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Rt Hon Jonathan Reynolds MP, Secretary of State for Business and Trade, Department for Business and Trade

Rt Hon John Healey MP, Secretary of State for Defence, Ministry of Defence

[By email]

18 June 2025

Dear Jonathan, Dear John,

Defence Industrial Strategy

Following the Spending Review and the Strategic Defence Review, I write on behalf of the Business and Trade Committee to set out our recommendations for the forthcoming Defence Industrial Strategy (see the appendix to this letter). This draws on evidence we received during our recent inquiry into the Government's forthcoming industrial strategy and our recent visits to Scotland, Northern Ireland, Japan and the United States.

We welcome the Strategic Defence Review's vision for the future of defence and the uplift in defence spending confirmed in the Spending Review. Defence, and our defence industry, needs to reform to meet the demands of the more dangerous, volatile and competitive world we now live in.[1] The UK needs, along with our European and NATO allies, to step up to play a greater role in European security.

The Government has expressed its desire for the UK, by 2035, to become a Defence Industrial Superpower, with defence functioning as an "engine for growth".[2] The Committee welcomes the Government's ambition to position defence as a driver of economic growth, but emphasises that the success of this strategy hinges on getting three basic questions right:

1. **Clarity on Sovereign Capabilities:** The Government must first define the sovereign capabilities the UK requires. Without this clarity, it is impossible to assess how defence spending can most effectively support growth. We heard from industry about the importance of domestic self-sufficiency and resilience in critical technologies such as munitions, autonomous systems, semiconductors, and rare earth supply chains. The Ministry of Defence (MoD) should set out the sovereign capabilities our nation needs and conduct a full supply chain audit, led by the National Armaments Director, and embed resilience into international partnerships.

[1] Ministry of Defence, Strategic Defence Review: Making Britain Safer: secure at home, strong abroad, June 2025

[2] Ministry of Defence, Strategic Defence Review: Making Britain Safer: secure at home, strong abroad, June 2025

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2. **Defining Growth Ambitions**: Defence spending can stimulate growth but is not automatically growth-generating. Clearer analysis is needed of the composition of defence spending to ensure that resources are weighted towards measures that are likely to be growth-generating. The Government must articulate how defence expenditure will contribute to productivity and long-term economic growth.

3. **Establishing Clear Metrics and Accountability:** We recommend the Defence Industrial Strategy (DIS) adopts a broad suite of metrics, covering productivity, exports, innovation diffusion, SME participation, regional job creation, and technological advantage. Annual progress reports should be presented to Ministers, Parliament, and the Industrial Strategy Council, accompanied by a formal Growth Statement.

Once the basic questions are answered, there are, in our view, nine things to get right:

1. **Maximising synergies with industry and spill-overs**: The Defence Industrial Strategy must ensure close integration between defence and the wider economy, particularly advanced manufacturing, digital technologies and cyber security. Civilian innovations must flow into defence, while defence research delivers wider economic benefits. Reducing the divide between defence and civil sectors requires cross-government coordination to align industrial policies and maximise spill-over effects.

2. **A sophisticated strategy for innovation**: Innovation policy must go beyond SMEs and focus on scaling high-IP companies and building strategic industrial strengths. Support should be consolidated under UK Defence Innovation, with a single point of contact for firms navigating the system. Procurement must drive supply chain resilience by purchasing at scale to help SMEs grow and test their capacity.

3. **Maximising regional growth**: Defence investment offers significant potential to drive regional economic growth, particularly in high-skilled sectors outside London and the South-East. Defence Growth Deals should support the development of regional industrial clusters, linked to infrastructure improvements and targeted skills programmes aligned to the needs of local defence employers. The Spending Review confirmed, for example, that the Government planned to work with the devolved administrations to launch Defence Growth Deals in Scotland, Wales and Northern Ireland.[3] Such clusters already exist in, for example, the Clyde and Forth in Scotland. However, the 'anti-munitions' stance of the Scottish Government puts expansion, or the creation of new hubs, at risk through the denial of funding.[4] The UK Government should consider whether the devolved administration's stance is at odds with their stated growth goals and, indeed, national security.

[3] HM Treasury, Spending Review 2025, CP 1336, June 2025
[4] UK Defence Secretary accuses SNP of 'student union politics' over defence funding, The Scotsman, 1 June 2025

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4. **Maximising the positive impact on net exports**: Exportability must be built into procurement decisions from the outset, with intellectual property retained in the UK. Stronger ministerial engagement, government-to-government agreements and full cross-government coordination are essential to secure overseas sales. The Defence Export Office should lead delivery of a comprehensive export strategy with clear targets. Full UK participation in EU defence programmes, including the EU SAFE fund, should be actively pursued.

5. **Transforming defence procurement**: Procurement reform must drive innovation, competition and dual-use technology development. The system should support multiple suppliers, allow flexible specifications, and provide better access for SMEs. Clear procurement priorities should be set for one year, the full parliamentary term and over a 10-year horizon, with an annual review by the Defence Industrial Joint Council.

6. **Guaranteeing multi-year budgets**: Industry needs multi-year budget commitments to invest confidently. Without long-term funding certainty, SMEs are forced to plan conservatively and underinvest in skills, capacity and innovation. Widespread adoption of multi-year budgeting will unlock greater private sector investment and long-term growth.

7. **Be clear about when we will 'buy British'**: The Government must set transparent rules for when domestic procurement will be prioritised. A clear framework is needed to balance competitive pricing with strategic goals such as domestic supply chain resilience, regional growth, innovation capacity and long-term economic value.

8. **Improving the wider business environment**: The ability of defence to drive growth depends on fixing wider barriers across the economy. Skills shortages, high energy costs and inadequate infrastructure remain major obstacles. Cross-government action is needed to deliver reforms in STEM education, industrial energy pricing and critical infrastructure to enable defence-led growth.

9. **Getting governance and accountability right**: The Defence Industrial Strategy should operate as a 10-year national mission led by the National Armaments Director, with clear milestones and metrics. The Defence Growth Board should meet quarterly with wider departmental membership to reflect the cross-government nature of the task. The Defence Industrial Joint Council should guide implementation, and progress should be reported annually to Parliament through Growth Statements.

In conclusion, defence can make a significant contribution to both national security and economic renewal—but only if the Defence Industrial Strategy provides clear sovereign priorities, measurable economic objectives, coordinated governance, and consistent support for exports, innovation, and SMEs.

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I am copying this letter to Tan Dhesi, Chair of the Defence Committee.

Kind regards,

Liam Byrne

Chair of the Business and Trade Committee

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Business and Trade Committee submission on the Defence Industrial Strategy

The Strategic Defence Review suggested defence has "significant untapped potential" to act as a "new engine for growth at the heart of the UK's economic strategy."[5] We agree. At the outset however, the Government must be clear about three basic strategic questions:

1. What sovereign capabilities does it want for the UK?
2. What contribution to growth does it seek from defence spending?
3. How will it measure and report on progress?

There then follow nine imperatives to maximise the delivery of defence spending to the growth mission:

1. Maximising synergies with industry and industry spill-overs
2. A sophisticated strategy for innovation
3. Maximising regional growth
4. Maximising the positive impact of net exports
5. Transforming defence procurement
6. Guaranteeing multi-year budgets
7. Be clear about when we will 'buy British'
8. Improve the wider business environment
9. Getting the governance and accountability right

1. Defining the right sovereign capabilities

The Strategic Defence Review has defined the threats that the UK faces and the capabilities we must now build to keep our nation safe. It is clear that our national security in turn rests on our economic security. Key to ensuring our economic security is to ensure we have the right sovereign capabilities as a nation. Until we are clear about the sovereign capabilities we want 'on-shore' we cannot begin to estimate what effect defence spending could have on domestic economic growth.

Witnesses from the defence industry impressed upon us the need for clarity about the sovereign capabilities the UK needs.[6] Sovereign capability could range from everything from being more self-sufficient in munitions through to capacity in technologies, such as batteries, that might play a pivotal role in future conflict.[7] A senior representative from BAE Systems, a defence company, told us, "we cannot do it all, so there must

[5] Ministry of Defence, Strategic Defence Review: Making Britain Safer: secure at home, strong abroad, June 2025
[6] Q294 [Adam Forgiel-Jenkins]
[7] Q294 [John Howie]

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be a conversation with Government and industry partners to identify where it is we want to have that resilience and hold that sovereignty."[8] We also heard from industry that there are technologies that the UK should look to be self-sufficient in, such as autonomous systems, partly due to their "use in battle" but also because they are technologies the UK should "try to be at the forefront of".[9]

The Ministry of Defence (MoD) should be clear about what it means by 'sovereign capability'. There are, as Professor Edgerton (Hans Rausing Professor of the History of Science and Technology and Professor of Modern British History at Kings College London) explained, different levels of sovereign capability.[10] Having the ability to use a specific capability is different from the ability to repair and maintain one. This is different again from the ability to build something entirely, with a supply chain from raw materials through to finished product.[11] For example, industry told us that the UK has kept the production of submarines and more complex warships onshore, but that auxiliary ships have been "allowed to be internationally procured".[12] However, it is difficult to be truly self-sufficient in some areas without self-sufficiency in technologies that underpin them. Semiconductors is a prime example, batteries are another. A defence SME specialising in drones, for example, told us about the difficulties it has experienced sourcing semiconductors.[13] We heard from Babcock International that the "UK needs the ability to deploy equipment knowing that it has access to a supply chain that is not hindered by foreign governments or being third in the supply chain with two other customers."[14]

Part of this calculation is the plan to de-risk defence critical supply chains. The Strategic Defence Review said relatively little about how the Government planned to address this, yet the defence sector is exposed to risks of supply chain disruptions that much of the rest of industry is grappling with. NATO, for example, has noted that the defence sector has increasingly complex supply chains, which are vulnerable disruptions.[15] For example, the defence and aerospace sectors rely heavily on foreign sources of critical minerals.[16] The Task and Finish Group on Industry Resilience on Critical Minerals, for example, highlighted that a disruption to the supply of critical minerals would have "significant consequences" for the UK's "economic and national security", particularly in circumstances where the UK relies on imports from hostile

[8] Q263 [Adam Forgiel-Jenkins]
[9] Q264 [John Howie]
[10] Professor David Edgerton (IND0111)
[11] Professor David Edgerton (IND0111)
[12] Q264 [John Howie]
[13] Q270 [Chris Daniels]
[14] Q257 [John Howie]
[15] North Atlantic Treaty Organisation, Defence-Critical Supply Chain Security Roadmap, July 2024
[16] Department for Business and Trade, The Task & Finish Group Report on Industry Resilience for Critical Minerals: An analysis of sector risks and recommendations for the UK's supply chain resilience, December 2023

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states.[17] The Task and Finish Group noted that defence and aerospace remain reliant on Russian supplies of titanium, despite "efforts to diversify supply chains."[18] The defence technology also relies on rare earth minerals.[19] China controls much of the supply chain for rare earths and imposed export controls on the US in response to tariffs imposed on China.[20] The previous Government's Critical Imports and Supply Chain Strategy outlined that the MoD has taken a series of steps to predict and respond to supply disruptions. These include:

- working with industry to identify potential vulnerabilities in supply chains for key raw materials and components.
- creating a supply chain tool that monitors defence-related supply chains and alerts the department to issues.
- establishing a Supply Chain Contingency Fund.
- requiring sectors to maintain stockpiles of critical goods that are essential for national security.[21]

The Defence Industrial Strategy needs to set out the sovereign capabilities the Government believes the nation needs and how the Government will ensure the resilience of the defence supply chain. We recommended that:

- **The Defence Industrial Strategy sets out the sovereign capabilities it believes we need, the principles that underpin a resilient defence supply chain and the approach it will take to ensure the Armed Forces and defence industry can rely on a sufficient, stable and secure flow of the resources they need.**
- **The new National Armaments Director undertakes a defence supply chain audit or review that helps establish the most urgent supply chain risks that need to be addressed.**
- **The need for the UK to strengthen and diversify defence supply chains should be a reflected in international defence partnerships.**

[17] Department for Business and Trade, The Task & Finish Group Report on Industry Resilience for Critical Minerals: An analysis of sector risks and recommendations for the UK's supply chain resilience, December 2023
[18] Department for Business and Trade, The Task & Finish Group Report on Industry Resilience for Critical Minerals: An analysis of sector risks and recommendations for the UK's supply chain resilience, December 2023
[19] Department for Business and Trade, The Task & Finish Group Report on Industry Resilience for Critical Minerals: An analysis of sector risks and recommendations for the UK's supply chain resilience, December 2023
[20] Why China curbing rare earth exports is a blow to the US, BBC News, 17 April 2025
[21] UK Government, Critical Imports and Supply Chains Strategy, January 2024

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2. The precise ambition for growth

Once Government is clear which economic capabilities are needed onshore, it becomes possible to estimate the contribution of defence spending to UK growth by detailing the composition of defence spending. Defence spending can boost economic growth[22] and help improve productivity in the long-run.[23] For example, Dr Ilzetzki explained that:

> During WWII, U.S. shipbuilders and aircraft manufacturers achieved dramatic improvements in output per worker through innovations in workflow, labour management, and mass production. These efficiency gains were not confined to wartime production—they diffused to civilian sectors in the postwar period.[24]

However, not all defence spending will drive growth to the same extent, indeed the economic benefits of defence spending are far from guaranteed. Simply spending more on defence is not, as Dr Ethan Ilzetzki (London School of Economics) told us, a "panacea for growth" nor a "growth strategy in and of itself."[25] Professor David Edgerton explained that defence spending has "no greater inherent capacity to generate growth than other kinds of government expenditure"[26] and indeed defence spending might even "damage growth", depending on the "extent that defence expenditure shifts resources from civil productive capacity and innovation."[27]

The Spending Review confirmed that the Government is "taking steps to ensure the funding provided for defence drives growth", with defence spending "weighted towards capital" and with priority given to "R&D and innovation."[28] Yet the Strategic Defence Review makes clear that there are various competing pressures on the defence budget, from replenishing stockpiles through to the development of cutting-edge technological capabilities.[29] A sizeable amount of funding will be needed to sustain the size of the Armed Forces and to reverse their so-called 'hollowing out'. Significant defence spending will inevitably go towards resources, materiel and other requirements that are solely for military use. Until the Government becomes clearer about the composition of defence spending, it will be hard to set the right approach to maximising defence-driven economic growth.

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[22] Dr. Ethan Ilzetzki (IND0112)
[23] Dr. Ethan Ilzetzki (IND0112)
[24] Dr. Ethan Ilzetzki (IND0112)
[25] Dr. Ethan Ilzetzki (IND0112)
[26] Professor David Edgerton (IND0111)
[27] Professor David Edgerton (IND0111)
[28] HM Treasury, Spending Review 2025, CP 1336, June 2025
[29] Ministry of Defence, Strategic Defence Review: Making Britain Safer: secure at home, strong abroad, June 2025

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3. Setting and measuring the right goals

Once the Government has clarified the basic questions of sovereign capabilities and composition of defence spending, it must then be clear about the contribution to economic growth we can expect from defence spending. The evidence we received suggests the scale of shift in the UK's defence spending is only expected to have a moderate increase on growth. The Office for Budget Responsibility's (OBR) latest Economic and Fiscal Outlook in March 2025 noted that reallocating resources from overseas Official Development Assistance (ODA) to defence spending is expected to contribute to a "small near-term demand-side boost to the economy", largely based on the expectation that a much higher proportion of defence spending will be spent domestically.[30] Dr Ethan Ilzetzk from the London School of Economics echoed this point. Dr Iletzk noted that the uplift in the UK's defence spending, as percentage of GDP, is only likely to increase GDP by a moderate amount - "hardly a transformative growth strategy."[31]

When we heard from the Minister of State for Defence Procurement and Industry on 26 March 2025, the Government had yet to decide which metrics to use to track the Defence Industrial Strategy's contribution to the wider industrial strategy and Growth Mission.[32] The Strategic Defence Review recommended that the MoD measure the "national economic impact of defence spending and procurement, especially within defence and dual-use technology sectors" and also measure "productivity within defence and, separately, of industry."[33] The evidence we have taken suggests that this would be a good start but not enough. ADS, a trade body for the defence, aerospace, security and space industries, told us that:

> Measuring progress requires transparent, evidence-based metrics that track not only headline growth in turnover, productivity, and exports, but also the diffusion of innovations through supply chains, progress in decarbonisation, and the regional distribution of newly created jobs.[34]

We agree with the Government's decision, even in difficult economic and fiscal circumstances, to increase defence spending. We note that more money for defence has come at the expense of other government departments. The onus is now on the Government to demonstrate that extra spending on defence can drive growth, not damage it. Doing so is even more important with defence spending due to increase further in the next Parliament.

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[30] Office for Budget Responsibility, Economic and Fiscal Outlook, March 2025
[31] Dr Ethan Ilzetzki (IND0112)
[32] Q396 [Maria Eagle]
[33] Ministry of Defence, Strategic Defence Review: Making Britain Safer: secure at home, strong abroad, June 2025
[34] ADS (IND0011)

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We welcome the Government's announcement in the Spending Review that it will weight the increase in defence spending towards capital expenditure, with priority given to research, development and innovation.

We recommend that the new National Armaments Director should be required to report annually to Ministers, Parliament and the Industrial Strategy Council on the progress of the Defence Industrial Strategy. We recommend that the progress report includes a Growth Statement detailing the contribution the DIS is making to the industrial strategy and the wider Growth Mission, which should include estimates of the economic benefits that are expected to accrue from spending across different aspects of the defence procurement portfolio.

We recommend that the Defence Industrial Strategy should include a broad framework of metrics and targets to monitor the contribution of the DIS to the industrial strategy and Growth Mission. We agree with the proposed metrics on national economic impact and productivity recommended by the Strategic Defence Review. However, the forthcoming DIS would benefit from additional measures designed to track:

- **revealed comparative advantage and technological advantage within defence and dual-use areas;**
- **the number of high-IP companies that the DIS is helping to create and sustain, as recommended by the SDR;**
- **the diversity of supply chains, especially the number of SMEs within the defence supply chain;**
- **the diffusion of innovation through supply chains, including the growth and productivity of SMEs within the defence industry; and**
- **measures to assess how the Defence Industrial Strategy is supporting regional growth, including the distribution of new, skilled jobs across the country.**

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MAXIMISING THE IMPACT OF THE DEFENCE INDUSTRIAL STRATEGY

1. Maximising synergies with industry and industry spill-overs

Once the Government has set the basic parameters of the Defence Industrial Strategy, it should then maximise the synergy with industry by building a closer relationship between defence and other related parts of industry in a way that provides mutual benefit, with innovations in defence spilling over into civilian industries and vice versa (e.g. enabling the military to benefit from advances in civilian technologies that can be applied to defence). The evidence we received also implies that maximising the economic benefits of defence spending must be a cross-government endeavor. The ability of defence spending to stimulate growth partly depends on the presence of conditions (e.g. the amount of slack within the economy) and complementary policies (from the strategic use of defence procurement to supportive monetary and fiscal policies) that support, rather than act against, the stimulative effect of extra defence spending.[35]

To help achieve this, the Council for Geostrategy recommended that the forthcoming Defence Industrial Strategy should be a 10-year strategy that functions as a "mission statement" for the new National Armaments Director, with "quantifiable objectives, clear metrics for success and a timetable for implementation."[36] The advantage of a setting a clear mission is that is allows multiple industries, and other parts of society, to contribute.

If the Defence Industrial Strategy is to deliver growth as well as security, then it must be a cross-government endeavour. Aligning defence spending and economic growth, as noted above, entails a tricky balance. Government departments, and local government, will need to work together to foster greater integration between defence and other parts of the economy in a way that provides mutual benefit for defence and civilian industries. Local government, for example, a key partner in ensuring, for example, local skills provision reflects needs of the defence sector.

The defence sector also has strong links with other growth industries, especially in advanced manufacturing and digital technologies. Maximising spill-overs from defence spending is critical to maximising the impact of defence spending on wider economic growth. The Government, in the Strategic Defence Review, stated that the Defence Industrial Strategy will set out how the Government plans to capitalize on the synergies between defence and other priority sectors.[37]

Government should, therefore, recognise the reality that the defence sector shares much of its supply chain with the rest of industry. Airbus, a prime defence contractor

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[35] Dr. Ethan Ilzetzki (IND0112)

[36] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025

[37] Ministry of Defence, Strategic Defence Review: Making Britain Safer: secure at home, strong abroad, June 2025

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and aerospace company, told us that more than 50% of its supply chain is both defence and civil.[38] Airbus added:

> At the end of this Parliament, the best outcome would be to have policies that are coming out of the Government that reflect the industrial reality. By that I mean that there is not the artificial divide—or at least not such a tight artificial divide—between defence and wider advanced manufacturing.[39]

Cyber security is an area of expertise for the UK. It is also a substantial, and growing, source of defence exports.[40] The interrelationship between defence and other growth sectors, coupled with rising defence spending globally, provides an opportunity to build on the UK's existing comparative advantages and develop new ones.

2. A sophisticated strategy for innovation

Government needs a clear strategy to use innovation in defence to build on, and nurture, its existing industrial and technological strengths because we have struggled to get this right in the past. The UK struggles to support companies to commercialise their innovations in the UK. It is vitally important that the Government does not simply rely on technological innovation and SMEs as the single route to innovation and economic growth. A more nuanced analysis of UK advantage and its strengths is needed.[41]

SME's are an important part of the strategy for innovation, but Government must recognise they are poorly supported today. We heard from one prime contractor that it has needed to step in to bailout SMEs within its supply chain.[42] Without sufficient scale, it is difficult to sustain supply chains for certain capabilities. We heard, therefore, that the industry needs support from the Government to help with exports.[43] The SME we heard from also told us that the UK has not procured drones at scale and, therefore, has not properly stressed test that supply chain.[44]

The Strategic Defence Review stated that a new partnership with industry was needed create "the conditions under which high-IP companies can scale and grow."[45] The Government has announced plans to consolidate support for innovation into a new

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[38] Q274 [Oriel Petry]
[39] Q294 [Oriel Petry]
[40] A defence boost for productivity growth? Bennett Institute of Public Policy, 7 March 2025
[41] Professor David Edgerton (IND0111)
[42] Q266 [John Howie]
[43] Q267 [Oriel Petry]
[44] Q270 [Chris Daniels]
[45] Ministry of Defence, Strategic Defence Review: Making Britain Safer: secure at home, strong abroad, June 2025

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body, UK Defence Innovation, with a budget of £400m to "fund and grow UK-based companies."[46] This is a good step forward but we note wider reform is needed. The need for a single hub for defence innovation for example has been highlighted by industry and others.[47] We heard from one defence SME that a single hub for defence innovation, with a dedicated liaison person, is needed to support companies through the various stages of their development.[48] The UK also struggles to diffuse innovation across the economy.

We recommend that the Defence Industrial Strategy sets out how the Government plans to use innovation in the defence sector to support economic growth and the aims of the wider industrial strategy.

We welcome establishment of UK Defence Innovation. We recommend that the Defence Industrial Strategy sets out how the new body will support companies to scale-up and grow. Companies eligible for support should have a single coordinator who can support them through their journey to scale-up innovations.

3. Maximising regional growth

The defence sector is well positioned to support regional growth. For example, ADS, a trade body for the sector, told us that some 71% of jobs in the sector are outside of London and the South-East.[49] Jobs in related industries (e.g. aerospace, space and security) follow a similar pattern. They added that "focusing on these industries stimulates high-skilled employment in areas that are otherwise vulnerable to economic underperformance."[50] ADS told us that:

> The Government can reinforce this trend by creating or strengthening clusters, supporting local infrastructure improvements, and linking training schemes to the specific needs of regional anchor employers.[51]

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[46] HM Treasury, Spending Review 2025, CP 1336, June 2025
[47] Q294 [Chris Daniels]; Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[48] Q294 [Chris Daniels]
[49] ADS (IND0011)
[50] ADS (IND0011)
[51] ADS (IND0011)

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We strongly welcome the Government's intention to introduce "Defence Growth Deals across the UK, leveraging defence investment to create regional industrial clusters across priority sectors."[52]

4. Maximising the positive impact on net exports

UK industry is well positioned to capture the benefits of increased defence spending in other countries, which may be looking to the UK to reduce their dependence on the US.[53]

- The Bennett Institute for Public Policy has suggested that the UK "still has one of the largest defence sectors in Europe with significant capabilities that can exploited and scaled up."[54]
- The Council on Geostrategy pointed out that the UK's defence sector is one of the most advanced in the world.[55] They added that over the last decade, defence spending globally has been on an upward trajectory and has risen rapidly since 2021 and argued that "these significant defence spending increases look set to continue."[56]
- The Council pointed out that defence spending by countries in the EU increased to £270 billion between 2021 and 2024 – a 30% increase.[57] By 2027, spending within the EU is due to rise by a further £83 billion in real terms.[58] In this context, the Council argued that there are "considerable" economic benefits if the UK can increase its industrial capacity and reform the defence industry to "place a stronger emphasis on exportability." [59]
- Airbus mentioned that the "UK just needs to be alive and agile" because other countries could "look to the UK for certain capabilities in a way that they might not have before."[60]
- BAE Systems told us that exports of Typhoon, a fighter jet, has returned nearly £30 billion to the UK, while the upfront costs of the programme came to £10-12 billion.[61]

[52]HM Treasury, Spending Review 2025, CP 1336, June 2025
[53] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025; Q288 [Oriel Petry]
[54] A defence boost for productivity growth? Bennett Institute of Public Policy, 7 March 2025
[55] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[56] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[57] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[58] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[59] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[60] Q288 [Oriel Petry]
[61] Q292 [Adam Forgiel-Jenkins]

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In this context, defence exports are crucial to promoting growth and sustaining the UK's sovereign capabilities. However, we heard that the UK lags behind other countries in the way the Government supports the sector to export.

- Babcock International told us that industry in other countries' benefits from "Government-level deals that are broader than just the defence product."[62] They stressed the importance of having ministerial-level support for export deals and said that this "is an area where relatively little money would make a huge difference."[63]
- Airbus emphasised the importance of a "Government-to-Government wrapper" for defence deals, which they argued is "one of the big differentiators for the UK compared to some of our main competitors."[64] The Minister of State echoed the importance of Government-to-Government deals.[65]

We also heard that it is essential for exportability to be considered early in the defence procurement process. Babcock International explained that:

> We cannot export something if the intellectual property does not reside in the UK. When we choose to buy from an international supplier, the chances are the intellectual property resides in its home market and so that is where exports happen from. There is an unbreakable link between domestic procurement and export capability. The Type 31 is exportable because the design rights reside in the UK and the shipyard capability is in the UK. The global combat ship on the Clyde is the same.[66]

As part of our visit to Japan, we met with those involved in the Global Combat Air Programme (GCAP). The project is progressing well and heard a lot of positive feedback about the benefits of the UK's collaboration with Japanese and Italian partners on the project. The benefits of such partnerships are not confined to defence. Throughout our visit to Japan, the programme was cited as an example of how the UK can foster deeper and trusted economic and trade relationships with like-minded countries, such as Japan. The UK's defence industry welcomed the Security and Defence Partnership between the UK and the EU. However, ADS, in response to the announcement of the partnership, stated:

> While the agreement is an important step forward, further detail and ambition are now needed, particularly on industrial collaboration, to fully realise its potential. Therefore, the agreement should now be followed by concrete policy and legislative steps that provide the clarity and predictability needed for joint

[62] Q278 [John Howie]
[63] Q278 [John Howie]
[64] Q289 [Oriel Petry]
[65] Q413 [Maria Eagle]
[66] Q293 [John Howie]

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House of Commons, London SW1A 0AA
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> projects, enabling businesses on both sides to pool funding, knowledge and capabilities. This would enable the UK's and EU's innovative and dynamic defence sectors to act as force multipliers within a genuine European endeavour.[67]

The Pact does not currently enable UK defence companies to benefit from the EU SAFE Programme – a 150billion EURO fund that provides loans to defence projects.[68]

The increase in defence spending globally, especially among allies in Europe, presents an opportunity for the UK to increase its exports. However, the UK Government needs to play a more active role in supporting exports, beginning with consideration of the export potential at the beginning of a programme through to greater Government and ministerial support for sales to allies and trusted countries. Growing defence exports is a truly cross-government endeavour that must be actively driven by the Prime Minister, the Chancellor, the business secretary and the foreign secretary.

We welcome plans for the Government to establish a Defence Export Office. However, the Defence Industrial Strategy should set out further plans for how the new office will function and crucially how it will incorporate expertise from across government to support defence exports. The new office should be responsible for delivering a dedicated, cross-government Defence Export Strategy, with progress regularly overseen by the Defence Growth Board. We recommend that the Government, in the DIS, also establishes annual and five-year export targets across both new and existing programmes to measure the new office's progress.

We welcome the UK-EU Security and Defence Partnership, but the Government must now build on this to provide UK industry with further details on the steps both parties will take to support collaborations between UK and EU defence companies. In particular, the Government must seek to secure UK companies access to the EU SAFE programme.

5. Transforming defence procurement

We welcome the Strategic Defence Review's recognition of the need for radical root-and-branch reform of defence procurement. The problems with defence procurement have been well documented, including by select committees. If used strategically, we

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[67] ADS and ASD welcome UK-EU Security & Defence Partnership, urge swift implementation, ADS, 20 May 2025
[68] A modest beginning: the new EU-UK Security and Defence Partnership, UK in a Changing Europe, 19 May 2025

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heard from Dr Ilzetzki that defence procurement can "increase the long-run economic benefits" of defence spending by supporting "competition, innovation and long-term growth."[69] However, he added that "poorly designed procurement can concentrate benefits among a few incumbents and limit innovation."[70] The SDR is clear that this has for too long been the case in UK Defence, stultifying the innovation needed for effective deterrence through military competitiveness as well as for economic growth. To maximise the economic benefits of defence procurement, we heard that it is beneficial to:

- procure from firms whose products can be used by both civilian industries and the defence sector (dual-use firms). Doing so promotes spillovers from defence R&D into civilian industries but also enables the military to benefit from civilian technologies [known as spin-ons] that might have defence applications;[71]
- grant similar contracts to multiple firms. This helps to spread knowledge between competitors and promotes resilience;[72]
- avoid rigid specifications and focus instead on specifying strategic needs;[73] and
- provide support for SMEs, which can be drivers of innovation or may disproportionately benefit from government contracts.[74] ADS, for example, told us that "reducing bureaucratic burdens for SMEs—particularly up-front financial requirements and restrictive contract terms—would encourage a wider range of firms to contribute new ideas."[75]

We recommend that the Defence Industrial Strategy sets out the growth strategy that will underpin the Government's reforms to defence procurement, including the forthcoming Defence Investment Plan this autumn. To provide greater certainty to industry, we recommend the DIS identifies the priority strategic needs over the next year, the remainder of this Parliament and the 10-year span of the industrial strategy. These priorities should be reviewed annually by the Defence Industrial Joint Council.

Given the extra spending on defence and the pivotal role of defence procurement, we recommend that the Industrial Strategy Advisory Council undertake an assessment of the Government's approach to defence procurement to examine its effectiveness in supporting the aims of the wider industrial strategy and the Government's Growth Mission.

[69] Dr. Ethan Ilzetzki (IND0112)
[70] Dr. Ethan Ilzetzki (IND0112)
[71] Dr. Ethan Ilzetzki (IND0112)
[72] Dr. Ethan Ilzetzki (IND0112)
[73] Dr. Ethan Ilzetzki (IND0112)
[74] Dr. Ethan Ilzetzki (IND0112)
[75] ADS (IND0011)

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6. Guaranteeing multi-year budgets

Industry struggles to manage without the certainty provided by multi-year budgets, regardless of whether they are prime contractors or defence SMEs. One SME told us in March that they operate with an annual budget and received about £4million from the MoD last year.[76] However, with the next financial year only a few weeks away, the company did not know whether the spending would continue in the next financial year or not. They told us this makes it "impossible to plan for the business".[77] They said:

> We therefore always plan conservatively, do not hire enough people, because we are always on that edge of what happens if the MOD suddenly decide we are not going to get anything. The annualisation of budget, which is a lack of strategy, is a real problem for SMEs. We have done very well out of the MOD, despite the MOD, not because of it.[78]

ADS told us that "stable multi-year contracts in defence (informed by strategic planning) can be the difference between a UK-based manufacturer making large capital investments or shifting them overseas."[79] The Strategic Defence Review stressed the importance of crowding-in private investment. Multi-year budgets would give greater confidence to investors. Longer term contracts - and the certainty they bring - open the possibility that defence firms are able to access long-term financing from banks and capital markets. There is a case therefore for Government exploring whether specialist institutions such as a new multilateral defence bank could help expand the supply side of the defence industry. The Council for Geostrategy recommended that the Government establish a specific "Defence Policy Bank, through which stakes in new joint ventures and startup endeavours could be held."[80]

Without multi-year budgets, defence businesses, especially SMEs, are struggling to invest and plan. In the Defence Industrial Strategy, we expect to see a commitment from the MoD and the Treasury to provide more certainty to industry, with more widespread use of multi-year budgets.

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76 Q273 [Chris Daniels]
77 Q273 [Chris Daniels]
78 Q273 [Chris Daniels]
79 ADS (IND0011)
80 Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025

Business and Trade Committee
House of Commons, London SW1A 0AA
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7. Be clear about where we will 'buy British'

The MoD's Statement of Intent on the Defence Industrial Strategy signalled the Government's intention to prioritise UK business and scrap global competition by default.[81] We heard that the UK has one of the most open approaches to defence procurement that is often not reciprocated by other countries:

- Babcock International, a prime defence contractor, argued that the Government needs to understand when it is best to have an "open competition to get the lowest price or the fastest delivery" and when to give greater priority to social value and other strategic considerations.[82] They added that this "will not always be the cheapest or the short-term best solution, but it may ultimately be the one that delivers the best gross value add to the economy in the longer term."[83]
- Airbus told us about its frustration over the low weight assigned to social value considerations in a recent helicopter procurement contract which, had the company had been successful, would have led to investment in a factory in North Wales.[84]

We welcome the Government's intention to prioritise UK businesses and move away from a model of "global competition by default". However, the Defence Industrial Strategy needs to clarify how the Government plans to prioritise UK businesses, without losing the benefits of competition and not undermining the UK's international partnerships and alliances. We recommend that the DIS provides industry with a strategic steer on:

- **the extent to which social value (e.g. regional growth) and other strategic considerations (e.g. building and diversifying supply chains and strengthening the innovation ecosystem) will be given a greater priority across different elements of the defence procurement portfolio.**

- **the circumstances under which global competition will be retained, including any specific sectors or capabilities for which the benefits of global competition are likely to outweigh other strategic considerations.**

Industry needs the confidence that the Government will apply a consistent and transparent process when determining the extent to which global competition and other strategic considerations will be prioritised in defence

[81] Ministry of Defence, Defence Industrial Strategy - Statement of Intent, December 2024
[82] Q294 [John Howie]
[83] Q294 [John Howie]
[84] Q284 [Oriel Petry]

Business and Trade Committee
House of Commons, London SW1A 0AA
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procurement. We recommend that the DIS sets an overarching framework, with guiding principles, that set out how such decisions will be made.

8. Improve the wider business environment

In the industrial strategy Green Paper, Invest 2035, the Government outlined its intention to create a pro-business environment that addresses obstacles that hold back growth and deter investment.[85] The need to improve aspects of the UK's business environment also applies to defence. The Council on Geostrategy, for example, has stated that:

> Though the UK is an attractive defence investment destination because of its stable governance and innovative business culture, its human and physical capital requires major improvements if it is to compete for inward investment: transport, housing, energy and Science, Technology, Engineering and Mathematics (STEM) education are factors repeatedly cited as barriers to investment and operational expansion.[86]

The Council for Geostrategy argued that the delivery of the DIS will require an "economy-wide effort to improve skills, transport, education and access to the energy grid."[87] Energy costs and skills shortages, in particular, are among the most significant barriers to delivering economic growth outlined by decision-makers in the industry.[88] ADS told us that advanced manufacturing, whether in defence or other sectors, requires "cost-competitive electricity for industrial processes."[89]

The industry also requires an effective skills pipeline, especially in STEM subjects.[90] Parts of the sector are suffering from skills shortages. For example, Babcock International told us that shipbuilding has relied on "eastern European transient labour" for technical skills such as welding where there is a national shortage.[91] During our visit to BAE Systems' shipyard in Glasgow we saw first-hand excellent work to build the requisite skills in the industry through apprenticeships. However, the benefits of such initiatives take time. Addressing these barriers to growth requires a coordinated approach across government departments and at a local level.

Aspects of the UK's business environment, especially skills shortages, energy costs and infrastructure, will, if not addressed, inhibit the ability of

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[85] Department for Business and Trade, Invest 2035: the UK's modern industrial strategy, October 2024
[86] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[87] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[88] Council on Geostrategy, Securonomics: The contribution of a Defence Industrial Strategy, March 2025
[89] ADS (IND0011)
[90] ADS (IND0011)
[91] Q277 [John Howie]

Business and Trade Committee
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the defence sector to contribute to economic growth. The Defence Industrial Strategy needs to include a joined-up series of targeted interventions, across national and local government, to remove barriers to growth faced by the UK's defence industry, especially in skills, energy and other infrastructure, such as data centres.

9. Getting governance and accountability right

Defence Growth Board

The Government has established a Defence Growth Board which will function as an "internal cross-departmental board" that provides a mechanism for ministers to "drive the integration of economic growth considerations into defence."[92] In April, the Chief Secretary to the Treasury, Darren Jones MP, stated that the Board has been "created to maximise Defence's contribution to the Government's first priority, the Growth Mission."[93] He added that the Board will oversee the delivery of "relevant recommendations that emerge from the Strategic Defence Review where they relate to growth and industrial strategy."[94] The Board will be co-chaired by the Chancellor of the Exchequer and the Secretary of State for Defence and will be supported by the National Armaments Director and other departmental officials. The Board is due to meet "as required".[95] The Government has confirmed that "progress of the specific issues which come to the Board will be measured under milestones agreed between the Ministry of Defence and HM Treasury."[96]

Defence Industrial Joint Council

The Government has replaced the Defence Suppliers Forum with a new Defence Industrial Joint Council (DIJC). The Government has said that rationale behind the change is "to harness a wider, and more diverse set of defence expertise to shape the future of Britain's defence manufacturing, supply chain and innovation."[97] The new council met for the first time in June.[98] Members of the new council come from businesses at all levels of the defence sector (defence primes, mid-tiers and SMEs) as well as investors, trade unions, trade associations and experts. The Government said that Council has committed to "continually refresh and widen its membership."[99] The new forum is due to provide a means of a) sharing information between the market

[92] PQ 41396 [Defence Growth Board: Finance] answered on 1 April 2025
[93] PQ 41395 [Defence Growth Board: Strategic Defence Review] answered on 3 April 2025
[94] PQ 41395 [Defence Growth Board: Strategic Defence Review] answered on 3 April 2025
[95] PQ 42302 [Defence Growth Board] answered on 3 April 2025
[96] PQ 41395 [Defence Growth Board: Strategic Defence Review] answered on 3 April 2025
[97] Ministry of Defence, First meeting of defence industry body to forge new partnership and industry mobilization, 9 June 2025
[98] Ministry of Defence, First meeting of defence industry body to forge new partnership and industry mobilization, 9 June 2025
[99] Ministry of Defence, First meeting of defence industry body to forge new partnership and industry mobilization, 9 June 2025

Business and Trade Committee
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and government b) addressing coordination issues[100] and c) informing public and private investment strategies.[101]

The Defence Industrial Strategy should be at least a 10-year strategy with a clear national mission that is directed to the National Armaments Director, with milestones and metrics that reflect the UK's security and growth imperatives.

We welcome the establishment of the Defence Growth Board, as an internal cross-government mechanism to integrate economic growth into defence. However, we recommend that the Board meets at least quarterly and that its membership is widened to incorporate other government departments with a substantial role in maximising defence's contribution to economic growth.

We support the Government's decision to replace the Defence Suppliers Forum with the new Defence Industrial Joint Council. We recommend that the Defence Industrial Strategy provides more detail on how the council will be used to inform decisions about the implementation of the Defence Industrial Strategy and the forthcoming Defence Investment Plan.

We recommend that the Defence Industrial Strategy sets out the recommendations from the Strategic Defence Review that the Defence Growth Board will oversee, including the milestones that the Board will use to track progress. Progress against such measures should form part of the annual Growth Statement to Parliament.

[100] Investments in certain industries depend on technological developments and investments that take place in other parts of industry. For example, decisions around the transition to new methods of steelmaking are influenced by the progress of technological advances and investment in low-carbon sources of energy, such as hydrogen and carbon capture and storage.
[101] Ministry of Defence, Defence Industrial Strategy - Statement of Intent, December 2024