House of Commons

Business and Trade Committee

Oral evidence: Industrial strategy, HC 727

Wednesday 26 March 2025

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Watch the meeting

Members present: Liam Byrne (Chair); Antonia Bance; John Cooper; Alison Griffiths; Sonia Kumar; Matt Western; Rosie Wrighting.

Defence Committee member also present: Mr Calvin Bailey.

Questions 355 - 444

Witnesses

I: Sarah Jones MP, Minister of State for Industry, Department for Business and Trade, and Minister of State for Industry, Department for Energy Security and Net Zero; Rt Hon Maria Eagle MP, Minister of State for Defence Procurement and Industry, Ministry of Defence; Barnaby Kistruck OBE, Director of Industrial Strategy, Prosperity and Exports, Ministry of Defence; and Neil Johnson, Director, Materials in the Business Group, Department for Business and Trade.

Examination of Witnesses

Witnesses: Sarah Jones, Maria Eagle, Barnaby Kistruck and Neil Johnson.

Q355 **Chair:** Welcome to today's session of the Business and Trade Committee, as we continue our inquiry into industrial policy. Today we are focusing in on industrial policy around defence and steel. The purpose of today's session—we are incredibly grateful to you, Ministers, for sharing some time—is so that the Committee can bring together its submissions to the MOD's consultation on defence industrial strategy and to the steel strategy, which has been launched by the Department for Business and Trade. We have taken lots of evidence already. Thank you very much for coming before us today to answer some questions that have arisen.

Maria Eagle, perhaps I could start with you. In the light of today's spring statement, we would like to get to the bottom of the numbers as best we can. I realise there is still a spending review ahead. Page 20, table 2.1 in the Green Book today suggests that there is basically a £10.6 billion increase in defence spending. We assume that is defence spending as defined under the NATO criteria. Could you give us any indication of how much of that £10.6 billion is going to be MOD spending in contrast to the money that may go to agencies, such as our intelligence agencies, that are not within your Department? Do you have a sense of what the breakdown is?

Maria Eagle: As you will remember, when the Prime Minister made the announcement on 2.5%, he said he was going to include some of the moneys that go to the intelligence agencies that relate to defence in that figure. He said that would take it up to 2.6%. The majority of it is MOD spending, although not precisely all. I think it is over 90%. That is what I recall, but I do not have the updated figures. With the new OBR report, the numbers move slightly. It has changed slightly, but it is the vast majority.

Q356 **Chair:** That is roughly 90% of the £10.6 billion.

Maria Eagle: It is 90% of the total.

Q357 **Chair:** Yes, which is £10.6 billion. Secondly, do you have at this stage any sense of what fraction of that money is going on equipment?

Maria Eagle: I do not have the updated figure from today. I do not have a percentage.

Q358 **Chair:** Is it within the bounds of the possible that you might be able to supply us with that in due course?

Maria Eagle: Yes, absolutely.

Q359 **Chair:** That would be incredibly helpful. The question that we are interested in is the relationship between that defence spending and economic growth. It is quite hard to work out the fiscal multiplier of this spending. There is quite a lot of literature about this knocking around at the moment. The best we can surmise, though, is that the OBR says the economic impact of defence spending peaks in 2025-26 with the extra £2.9 billion. The GDP boost, according to the OBR, in that year is about £1.62 billion. That implies a fiscal multiplier of about 0.55. That is much lower than the figure that is out there in the economic literature, which is more like 0.9 to over 1.

We are quite interested in whether you get into this in the Department. Do you think about the economic impact? If you do, do you have a sense of what the positive outcome from that defence spending will be on economic growth and crucially, of course, on jobs?

Maria Eagle: There is an extra £2.2 billion today, as well as the £2.9 billion, making £5 billion this year. As you know, some of the programmes that this money is spent on are very long term. In that sense, the economic effect of a particular spend can take some time to come through. We have an economic department that will be crunching these numbers. Again, it is something that I could certainly write to the Committee about.

Q360 **Chair:** That would be incredibly useful, thank you. The only other numbers question that we have at this stage is around the export finance number. The Chancellor today talked about £2 billion extra for UK Export Finance. Is that the same £2 billion that the Prime Minister talked about in relation to Ukraine a couple of weeks ago, or is it new and additional money?

Maria Eagle: I think it is new and additional. If I am wrong, I will let the Committee know.

Chair: That would be really helpful. Thank you very much indeed.

Q361 **Matt Western:** The situation in Ukraine has changed the view on conflict and how it is fought in the modern era. There is now a need to be more agile. What other lessons have you learned from the conflict in Ukraine?

Maria Eagle: It is not only about agility. It is about speed of procurement. If one looks at drones, for example, there is no doubt that the iteration in terms of innovation is much faster. It is within weeks rather than months or years. Our procurement processes have to be much faster because they want the kit that they need as soon as possible.

One of the things that has been quite striking as we have done procurement for Ukraine is that we have been able to do it much faster than we do it for ourselves. There are lessons to learn here. It is the same people who do this who do procurement for us. It is not that there is a lack of skills or ability in our procurement arrangements. It is just the process that we are willing to go through.

We have been much more pragmatic. We have prioritised much more clearly and empowered people at a lower level of the procurement process in order to enable them to speed it up. The regulatory requirements that we face do not apply to the kit that we are sending to Ukraine. We have tried to follow the usual regulatory process, but we are a bit more pragmatic about it. The risk and safety appetite that one is willing to put up with has been different with Ukraine. That has enabled us to speed up.

It is about innovation, speed and clarity in what we are trying to get. One of the problems we have had in MOD in the past is that we have changed requirements a lot after they have been contracted for. We do not do that with Ukraine. We know ahead what they want, and then we get it. We do not change our minds halfway through about what we want and start adding bells and whistles or changing requirements. That has resulted in much faster procurement. With something such as drones, it needs to be faster still.

Q362 **Matt Western:** Just on that, Minister, give us a flavour. It is not our area of expertise, but procurement has struggled under Governments of all hues. You mentioned that you have been able to speed up the process. It is the same people. You talked about delegation downwards. If the time the procurement process takes in the UK is 100%, what are you managing to achieve for Ukraine in percentage terms versus that 100%?

Maria Eagle: It depends on what you are procuring, but it is years less.

Q363 **Matt Western:** Is it half the time?

Maria Eagle: We can do it in half the time.

Q364 **Matt Western:** Is it less than half the time?

Maria Eagle: If you are purchasing off the shelf, it is different from ordering an exquisite platform. In the past, we have tended to order exquisite platforms rather than purchase off the shelf because we have wanted to have very high-end kit for our armed forces. At times when we have not been in a war situation, that has been more important than getting something that works out to the frontline. It is impossible to give you a precise figure in respect of that because it does depend on what it is that you are buying or purchasing, but we can do it much faster.

Q365 **Matt Western:** There are parallels with the pandemic.

Maria Eagle: Yes. That is not a bad analogy.

Q366 **Matt Western:** We could be learning from this and simplifying the process.

Maria Eagle: Yes.

Q367 **Matt Western:** Presumably, there is some process going on within the Department about how we can rationalise this in a wartime or conflict era.

Maria Eagle: Yes. Part of our defence reform programme has been to say we are going to reform the way in which we do procurement. At the moment, we have one size fits all. It is CADMID for everything. It is concept phase, acceptance phase, demonstrator phase, manufacture, in service and disposal. There are lots of assurances, safety tests and everything in between. It can take years.

Just to give you an example, the Chancellor said today that the target we are going to have to get to contract on some of our big platforms is going to go from the current average of six years to two years. That is part of the defence reform we are undertaking. We are going to segment the way that we do procurement. It is not sensible to try to procure drones that change every three months using CADMID, which takes an average of six years to contract.

We are going to have three layers. We are going to have a top layer. We will still have big platforms. If you are procuring a nuclear submarine, that is going to take you some time. We will have a middle tier, which will be modular improvements, such as improved radars. These are things that can be put into our kit that is an advance. At the lower level, we are going to pull through new tech straight into the warfighter's hands. The target is to reduce the average time to contract at that top layer from six years to two years and at the middle layer from three years to one year. At the bottom layer, we want to be able to get to contract in three months. This is a pretty radical change for the MOD.

Q368 **Matt Western:** How are people adjusting to this?

Maria Eagle: It will technically start on 1 April. A lot of preparatory work has gone into this. We know what the structure is. We are changing the whole structure of the way in which the Department works. This will all be under the national armaments director. That is being stood up starting 1 April.

People have reacted very well. We have to see how it ends up working because we have to implement it and start seeing some results quite quickly. It is quite a big change programme, and a cultural change programme. No Minister in the Department would say they had found any serious objection or people trying to stop it from happening. There is a lot of excitement about it. Once we are up and running, people can start getting on with changing the way we do things. That will be the proof.

Q369 **Matt Western:** Is there anything that needs to be done to increase industrial capabilities, in terms of scaling up production and working with partners or start-ups?

Maria Eagle: You do not mean in the Department; you mean generally in the economy.

Matt Western: I mean in your work with suppliers.

Maria Eagle: A lot is already out there. We do not always know how good some of what is in the Department is. The Department has frequently left it to our prime contractors to deal with supply chains, so our information is not always as good as we might like.

Part of the changes that we are making is to engage much more directly with SMEs. We are changing the way in which we engage with them. At the moment, only about 4% of our spend is directly with SMEs. There are a lot more with SMEs via supply chains from our main contractors in particular contracts, but directly it is only about 4%. We have to get that up.

We are establishing an SME hub. Firms with dual-tech capabilities, which have not done defence but might have something to offer, will be able to engage directly with us much more clearly and obviously. There will be a portal that they can come to. At the moment, we have over 100 frameworks through which companies are supposed to be able to engage with us. Do not ask me to name them all.

Chair: You can write to us. Do not worry.

Maria Eagle: I would not be able to do it. If I cannot do it, what chance does a small firm have of knowing where to go? We have to do much better in that sense.

We are also going to be publishing a target for increasing the amount of spend that we have with SMEs by June. On this point, you may have also noticed that the Chancellor announced that we are establishing UK Defence Innovation under the national armaments director. We will be bringing together all the work on innovation that goes on in different bits of the Department. The Army does its innovation stuff; the Navy does its innovation stuff. Individually it is all great, but it is not joined up. There is not a coherent approach. There will be with UK Defence Innovation. There will be a ringfenced novel tech budget. It will start off at £400 million, but it will increase over time so that we are spending 10% of our equipment budget on novel tech.

That is a very exciting change. It provides all kinds of opportunities to SMEs that have not thought of working for defence before. It is not going to be easy for us to do because ringfenced budgets and targets such as those are a challenge, but there will be a lot of excitement in the new, reformed MOD under the national armaments director. The national armaments director will be accountable for delivering on all of this.

Q370 **Chair:** That is very helpful. You have immense experience of governing. What are the key obstacles that you can foresee as you drive what does indeed sound like quite a bold and radical programme of reform? What are the things that you are most worried about being snags that could get in the way?

Maria Eagle: It is probably institutional inertia and people wanting to carry on doing what they have been doing, or not knowing how to do things differently. With these kinds of cultural changes, there are bound to be issues about empowering people properly to do these things. They will have to shift from where they are to where they are going to be in the structure. It is always a challenge to do the actual transformation and then to get going.

One of the really positive things is that this is not being done in the context of budget challenges. It is being done in the context of there being more money and a really difficult geopolitical situation that makes it tremendously important for us to get this right. Everybody you meet in the MOD is utterly committed to delivering for the nation and making sure that our warfighters have the kit and equipment they need. That sense of public service in the Department is going to be tremendously important for us in going through these transformations.

Q371 **Chair:** This is the first defence industrial strategy that has been updated or published since the second invasion of Ukraine.

Maria Eagle: Yes, the last Government's document was produced in 2021. It had some good things in it. It moved away from worldwide cheapest price competition, which drives a certain kind of behaviour that is not always helpful in every instance. It did not take into account the full-scale invasion of Ukraine. It could not take into account what has happened since. It was not obvious to me, either when I was doing this job in opposition or now, quite how it was implemented. There were some things on spiral development where work was definitely done, but it is not clear to me what the implementation arrangements were.

Chair: It is a big opportunity.

Q372 **Antonia Bance:** Staying with the defence industrial strategy, when will it be published? Will it be after the strategic defence review?

Maria Eagle: It is not part of the strategic defence review because, of course, that is being done by external reviewers. The defence industrial strategy is an internal document that we were working on. It will have to tie in with it. It will therefore probably be published at a similar time. I am not saying it will be on the same day, but it will be in the same ballpark. The Prime Minister said that the SDR would be published in the first half of the year. I anticipate that the defence industrial strategy will be published on that kind of timescale too.

Q373 **Antonia Bance:** Will it give industry clarity on the capabilities that the Government want to onshore? What is your emerging sense of those capabilities?

Maria Eagle: The strategic defence review will set out the threats that we face and the capabilities that we need.

Q374 **Chair:** Will there be a threat assessment?

Maria Eagle: There is in the SDR. If you look at the terms of reference, as I am sure you have, Chair, that is one of the big jobs they are doing.

Q375 **Chair:** The Cabinet Office was refusing to publish one when it comes to economic security. That is why we are so intrigued to see it coming. Do not let me take you down a rabbit hole.

Maria Eagle: This is a document that is produced by independent reviewers in accordance with the terms of reference that they have been given. One of the things that they have been asked to do is assess the threats that we face and that we ought to be obtaining the capability to deal with.

The defence industrial strategy is about how we do that. The previous defence and security industrial strategy from 2021 had some sovereign capabilities in it. We would not demur against any of those. They all seem very sensible. There was nuclear and crypto. Help me out, Barnaby.

Barnaby Kistruck: Nuclear, crypto and offensive cyber were the three sovereign capabilities. There were four for operational independence, which were combat air; complex weapons; maritime, so shipbuilding; and general munitions.

Maria Eagle: I know some of your previous witnesses have made suggestions about things such as batteries, additive manufacturing and energetics. We have a longlist, if you like. It ended up being 22 items long. We have not got to the stage where we have decided precisely which we think should be included, but we are doing work on what ought to be sovereign, what we ought to have here onshore. You will be aware that we have brought back barrel manufacturing.

Q376 **Chair:** Yes. We may as well pick that up at this stage. Is virgin steel likely to be one of the sovereign capabilities that we will need? We have taken evidence from a number of steelmakers, including the co-chair of the Steel Council, who have given us some pretty categorical evidence. Jon Bolton told the Committee that certain sectors, including defence and rail, still require virgin steel made through blast furnaces. We have taken a fair bit of evidence from others who have made a similar argument. This question from Antonia Bance is really important. Are you going to expand the list of sovereign capabilities beyond those that were listed in that initial statement of intent?

Maria Eagle: We have not made a decision about that yet.

Q377 **Chair:** You have not made a decision?

Maria Eagle: No, but we will make a decision ahead of publishing the document, of course. We are considering what sovereign capabilities ought to be.

Antonia Bance: This comes to part of the point of having both Ministers on the panel with us today. We want to make sure the defence industrial strategy contributes to the overall industrial strategy. We are awaiting the steel strategy.

The extent to which Departments are able to work together on cross-cutting agendas is becoming an obsession of this Committee. We want to hear both of your answers on this. Is the join-up where it needs to be between the steel strategy, the defence industrial strategy and the overall industrial strategy?

Q378 **Chair:** Just talk us through how you both co-ordinate on this question about the capabilities that the country needs. You have to worry about the defence industrial strategy. Sarah Jones has to worry about economic security more broadly. How does HMG come to a shared view about the sovereign capabilities that our nation needs in this new era?

Maria Eagle: There are a lot of links at official level. We all know that I am doing the industrial strategy, which is part of DBT's broader industrial strategy. Sarah is doing the steel strategy. We do our best to make sure that those tie up, but we are not at the stage yet where Ministers have made decisions about all these things. Most of the links at the moment are at official level, it is probably fair to say.

Barnaby Kistruck: Yes, we are working very closely both with DBT senior officials and with senior officials from the other growth-driving sectors to ensure that there are links between the defence sector and other sector plans.

One of the things that was in the spring statement text today was the defence growth board, which will be co-chaired by the Chancellor and the Defence Secretary. That will ensure that defence is making an active contribution to the Government's growth mission. Immediately before this meeting I was in a senior official cross-Whitehall meeting on industrial strategy. There is a very active cross-Whitehall community to bring the different strands of this together.

Q379 **Chair:** It is great that it is the Chancellor and the Secretary of State for Defence, but where is the Secretary of State for Business and Trade? That is the question. Sarah Jones, from a governance point of view, we have some industrial policy governance that is coming into place. We can see things like the Steel Council. Help us understand how the defence industrial strategy is governed in a way that connects the two Departments.

When we look at questions like economic security, we can see that economic security has been taken into the main hub of the National Security Council, but the National Security Council no longer includes the Secretary of State for Business and Trade. Help us with the wiring a little bit. Give us some reassurance that it is joined up, if you can and if that is true.

Sarah Jones: These things are always works in progress. The industrial strategy has eight growth-driving sectors. One of them is defence. Some of the other sectors sit naturally in the Department for Business and Trade; some of them sit under different Departments. Life sciences sits under DSIT, for example. The model is that different Departments own different parts of these sectors, but the industrial strategy itself is being pulled together with a team of people, including people from all the different Government Departments, in DBT. The Industrial Strategy Council is helping us to do that.

There is a structure. No. 10 and the Treasury are very much involved in these conversations as well. I am working really closely with Spencer Livermore to look at these sectors. We are looking at each one and making sure we are all moving in the same direction.

It is also the case to say that this mission-driven Government is a new way of doing Government. We want to work better across Departments, and we will keep working to make sure we are doing that. The industrial strategy has eight sectors, and defence is one of those eight, so we are talking to the Ministry of Defence a lot.

Q380 **Chair:** I am going to try to understand this now. The defence industrial strategy is one of the eight. It has some governance that reports into the industrial strategy council.

Maria Eagle: It is the growth board.

Chair: The group is chaired by the Chancellor and the Secretary of State for Defence.

Sarah Jones: The defence one.

Maria Eagle: You might recall that the manifesto we were elected on specifically mentioned defence industrial strategy. That is not something that any of the other sectors had. We have been turbo-boosted by having that manifesto coverage to make sure we have our own governance within the Department.

Yes, it is going to act as a sector plan. We make sure that we operate with DBT and form part of their broader industrial strategy, but we have governance arrangements within MOD to make sure it gets implemented.

Q381 **Chair:** It would be terrifically useful to give us an organogram that helps us understand the interaction of the governance, if that is okay.

Maria Eagle: We can do that.

Q382 **Matt Western:** I want to ask you both a slightly more specific question related to this, which might just help to illustrate the possibilities of the strategy. It is around armoured steel. I was surprised to learn that Sweden and Germany are the two nations we tend to source from, but we do not produce it currently. Given that so many nations, not just in Europe but globally, are looking at their defence capabilities in this uncertain world, is this not a huge opportunity for us in terms of exports?

Maria Eagle: It is certainly true that there are a lot of nations looking to buy armoured steel vehicles. We do not make armoured steel that is suitable for such vehicles in Britain. To the extent that we are making armoured vehicles, our prime contractors buy it from elsewhere.

As we are all ramping up defence production across Europe, we need to make sure we do not just fight each other. We are trying to do it with some sort of co-ordination, hence our bilateral and multilateral arrangements for procurement within NATO. We have some involvement in EU programmes, but we hope to be able to tap into SAFE and ReArm as well, if we can get an appropriate EU defence and security agreement that would enable us to do so. There is much more effort going into co-ordination, interoperability and joint arrangements to try to procure the kind of kit we need. That includes armour.

Q383 **Matt Western:** I am concerned. We have heard about the UK losing its virgin steel production capacity. Is this not an opportunity for us? I do not know whether it is possible for such sites to produce armoured steel, but, given the UK's strength in the defence sector, is that not an opportunity?

Sarah Jones: There are a couple of things that explain why we are doing a steel strategy. The steel sector has not been in a brilliant place over recent years. We have seen the production of steel fall. You saw the figures from UK Steel when they gave evidence. Only about a third of the steel we use now in this country is made in this country. We want to deliver a steel strategy that sees growth. Defence is one part of that. There are lots of different types of steel. There is a lot of specialist steel. All the different steelmakers do slightly different things. Some of them do defence; some of them do other things.

There is a debate to be had about how we as a country define the importance of steel. Are you talking about virgin steelmaking or steel more broadly? There is a reason why Russia bombed all the blast furnaces in Ukraine pretty much straightaway: because countries need steel not just for defence but to build roads and infrastructure, and indeed to rebuild after war.

We are in a climate where, beyond what we need for defence capability per se, there is a conversation to be had about how important steel is and how important the production of it in this country is. Should the need arise, we need to be able to produce the right things in the right way.

There will be economic opportunities that come from the increased spending on defence. We want to see as much built in the UK as possible. We have great expertise, whether it is in Sheffield Forgemasters, Liberty or elsewhere, to do that, but just as important is our capability to build railway tracks, construction and the other suite of products that we make here in the UK.

Q384 **Chair:** Yes, not least because we have just announced £13 billion-worth of extra investment in infrastructure, rail and defence. I would have thought that was quite a big boost for the steel industry.

Sarah Jones: Yes. That is why we need a plan, which we have not had before, that looks at what the demand is, what the possibilities are, what we do not make now. There is a lot of debate over floating offshore wind, for example. We do not have the plate mills to build the size of turbine that we might want. We need to look at all of the future demand, work out what the possibilities are and see how we can use the levers of Government to stimulate that demand.

Q385 **Chair:** Let us just make sure we have really understood this. Maria Eagle, you have not yet come to a view as to whether we need virgin steelmaking capability in the UK from a defence perspective.

Maria Eagle: No, although what I can say is that both the MOD and our suppliers procure a tonnage that is less than 1% of the UK's annual raw steel production. In that sense, the industries that we are talking about in the defence industrial strategy are not big users of steel.

Q386 **Chair:** Yes, I just wanted to make sure we had that on the record. Sarah Jones, what is your view on whether that blast furnace capability is needed in the UK today?

Sarah Jones: I am sorry if this is repetitive, but there is a difference here. We are talking about the creation of steel production in the UK. There are lots of ways to produce steel in the UK. There are electric arc furnaces. We are looking at hydrogen production as well. Virgin steel is the steel that you get from blast furnaces. That is what we lose if blast furnaces close. Companies such as Tata say that for an electric arc furnace, once they have built it, about 20% of what they will add to the scrap will be virgin steel. If you are looking at the suite of what you need in the country in terms of different types of production, there is an argument that you want virgin steel production.

We have commissioned the Materials Processing Institute, which is reporting to us quite soon, to do a piece of work on exactly that point. The alternative to blast furnaces is something called a DRI, where you use hydrogen. That is what we are looking at. Do we need that capability in the UK? We can make things without it. You just need virgin steel to be a proportion of what goes into it.

Q387 **Chair:** You have just said that there is an argument for keeping virgin steelmaking capability in the UK.

Sarah Jones: We are trying to get to the bottom of that demand because people have different views and say different things. The Materials Processing Institute will give us its best guess, based on all the evidence, of what we need.

Q388 **Chair:** Does that mean the unanswered question in your mind is merely what capacity we need? Have you decided that this is a capability that we need in the UK, but you are just not sure yet about on what scale?

Sarah Jones: There is a question about capacity. The more sophisticated we get in what we can do with scrap, the less need we have for virgin steel. If you are able to separate your scrap to such an extent that it produces high-quality steel, you need less and less of the primary steel. I am told that in America they need a much higher proportion because the quality of their scrap is not great. In terms of our scrap, we separate things, so it is better. As I said, Tata thinks its electric arc furnace will need about 20%. It is definitely part of the mix.

If you look at it in terms of the economics, the question is around which levers we can pull to make sure private companies are providing what we need. If you look at it in terms of security, it is about how we make sure we can produce steel as a country. Those are the questions that we are hoping to answer. The steel strategy will answer that question.

Q389 **Chair:** I am going to try to summarise what I think I have heard you say. We need a virgin steelmaking capability in the UK. We are not sure how much.

Sarah Jones: We do need it, yes. The question is whether we produce it here or not.

Q390 **Matt Western:** Minister, when will the Department have established what the total opportunity market is for UK or for export?

Sarah Jones: When we publish the plan for steel, which we are working on with the industry, we will have some answers. I am doing a series of roundtables. We did one yesterday on this topic with the steel producers and the scrap producers. These are things that we are teasing out. The Materials Processing Institute is teasing this out as well. There is also a piece of work about what the future demand for steel will look like. What will it be if we take advantage of the opportunities? What should we be shooting for in terms of growth?

Q391 **Matt Western:** When will that plan be published?

Sarah Jones: It will be published in the spring. I know the answer to everything is "in the spring". The steel strategy will be published in the spring.

Q392 **Mr Bailey:** One of the consequences of the mobilisation of industries across Europe will be that the analysis we are doing right now will need to change. Where those impacts manifest will also shift. I keep lobbying the right hon. Member for Liverpool Garston about increasing the number of trains that we have on High Speed 1 because we need those trains to get up to Estonia and Finland and be able to move a large amount of military mass.

The ability for Europe to build trains may be challenged by a number of manufacturers turning their manufacturing premises towards different industries. Therefore, that can have a knock-on effect on what we should be doing. Have you made any assessment of what that looks like in terms of our virgin industries?

Sarah Jones: Do you mean in terms of what Europe might be doing?

Mr Bailey: Or what they choose not to do.

Chair: If the Europeans divert their capacity into producing something else, what opportunities does that open up for us? Is that part of your thinking?

Sarah Jones: All shift is an opportunity to increase production in the UK. Trying to get market share in green steel and become a leader on that front is one example.

As an institution, the EU is looking very closely at steel. It has produced a bit of a strategy, which in many ways mirrors a lot of the conversations and thoughts we are having. It is in a slightly different place on some issues. It has a lot more blast furnaces. We have a smaller number. We are transitioning in a slightly different way. Some of the challenges that it is faced with are different, and some of its responses are different. Certainly, we are both talking to them and watching what they are doing in terms of our plan for steel.

Q393 **Mr Bailey:** That is part of the problem, is it not? We have to react to the consequences of it because we are no longer in the room with them.

Sarah Jones: Yes, but we are talking to them.

Q394 **Rosie Wrighting:** We have discussed the eight key sectors in the industrial strategy, of which defence, based on the increase in defence spending and the spring statement today, becomes a really important one not only for the industrial strategy but for economic growth. Minister Eagle, how are you going to use defence procurement so that we deliver the aims of the industrial strategy?

Maria Eagle: The whole point of procurement is to try to make sure we get what we need. The industrial strategy is about meeting the requirements that are set out in the SDR, when it is published, about the capabilities that we need to invest in. The industrial strategy is how we will do that.

Procurement, as I have already said, will be segmented in order to enable us to speed up and get what we need faster, depending on what type of thing it is, whether it is a big platform, upgrading existing kit with new radars or whatever, or new and innovative tech that needs to be pulled through quickly.

The whole point of the industrial strategy is to make sure we can do better and not waste as much money as we have in the past. The defence reform element is about enabling the Department to do procurement better. There will be much more direct accountabilities between the senior people running the Department. The responsibility of the national armaments director will be to make sure we can obtain the capability that we need and get good value for money. They will be implementing the defence industrial strategy. The accountabilities are much clearer.

Currently, in the Department, each of the armed forces will have a different strategy to use its top-level budget to get what it wants. They might have the money to get 10 years down the road, but then two or three things can happen. If they set off on the process but do not have the money to finish it, things get shoved to the right. You then incur costs because capability that should have been retired has to be kept on and has to be refurbed. We have to stop wasting money like that.

I am hoping that the defence industrial strategy will directly enable us to meet the requirements that the SDR sets out about the capability that we need and, at the same time, will boost economic growth around all the nations and regions of the UK, as we see that money spent. One of the things that we want to focus on in the defence industrial strategy is getting more British businesses and jobs involved in doing that for us.

Q395 **Chair:** Let me just check something. When the defence industrial strategy is published, will you have economy-facing targets or goals that help deliver the broader growth mission? This might be things such as increasing real wages or rebalancing the economy regionally?

Maria Eagle: There will be goals and targets because, as part of implementing the industrial strategy, we will need to know what counts as implementation. There will be targets.

Q396 **Chair:** Will any of them be economic growth targets?

Maria Eagle: We have not decided what they are yet. I dare say that that is going to come into it. I know the Defence Secretary and the Chancellor of the Exchequer, via the defence growth board, will be interested in making sure that we are delivering economic growth. That will be one of the arrangements for overseeing the implementation of the defence industrial strategy.

Q397 **Rosie Wrighting:** Your answers lead me on nicely to my next couple of questions. The Public Accounts Committee says the combined delay for defence equipment programmes is 21 years. Given the reforms that you have set out for us today and the changes that you are making in your Department, are you confident we will never be in this position again?

Maria Eagle: We have to avoid being in that position again, absolutely. Part of the problem has been the extremely long-term procurement processes that take years. There has also not been centralised, focused intent, driven by strategy. You have different budget holders saying, "We would like some new tanks for the Army," or, "We would like some new ships for the Navy." None of it has been joined up. The processes have taken so long that everybody just sets off trying to get into the CA bit of CADMID in order to further their project. We cannot do that any longer.

That is why we are segmenting procurement. That is why the national armaments director will be directly accountable for delivery. We have new constraints, some of which were announced today: 10% of our budget is going to have to be spent on novel technology; some of our procurement is going to have to be turned over to contract in three months rather than hanging on for years. Drones would be the obvious thing that we might be procuring in that manner. Things will definitely be different. I can say we are not going to be in that position.

Q398 **Chair:** Are you going to segment procurement spend between fast lane, middle lane and slow lane?

Maria Eagle: I would not describe them as fast, middle and slow.

Chair: I am summarising.

Maria Eagle: Yes is the answer to that.

Q399 **Chair:** You do not know what the balance is between those lanes at this stage?

Maria Eagle: I do not yet.

Q400 **Rosie Wrighting:** The Committee has heard similar evidence from defence primes. They are crying out for multi-year certainty and spending programmes, if they are going to scale up. Will the defence strategy deliver this?

Maria Eagle: They cry out for certainty, and they cry out for some understanding of what we want.

Chair: Is it not a bit sharper than that? We have heard evidence from people making some pretty significant bits of kit for the military that do not have a contract for next year, even though the financial year is almost upon them. If they want to make significant investments in things such as building new shipyards, having multi-year certainty is really important, particularly if we are going to start looking at things such as novel infrastructure or defence banks. Unless we de-risk procurement over many years, we are not going to be able to lever in the private investment that we perhaps need.

Q401 **Rosie Wrighting:** We have also heard evidence from businesses that are concerned about skills. They feel like they need to start investing in people now to get the skills for the next few years. That is another reason they are crying out for continuity.

Maria Eagle: On long-term partnerships and contracts, you might have seen the Unity contract that we signed with Rolls-Royce, which gives multi-year certainty about procuring on the nuclear side in a way that has enabled them to establish an academy to start thinking about making sure they have the right skills to do this over a number of years in Derby. Increasingly, we are trying to do longer-term partnerships with our really important suppliers in that way.

I was making a point about another kind of certainty. It is not just on a contract-by-contract basis. We are seeing a multi-year increase in defence spending over the next five to 10 years. That certainty ought to give comfort to some of our big suppliers that they should invest. We want to see a partnership where it is not just about public money but other types of money coming in. That might be the primes themselves investing because they can see the opportunities. They can sometimes be quite risk-averse about the point at which they will accept that they are going to get some contracts.

I understand that in the past we have had boom-and-bust cycles that have led them to feel like that. We are not in that position now. We are in a position where there is a steady upward increase in defence spending, which they can see. We are reforming the way in which we do procurement. That ought to give them more certainty. We want to promote longer-term partnerships with some of our big suppliers to make sure, at an early stage, we can have a joint understanding of where we are going. That will help.

Q402 **Mr Bailey:** I just wanted to join some of this up. My hon. Friend made reference to the equipment plan. We have not seen an equipment plan since 2023; therefore, this Committee will struggle to make any assessment of the affordability of that plan. Minister, would it be possible for you to comment first on the ability of any parliamentary Committee to scrutinise the programme and affordability?

Maria Eagle: We did not want to produce an equipment plan this year before the strategic defence review sets out what capability we need. We are committed to having increased transparency with parliamentary colleagues. The Public Accounts Committee is very interested in this as well. We are not trying to hide what has been revealed in the past. We did not want to produce one in a year when we had not published the strategic defence review. It is clear that we are changing the way we do things. We were not sure how useful it would have been.

This is not an indication that we want to avoid parliamentary colleagues' scrutiny. We definitely do not. We will be producing something similar that will enable colleagues to see where we are at.

Q403 **Sonia Kumar:** You have already highlighted that only 4% of contracts are going to SMEs at the moment. Can you tell what support the strategy is going to offer to SMEs, particularly in regions such as the Black Country, where there is a strong manufacturing heritage but historically limited access to major defence contracts? Could you flesh out what these SME hubs will look like?

Maria Eagle: First of all, on access, at the moment it is almost impossible for a small or medium-sized enterprise to decide to try to get a defence contract. That is partly because it is hard for them to know who to contact at the moment. A lot of our contracting arrangements require quite significant waits and the production of very expensive documentation. You do not hear straightaway whether or not you have won a contract.

At the moment there are a lot of barriers preventing SMEs from knowing whether they can do anything for us, or they think, "We would like to, but we do not know how to go about it." The SME hub has not been fully designed yet, but the intention is to have a one-stop shop that a small or medium-sized enterprise can contact, if it thinks it might have something or wants to do work for defence. The hub will then be able to signpost them to some other initiatives within defence. For example, we are about to have the UK Defence Innovation Centre. That is going to have a budget. It is going to be doing work to try to get new tech or dual tech involved in contracting. That kind of arrangement will make it much easier and more practical for an SME to work for us or for us to find a company that might do something else in another field that has a dual use. I hope it will be much easier.

When we establish the Defence Industrial Joint Council, we will have representation from SMEs on it. We will have trade organisations for SMEs and tech. For example, Make UK, techUK and ADS will be on it. It is replacing the Defence Suppliers Forum. That was all primes, really. There was no direct input, no place where SMEs or representatives of SMEs could grab hold of Ministers or officials and say, "What about the SMEs?" That is going to change. I hope it will be much easier for smaller companies to contract with us. We will be held to account for it because we will have a target, to be published in June, for increased direct spend.

The other way in which SMEs can get involved with us is via in-prime supply chains. For some, that works better than trying to be directly involved. That will still be there.

Q404 **Alison Griffiths:** I just wanted to ask one question about what you have already said. Can you be a bit more specific on timing? You also mentioned targets. It would be really interesting to get some more specificity on those targets too. You mentioned the Catapults and the UK Research and Innovation Council. Could you be, again, more specific about exactly how you see your Department working with those to build up that ecosystem? We have had good generalities so far, but could you be more specific, please?

Maria Eagle: The establishment of UK Defence Innovation has not been announced for that long. It was announced in the last three weeks. There is a bit more detail today in the spring statement about the budgets that it will have and its aim. It will sit under the NAD in the NAD group of the Department. As I have said, that is being stood up on 1 April. We are at the beginning of this process.

The £400 million ringfenced budget is for 2025-26. The promise is that that will increase over time. We are going to have to get a move on in terms of making sure we use that money and engage, therefore, with smaller firms that might have innovative products that we can pull through. It is going to be a challenge. It is not going to just disappear for a few years. We are going to get started quite quickly in this financial year, and then we will try to build on it.

Q405 **Chair:** Just to make sure we are really clear about this, the evidence we have taken from drone manufacturers, for example, has given us a good picture of the ecosystem and the connections between UKRI, which is delivering research grants; the high-value catapults, which may be getting money from a university; and the Defence and Security Accelerator. People have good things to say about being able to get contracts from these organisations because it helps them raise equity finance, for example.

Frankly, I am just a little bit confused now about how UK Defence Innovation is going to sit together with all these other pieces in the puzzle. Again, do not feel the need to go into too much detail now, but we would really appreciate a bit of an organogram that helps us understand these things.

Maria Eagle: I will try to find out whether we have an organogram. I will let you have it, if we do.

Chair: You could draw your own. Tell us how it works in practice.

Maria Eagle: It is dangerous if Ministers start drawing organograms.

Chair: Yes, you can give us the Maria Eagle version if you want.

Maria Eagle: DASA does great work. UK Defence Innovation is not going to replace DASA. DASA will still be part of the ecosystem. UK Defence Innovation is going to bring together some of the initiatives that already exist across defence in a more coherent way.

Q406 **Chair:** We are worried about lots of different front doors making it really complicated and raising the transaction costs for small and innovative firms that are just trying to help the country.

Maria Eagle: I am hoping that the hub will be able to signpost any small firm.

Q407 **Chair:** You know it is really complicated when you need a hub and a signpost.

Maria Eagle: I have to do this from where we started, which is 108 frameworks and only 4% direct spending on small firms. I want to improve that. I think a hub will improve that.

Chair: Help us understand: draw us a picture.

Q408 **John Cooper:** Europe is also gearing up. There is no doubt about that. Germany and the EU have changed their rules so they can access finance for defence spending. Do you have any sense of where we are compared to them? What are they likely to ramp up to? Do we have any sense of that? Crucially, can that money be spent in the UK? Will those countries be able to access our products? There seems to be some confusion about this. There is some suggestion that France is trying to tie defence spending into things such as fishing, which, to use a nautical phrase, seems to muddy the waters a bit.

Maria Eagle: We will have to see. There is a big meeting on 19 May. We are hoping that we will be able to sort out the UK-EU defence and security arrangements, and that will hopefully give us access to ReArm and SAFE.

We have good bilateral defence arrangements, as well as arrangements through NATO, which mean we already can and do co-operate across national boundaries within Europe on specific programmes. The Trinity House agreement has four lighthouse projects. That enables Germany and the UK to develop jointly defence capabilities that we have focused on. The Lancaster House agreement with France has co-operative projects. Those not only benefit NATO, France and the UK or NATO, Germany and the UK; they also give us a joint export potential. There is a lot going on bilaterally already. There is a lot going on under the NATO umbrella already. It would be sensible for British industry to be able to be part of ReArm and SAFE.

Q409 **Chair:** What is your confidence level in us getting a deal to access that?

Maria Eagle: I am very hopeful.

Q410 **John Cooper:** Again, this may only be speculation, but there are a lot of suggestions that this is tied to achieving a security and defence partnership with the EU. Can you give us any sense of where we are with that? Are there challenges to that? Are we well down the line to achieving that partnership?

This also has big implications. You touched on it yourself there. We have a lot of companies that already have one foot on either side of the channel, if you like. Companies such as Leonardo and Thales have big elements in the UK, but they are ultimately foreign companies. They are headquartered in foreign countries. Let us put it that way. It is France and Italy for those two. Where are we with signing some kind of formal deal? Is that in the offing?

Maria Eagle: It is in the offing, but it is not finished yet.

Q411 **John Cooper:** Do you see any challenges? How is it going? Can you give us any sense of where we are at?

Maria Eagle: As I said, I am hopeful.

Q412 **Rosie Wrighting:** I have a quick question for both of you. Which Department is best placed to lead on defence exports?

Sarah Jones: We were talking earlier about industrial strategy and how we are trying to make sure we are working across Government. The problem that we need to solve is making sure different Departments are working well together. Where it sits is one question to which I do not have an answer because it is not my job to do that. There are Secretaries of State who make the decisions about what sits where.

However we are structured, it is important that we are working really closely together. The first priority for Government is to keep us safe; the first mission for Government is to grow the economy. These two things need to work together. The world is in a different place than it was, so we need to make sure we get these things right. There is huge expertise on exports in the Department for Business and Trade. There is huge expertise in the Ministry of Defence on all the things that the Department does. We need to make sure we are working together.

Q413 **Rosie Wrighting:** While working together, should there be a Department that leads on it?

Sarah Jones: As I say, the structure of it is not for me to comment on. Through developing the industrial strategy, I see that we need to do better at working together across Departments in all kinds of different ways. If you look at specific industries such as space, there is a bit in the Department for Transport; there is a bit in DSIT; there is a bit in DBT; and there is a bit in the MOD. We need to be more coherent in the way we operate.

The same is true of buying equipment. We need to buy kit because we need it to keep us safe, but where we buy it from is also really important. These things need to be combined.

Maria Eagle: Machinery of government changes are for the Prime Minister. There is no perfect machinery of government arrangement. There is lots of cross-departmental working in many areas. We work pretty closely together. There is a UK defence and security exports team in DBT. If I go on export campaigns abroad, they come with me. It is not as if we are completely siloed and separate.

There is an issue with Government-to-Government offers. In defence, that is increasingly what is wanted when we are trying to sell. They want Government-to-Government. There is some work that we can do on improving that. At the moment, every one that we do is bespoke. Some of our rivals that are also trying to export equipment have ready-made arrangements. There is work that we can do to up our game on export efforts, but, wherever the UK defence and security exports team sits, we do work very closely together.

Q414 **Chair:** When you are putting together those Government-to-Government offers, which Department has the prizes that you need to add into the mix? Which other bits of Government generally need to come and help you deliver a Government-to-Government offer?

Maria Eagle: Most of the ones that I come across are defence equipment. The nations with which we are trying to do deals want an arrangement with defence. I suppose that is natural. We pull in particularly from DBT on export finance.

Q415 **Mr Bailey:** Space is probably a good example of why a disparate organisation or not having a specific lead is a problem. There are particular challenges there. The big driver is perhaps defence, and yet we can hear it outside of defence. A lot of the inhibitors to our space exports or to the industry itself within the UK reside in DfT and other Departments, where we create significant blockers. There is a bit of a challenge there. Maybe a perfidious approach is not the right one.

Sarah Jones: Yes, all these things are challenging. If you talk to the proliferation of small companies that are working in the space space, access to finance is another one. That is a problem across a lot of different sectors with smaller businesses, but accessing investment is a particular problem in the space sector. We need to help them do that as well. All these things will always be quite complicated because we have to make interventions on a lot of different elements. You have to have rules of the road in space. The regulation has to be set. All of these things have to come together.

From doing the industrial strategy more widely and then the steel strategy, my observation is that we can do these things slicker and better both for the companies that are engaging with Government and the way in which the Government do business. That is what we are trying to design.

Q416 **Mr Bailey:** The one Department that we have not met, which should be the biggest driver, is FCDO.

Maria Eagle: We work with defence attachés all the time in our export campaigns. We do what we can to cohere across Government. At Minister of State level, we work with what we have. The Prime Minister decides on the machinery of government.

Chair: Just ahead of our visit to Japan next week, Rose Wrighting has a question.

Q417 **Rosie Wrighting:** Minister Eagle, who should lead the export drive work for GCAP Tempest?

Maria Eagle: All three nations are working on it. We have to design it and build it to start with. We are working at an early stage. All three nations are committed to doing that work. We all have different contacts.

Q418 **Rosie Wrighting:** Which Department should lead that work?

Maria Eagle: As long as the machinery of government is as it is, we would be working as we are now. I do a lot of export drives for Combat Air. It is not GCAP yet; it is Combat Air Typhoon.

Barnaby Kistruck: Currently, Combat Air campaigns are led out of the Ministry of Defence.

Q419 **Mr Bailey:** Some Combat Air campaigns are led by the MOD. It is important to note that the RAF has a specific relationship with Typhoon, which is different from your relationships with the F-35. It has become more disparate. Could you offer some comment on that?

Barnaby Kistruck: Yes. I am sorry. That is explicitly with Typhoon. An F-35 campaign would be led by the US. Gripen, where there is UK content, would clearly be led by Sweden. Where it is a UK capability, it is led by the Ministry of Defence at the moment.

Q420 **Chair:** That is very helpful. Let us move on to events next week. When it comes to what may or may not happen on liberation day, as the President of the United States is calling it, do we have any sense at this stage, Sarah Jones, of whether the UK is going to be hit by tariffs or not?

Sarah Jones: As you say, next Wednesday is 2 April. That is world tariff day, as the US are calling it. Of course, that comes after the tariffs that have already come in on steel and aluminium that you talked about to colleagues last week. These will be the reciprocal tariffs that have been talked about.

Because of the strength of the conversations and relationships between the Prime Minister and the President, we are in a position where we are in dialogue with the US about what may or may not happen. We do not yet have a detailed proposal in terms of what they may or may not do both in terms of the proportion of the tariffs and indeed what they might be put on.

We are having good conversations with our American colleagues. Jonny Reynolds was in America last week and spoke with his counterpart there. Those conversations are ongoing. I cannot give any more information, as the Committee will understand, about the nature of those conversations, but they are ongoing.

Q421 **Chair:** When we took evidence from steelmakers last week, which I know you listened in to, none of them had a good word to say, as I go back to the transcript, about the Trade Remedies Authority and the speed with which it was acting to stand up new safeguards against diverted steel from China. When are we going to see some proposals from the Trade Remedies Authority? Do you have them already?

Sarah Jones: It has announced today, which is helpful, that it is going to widen its review of the UK's steel defences. That is directly in response to the request that was put in by UK Steel, which they talked about when they met you last week. We are pleased about that. It is basically expanding the scope of steel safeguard measures to certain types of steel in certain categories. It has announced that. It will, I hope, report soon on the outcomes. My colleague Douglas Alexander is looking to make sure our defence mechanisms are as strong as they can possibly be.

Q422 **Chair:** We heard a clear call from steelmakers that we need to not merely review but implement these safeguards on the same timeframe as the European Union. Are we going to hit that timeframe?

Sarah Jones: They have announced today that they are doing the piece of work. The EU has announced a suite of different things, some of which are similar in terms of timeframe to us. There are two questions. There is the immediate question about whether the safeguards that are in place now are adequate. That is what the TRA is now looking at. The second question is about what happens when we reach the end of the safeguards in 2026. We and the EU are both looking at that.

Q423 **Chair:** As a nation, are we going to get safeguards in place at the same time as the European Union or not?

Sarah Jones: I do not know whether we will bring in exactly the same things at exactly the same time. Our priority is the conversations that we are having with the American Government. We want to make sure we are as successful as we can be in those conversations. The TRA has announced that it is doing a review, which is right, and we support that. Douglas Alexander is working on all the options in terms of what safeguards we need. Nothing is out of the question.

Q424 **Chair:** At this stage we have no timeline.

Sarah Jones: At this stage, the TRA is doing its piece of work, and we are working with the Americans to see whether we can come to a conclusion.

Q425 **Chair:** What has the TRA said to you about when it is going to deliver its conclusions?

Sarah Jones: It has not said. I am hoping that we will see it before the summer.

Q426 **Chair:** Gosh. In that case, there could be a three-month gap between the EU putting in their safeguards and the UK putting in our safeguards.

Sarah Jones: The EU is in a very different position. We do not yet know at all what is going to happen next week. We will respond and make sure we do what is right for our industries because that is our job. At the moment, we are both reviewing the measures that are already in place and prioritising the discussions with the Americans.

We want free trade. We also have an active state. We have a different approach to the previous Government. We are developing the industrial strategy and the steel strategy to make us as strong as possible in terms of our economy whilst working with our colleagues.

Q427 **Chair:** In your view, then, is the TRA working fast enough or does it need to go faster?

Sarah Jones: I am pleased it has responded quickly to what UK Steel has asked it to do.

Q428 **Chair:** Given what you have heard from steelmakers, does it need to go faster?

Sarah Jones: It is not really a question of speed for me.

Chair: It is for the steelmakers.

Sarah Jones: Minister Alexander is definitely looking at all these issues and making sure these things are as strong as they can be. Tomorrow, he is meeting UK Steel and the Community trade union to make sure we are completely aligned on what they need. As they said, there is the immediate problem of tariffs in America. The wider problem is the knock-on impact that those tariffs have. Of course, that is something we need to deal with. The quantity of steel in the world produced by China and the impact from that are issues that affect our steel industry. We need to make sure we are doing what we can within the law to protect them.

Q429 **Matt Western:** Minister Jones, we were talking earlier about the plan for steel. What, in the view of the Government and the market, are the greatest opportunities for UK steel in the future?

Sarah Jones: The first thing to say is that we have some brilliant expertise in the country in terms of the workers who work in steel, which pays higher than local wages by some margin. We have the expertise that we need to draw on.

Secondly, we have not taken a look back on steel for a while. The previous Government's approach was to intervene when things were getting to the point where Government intervention needed to happen to prevent things from shutting, as opposed to looking at what proactive work we can do.

If you look at the suite of steel that we produce in the country, we have a good, diverse range, but we could be doing more. You asked the people giving evidence last week what more we could be doing, whether that was in construction, automotive or whatever it might be.

We are looking at whether we need primary production. That is a technical question that we are trying to answer. What are the future markets? What is the demand? How do we stimulate that demand, whether that is from procurement or otherwise? What do we need to do with our scrap industry, which is going to be absolutely central to the future of our steel industry? How do we build in R&D? There is a lot of good technology research and development that happens, but we need to do more. Trade and overcapacity is an important part of the picture. That is what we are looking at, along with energy prices and carbon leakage.

If we can get this whole package right, we think we can develop the steel industry in the UK in a number of different ways. The obvious one is floating offshore wind. That is the one that everyone points to. We are not producing in that space at the moment. Do we need a plate mill? Do we need a DRI? What do we spend this very significant amount of money on, particularly in this economic climate? It is £2.5 billion. How do we spend that well? Those are all the things we are trying to put together in the steel strategy.

Q430 **Matt Western:** The plan will identify those sectors, and it is setting out a horizon until when? It is a plan for steel in the UK over what period?

Sarah Jones: It is about the 10-year trajectory and what we can do. We would like to think we are setting up a plan for the longer term, but it is about having something that gives us that line of sight going forward. In the main, these are private companies making choices about where they invest their money. It is our job to see whether we can create a climate in the UK that makes it an attractive place to invest, in the same way that we want to do across all the different sectors that we are looking at in the industrial strategy.

Steel has a particularly important role as a foundational industry for the country. As well as for growth, it is important from a foundational and security point of view.

Q431 **Matt Western:** I could not agree more. I am just slightly surprised, if I may say, about the horizon being just 10 years. One of the points that came out of the sessions we had with the steel producers—this will come as no surprise—was that they have one issue, which is the price of energy. How would the £2.5 billion that the Government have earmarked to support the sector best be spent? What assistance can be given to drive down energy costs to make the UK competitive not just in steel but across manufacturing?

Sarah Jones: As you know, energy prices are an issue that comes up across lots of different industries, not just steel. As an energy-intensive industry, it is particularly important to them.

There are currently two mechanisms through which they get support. First, energy-intensive industries get some of the policy costs taken off their bill. They also get the British Industry Supercharger funding, which from April is going up to 60% of network costs. There is support there. In its recently published steel strategy, the EU is putting in place something similar as well, but we need to do more than that. In the long term, the way we bring our bills down is to make sure we are energy secure as a country. That is the strategy that is being pushed through at pace with DESNZ, but we are having these conversations.

In terms of what we should do with the £2.5 billion, I do not have an answer at this point. We need to make sure we spend it well. We need to make sure it is spent in a way that delivers growth and does not just manage the existing situation. We need to look at what kind of funds are needed.

In addition to that, there is the wealth of other vehicles and levers that the Government have, whether that is the national wealth fund or UK Export Finance. All of these things need to be part of the answer as well.

Q432 **Chair:** You are going to decide how to spend the £2.5 billion when the steel strategy is published. Is that correct?

Sarah Jones: Yes.

Q433 **Chair:** What assurances can you both give to the Committee that you are working together in a way that is joined at the hip to ensure we are maximising the opportunity for defence procurement to drive demand into UK steelmakers?

Maria Eagle: We already encourage our suppliers to use UK steel if it is available. Not all the types of steel they need are available. That is what we do at present. A lot of the contracts that we have at the moment are legacy contracts, which were signed many years ago. They were based on pretty hands-off worldwide competition and cheapest price. In that sense, we request, but I do not know of any arrangements where we require our contractors.

Q434 **Chair:** Presumably, if you are producing a long-term equipment plan, it is much easier for you, Sarah Jones, to look at the equipment plan and say to UK steelmakers, "Look, here is the runway of opportunities for UK steelmakers to pitch in." We were very surprised when British Aerospace, for example, told us that no UK steelmakers bid to supply the steel for the new warships that they are building.

Maria Eagle: One of the issues there is that the type of steel they use to build warships is not generally produced in the UK. It is a particularly thin type of steel that is not produced in the UK. As I have said, we encourage but we do not have contractual requirements. We encourage our primes to source in the UK if they can.

Q435 **Chair:** Sarah Jones, presumably you would prefer there to be contractual requirements for UK steel.

Sarah Jones: What industry wants is a line of sight on what is coming down the road. The Department produces a line of sight, as it were, in terms of public procurement for steel. It is not perfect, but it is useful. Through the industrial strategy, we want to be able to do that. There are things that we do not make in the UK at the moment that we would like to make. There are opportunities for growth if we can get this right. Sheffield Forgemasters is a good example of where it is working, but it is in a different ownership structure to the others.

We need to do as much working together and provide as much line of sight on as many opportunities as possible. In the same way that Maria was talking about for SMEs, the same applies for the industry more widely. There are firms that might be interested in the opportunities that this growth in defence spending brings.

Q436 **Sonia Kumar:** I have done roundtables with my steel manufacturers in Dudley. Time and time again, they say that the UK is being flooded by cheap steel from other countries, which is making UK steel uncompetitive. How do we tackle that?

Sarah Jones: This speaks to what we were talking about earlier. You are absolutely right. The amount of Chinese steel is very high. There are already anti-dumping measures. There are 17 of them; 11 apply to China. They apply when you bring in more than a certain amount. CBAM is being introduced in 2027. That is going to be an important way that we protect our industry producing green steel from steel that is not green coming into the UK.

It is the biggest challenge that we face. It is not helped by the tariffs that are now being imposed by the US. We need to look at this. This is why the TRA is looking at what safeguards are in place, whether we need to change them and what we do post-2026 when the current safeguards come to an end. I cannot go into the detail of all the different options that we are looking at, but we are doing what we need to do to make sure we have a competitive market.

Q437 **Sonia Kumar:** How can we keep scrap metal here in the UK?

Sarah Jones: This is another really long answer. I will very happily come back and have a whole session on scrap. I was with the scrap industry yesterday. I was in Celsa looking at its electric arc furnace, which is extraordinary. They are extraordinary things. The scrap industry says, "We sell our scrap. The demand is not here for all of it at the moment, so we sell it abroad."

We need to look at what the incentives are. When you are in Celsa, you can see the different types of scrap it has. You basically reduce all the scrap and take out all the bits of rubber and rubbish. You have to burn them. It costs the scrap companies money to burn that. The incentive is for them to sell it as it is abroad. There are some incentives there that we need to look at. We need to have conversations with Defra and others.

We have the scrap here. If we had more electric arc furnaces, we could buy more of the scrap. That could happen. There is work taking place with the scrap companies and the increasing number of electric arc furnaces that we have. Scrap is a very beautiful thing, I am learning.

Q438 **John Cooper:** Looking specifically at British Steel, how close are you to reaching a deal with it? Is there any news on that?

Sarah Jones: We made an offer to British Steel on Monday. It has rejected that offer. We are still in talks at the moment.

Q439 **John Cooper:** Those talks are ongoing?

Sarah Jones: Yes.

Q440 **John Cooper:** Again, you do not have a deadline on that. You are not putting a guillotine on it. It is open-ended, is it?

Sarah Jones: We do not have a deadline on it, no.

Q441 **John Cooper:** How feasible is it to keep the blast furnaces going in the interim period? I know that is not easy. If you shut them down, it is very difficult to restart. Are they likely to keep going?

Sarah Jones: Our preference would be for the blast furnaces to keep going until they have at least secured the steel to come into the country to keep the mills going. In Port Talbot the blast furnace is closed, but there is steel coming in that can keep everything else operating. Our preference would be for that steel to be secure before they close the blast furnaces.

Q442 **John Cooper:** The door is still open. You are still talking to British Steel.

Sarah Jones: We are still very much talking to British Steel every day, yes.

Q443 **Chair:** I have one final question for you both. Given that you are on the cusp of finalising some quite important strategies, what is the advice and input you would most like from this Committee? Maria Eagle, what are the questions that you would really like to solicit our advice on?

Maria Eagle: We have welcomed contributions from anybody who would like to contribute. The expertise that the Committee has will benefit our thinking as we go forward to create the industrial strategy. We have very much focused on defence. If you have insights that go beyond defence that you think might be helpful to us, we would certainly welcome that.

Q444 **Chair:** Sarah Jones, apart from calling for much lower energy costs, what else would you like us to do?

Sarah Jones: We are going to need a bit of advice on all of the strategies that are being delivered in spring and how we are going to communicate them because there is an increasing number of things coming out then that will all be very significant. I welcome what you are doing. I appreciated hearing the evidence that you have taken from colleagues. That is very useful in and of itself.

The questions about sovereign capability are really interesting. If you draw some conclusions on that, that will certainly help us. We are thinking about the steel strategy very deeply, as you know. We are working with industry and the trade unions on it. We would welcome your thoughts on the different aspects of that, whether that is on the international trade side or indeed how we grow our capacity here in the UK.

Chair: This has been an extremely helpful session. Thank you very much for making the time today on what has been an extremely busy day in the parliamentary calendar. Thank you to your officials for all the preparation that has gone into today, too. We are really grateful to you all for that. We will be writing back to you in the next couple of weeks on the respective strategies that you are stewarding, but for now that concludes this session.