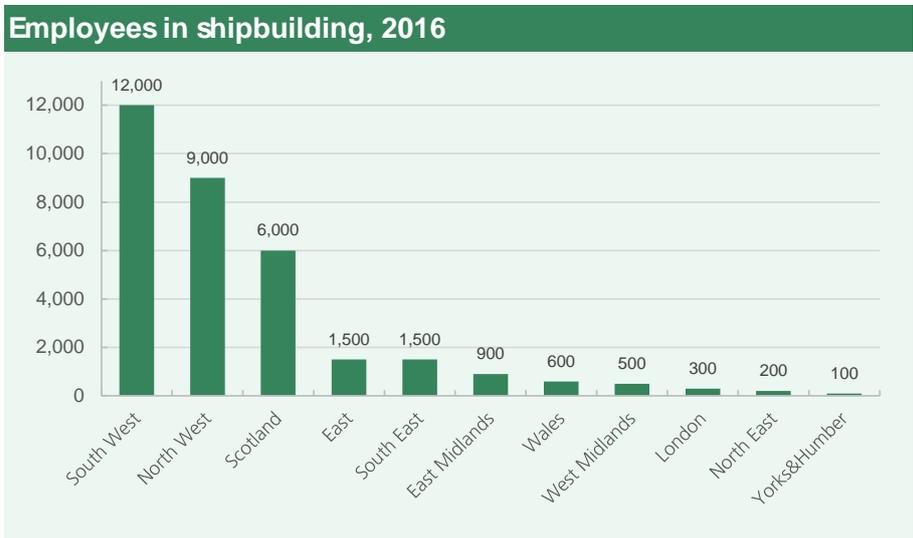


The industry’s economic output totalled £1.3 billion in 1990. Output remained largely constant through the 1990s before falling to £1.0 billion in 2002.

During the mid-2000s, output grew slowly to £1.3 billion in 2009. Growth then increased sharply for the next few years, to £2.0 billion in 2012. It has remained at around this level since then, although there was a dip in 2016. In 2017, the shipbuilding industry’s economic output was £2.1 billion.

Employment by region

In the whole of Great Britain, the industry employs 32,000 people, but these employees are not evenly distributed across the country.¹⁹



The South West has 12,000 shipbuilding employees, the largest shipbuilding industry of all the regions and countries of Great Britain. This is 38% of all Great Britain shipbuilding employees.

The three largest shipbuilding regions and countries, the South West, the North West and Scotland account for 84% of all shipbuilding employment in Great Britain.

¹⁹ ONS, *Business register and employment survey*, 2017, via [NOMIS database](#). Data rounded to the nearest 100.

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