

DESTINATION 2013

By Stephen Phipson, Chairman of RISC

Future of the UK Security and Resilience Market
SBAC Conference

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INTRODUCTION

Ladies and Gentlemen, distinguished guests and fellow industrialists,

My name is Stephen Phipson, Group Managing Director of Smiths Detection and Chairman of RISC.

For a detection systems business to be speaking on the platform of an aerospace conference you know we are in changing times.

Our Prime Minister pressed this fact further in his welcome and powerful statement on the national security strategy, declaring that:

“the nature of the threats we face has changed beyond recognition and confounds all the old assumptions about national defence and security.”

Change is driving a re-interpretation of what defines defence and security.

If we are to deliver the *“radical, new and coordinated response”* the Prime Minister has called for, change must be embraced. Furthermore, I know I speak for RISC members when I offer our unconditional support to Government in delivering its long term security objectives.

Homeland security companies, while part of the defence family, are experiencing a dynamic that is radically different traditional defence and military markets.

However - diversity of size, technology and mindset are fundamental strengths of the broad coalition represented by this industry and credit is due to SBAC that today's speakers reflect this evolving profile.

Today, I want to give you an insight into the market Smiths Detection operates in and the factors shaping its future.

From this baseline I would like to apply a technique that Government scientists regularly use - Horizon-Scanning - to explore what the future looks and feels like.

In doing so I want to share with you my vision for industry, Government and national security in 2013 – and what I am calling **'the perfect market'**.

It is only by visualising the nature and structure of the perfect market, can we identify the challenges to be overcome and the opportunities to be grasped in order to realise it.

Finally, I want to say a little bit about RISC's emerging partnership with Government in accomplishing this goal.

SMITHS DETECTION

Smiths Detection is a world leader in the provision of Government regulated detection systems, more than double the size of its nearest competitor.

We have over 40,000 x-ray machines helping over a 100 Governments to ensure public safety and economic stability.

I am proud to work for a British company that is breaking new ground in the security and inspection market.

Our portfolio of detection technologies is becoming a critical layer of security at airports, ports, borders and critical national infrastructure.

Heathrow Terminal Five opens to the public today and I am proud to tell you that it is British technology, British scientific knowledge and British investment that enabled BAA to install the most advanced x-ray screening checkpoint in the world – the Smiths aTiX system.

Faster passenger throughput combined with a more sophisticated and agile system to detect explosives and contraband can be the catalyst to restoring the country's reputation for airport efficiency.

Such an achievement didn't happen by accident.

SD is probably the closest co-operator with Government R&D establishments worldwide in the security market –accounting for 5% of turnover.

SD invests 10% of turnover in private venture R&D projects in security and spends over 45mn alone on R&D in explosives technologies, up 12% on the previous year.

Our commitment to research and development equips the business with the technological pipeline to both introduce wider applications to core markets and expand into new growth markets.

For example, it took a Government laboratory 2 weeks to confirm an outbreak of F&M during the recent scare. We have the mobile diagnostic technology to do it in less than 90 minutes. That same technology can be customised to detect and contain MRSA infections in NHS hospitals.

Safety and quality control in the food chain, particularly at the processing stage, could be transformed by importing similar technology.

I see no boundaries or limits to the application of this rapid detection technology into civic, military, clinical and consumer markets.

EMERGING SECURITY & RESILIENCE MARKET

If we step back, you can see that Smiths could be a prototype company for the emerging security and resilience marketplace.

That may sound a strange thing to say but having been told by senior industry figures that their respective credit card and air traffic control divisions are homeland security companies, it is no surprise Government is confused about the precise nature of this sector.

9/11 transformed the economics of the homeland security market, which is today valued at 70 Billion worldwide. We compete in the detection systems segment worth approximately 4 billion.

In the UK, our biggest customer – the Government – will spend 3.6bn on counter-terrorism by 2010.

TERRORIST THREAT DRIVING INDUSTRY FORWARD

As the Prime Minister rightly identified, an evolving terrorist threat is driving demand as Government and its security agencies invest in more robust and innovative prevention and protection measures.

To put that threat in context, Counter-terrorism Minister Lord West revealed the Police and Security Services are currently working to contend with 30 plots, over 200 grouping or networks, totalling around 2,000 individuals.

In response to those demands for greater speed and sophistication of detection, industry is responding with an accelerated stream of innovation.

As a result, demand for security and resilience technology will continue to grow faster than the traditional defence market, albeit from a much smaller baseline.

RUSI research reveals that national security expenditure has followed a “*pattern of considerable growth*” despite spending on defence, as a

proportion of public expenditure (and GDP) declining over the last decade.

Richard Mottram in his considered DEMOS Annual Security Lecture argued that civil protection and resilience are the new frontier in national security. One might assume from these macro trends that the future is bright for the sector – and it is – but that future must be created rather than simply expected.

Our largest customer and ultimate stakeholder – the UK Government – on occasions behaves differently than we might want. Public sector decision-making is different from industry – they must respond immediately to the multiple threats and issues of the day– a task so demanding as to give them insufficient time to consider alternative strategies or long-term reforms despite their apparent necessity.

LEARNING FROM THE US MODEL

Before getting into a detailed dissection of what reforms could benefit UK security and resilience, it would be helpful to assess the structures that have driven growth in the US homeland security market.

A research and development budget of \$3.3bn underpins the provision of long-term capability requirements.

While the size of the Government's R&D investment in new technologies is important, critically it is the DHS mindset of full integration with the supply chain that is maximising capability provision.

From the outset both parties have a common goal as the US Government embrace a concept of the ‘double bottom-line’ – what is good for national security is good for domestic industry.

In my opinion, five features make the US market more advanced and effective than most others:

1. Closer sharing of research and threat intelligence
2. Closer collaboration on research, risk and funding
3. Single procurement and consistent standards
4. Prepared to share IP
5. Transparent, long term framework for capability acquisition

I do not subscribe to the notion the US market is perfect but when you consider that Kip Hawley calls me suggesting new areas for future research and innovation, you get a strong sense of cultural the difference between US and UK Government attitudes.

DESTINATION 2013

If we are to convince the Government there is a better way to provide them with the capability they need...and to their significant credit the Home Office is already working closely with RISC...we need to work out what ‘that vision is’ and develop a joint roadmap from 2013 back to today.

2013 has six defining attributes that I want share with you now, to begin the debate about long term industry Government integration to improve UK security and resilience:

INDUSTRY GOVERNMENT PARTNERSHIP

Industry is a trusted partner to HMG – an unconditional ally. A transformation has been brought about in the relationship. Regulators, buyers and suppliers are partners in R&D, investment, ownership and implementation. Intelligence, research data and long-term requirements are shared both ways across secure industry Government networks. Industry is valued member of the National Security Forum and an extension of the Government security layer.

SINGLE MARKET

A security and resilience industrial strategy has lead to the creation of a cross Whitehall procurement centre – covering research to hard capability. Public sector users procure bespoke security solutions through a single central market operating within clear protocols, standards and consistent specification. No less than Lord West called for this at the RISC Gateway event in November 2007.

Trust generated from joint development and ownership of the Security and Resilience industrial strategy allows for new levels of disclosure of requirement to suppliers and scientists.

EROSION OF BOUNDARIES

Just as our relationship with Government as become integrated, security has become borderless. Technologies, customised to specific threats, hazards and environments operate on a single infrastructure platform.

International boundaries are overcome as international companies broker Government collaboration where shared interests reside. Barriers to the

movement of ideas, intelligence and IP disappear. Trade bodies and competitors act and speak as one.

COHERENCE

Physical coherence is the defining characteristic of the security layer built up to protect national and economic life. Coherence in priorities, requirements, spending and information disclosure are the hallmarks of Whitehall's superior engagement with industry. Physical, intelligence and human layers of security work in harmony.

A single R&D roadmap drives investment in research, where industry and Government share risk and reward. Taxation, skills, R&D and mainstream business policies integrate to support the UK security and resilience industrial strategy.

COMPLETE SECURITY

Prevention is the backbone of the security strategy. Resilience underlies all borders, assets and targets. Government has constant access to an information centre detailing the specific nature of all industry research and capability. Capability can be customised and deployed immediately in crisis and disaster scenarios.

STAKEHOLDER SUPPORT

No longer saddled with out of date criticisms, the industry is now admired for being in the public and economic interest of Britain by Government, society and investors. Defence and security are careers of prestige – combining public service, innovation and technology.

We know and understand the Government finds it a challenge to disengage from the daily demands of delivering security and public services.

Therefore, it is essential that industry takes the lead in creating the ‘trusted environment’ that helps the Government to visualise a different future and sign up to a ‘New Contract with Industry.’

ADVANTAGES OF NEW TRUSTED ENVIRONMENT

We should be confident and clear that 2013 offers overwhelming social, economic and security benefits to the UK. At the heart of this new arrangement is a virtuous circle of:

Shared intelligence....leading to greater collaboration

More targeted research...that better anticipates Government requirements

Leading to shorter deployment of more agile capability

Creating more flexible and resilience security infrastructure

All of which,

Enhances the competitiveness and strength of the UK’s industrial base

Leading to more investment...and greater pull through of innovation.

RISC and the FUTURE

It is exactly a year ago this week that Home Secretary Dr John Reid publicly endorsed the formation of RISC on behalf of the UK Government.

He declared that a key element of Government’s future new counter-terrorism approach, built around a strengthened Office of Security and

Counter-Terrorism (OSCT), was enhanced, strategic engagement with the UK industrial and academic community. Substantial progress has made in leveraging that commitment to develop a new way working but much remains to be done.

Going forward, there are three forces driving change – 1) a constant threat environment 2) world leading innovation in the UK supply chain and 3) formal commitment from Government to explore collaboration through RISC – verbally given by Lord West on behalf of the Home Secretary. We must grasp this outstanding opportunity while we have it.

As Chairman of RISC, we have undertaken an initial phase of relationship-building with the Government.

First, we set out terms of working together that each side could accept.

Next, we partnered on a high level conference that established two vital truths 1) that we have a common agenda and 2) we could trust each other.

Next we met the Minister Lord West and in the future will explore broadening the range of security and resilience challenges that RISC and industry can contribute to.

On this platform of trust and competence we now need to build greater equity into our role. If we are to really open the eyes and the mind of the customer, they have to come to understand and value our industrial expertise.

Criticism and frustration will only retrench the Government into old prejudices about industry.

Rather, thought leadership, innovation and proactive collaboration are now required. I predict that RISC's role and remit will broaden beyond research and development into planning and implementation, particularly when Government discovers the full the spectrum of talents in the RISC family.

I also believe RISC can be the agent to build a new security and technology consensus around; and from that premise generate momentum towards creating a better if not perfect market...one we know works in both the industry and national interest.

SUMMARY

So where should industry place its strategic bets if we want to deliver 2013. In summary, they are to:

- Import the best of international innovation into the UK industrial base; and strive to be the elite of world security and resilience
- Grasp the opportunity by changing our own mindset then our customer's then the market
- Put innovative collaboration and trust at the heart of a new industry Government strategy for security and resilience
- Lets be proud of what we do and celebrate our role in national life

Thankyou