HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Liam Byrne MP
Chair of the Business and Trade Committee
House of Commons
Palace of Westminster
SW1A 0AA

17 July 2026

Dear Liam,

MULTILATERAL DEFENCE INVESTMENT

Thank you for your letter to the Prime Minister, dated 12 June, to seek the Government's assessment of either joining the Canadian-led Defence, Security and Resilience Bank (DSRB) or opening talks to combine the Multilateral Defence Mechanism (MDM) and the DSRB. With apologies for the delay, I am responding on the Prime Minister's behalf.

The UK and many other EU NATO countries have committed to significant increases in defence spending. But the defence procurement landscape is fractured and inefficient, delivering poor value for taxpayers, and weak coordination with NATO allies – for example, while the US produces one type of howitzer and one type of battle tank, Europe produces five howitzers and over ten tanks.

The Multilateral Defence Mechanism (MDM) presents our opportunity to fix those problems. This is an innovative and creative way of financing defence spending that provides greater purchasing power, allowing participating countries to improve their capability within unavoidable fiscal constraints, while limiting the need for challenging cuts elsewhere. It will also provide demand certainty to industry and support the development of the UK defence industrial base.

The mechanism will be an independent international financial institution, with sovereign countries as members and functions to include:

- Joint procurement: bringing countries together to buy equipment collectively. This will aggregate demand and standardise defence procurement, pushing down the costs of buying equipment and making our money stretch further, as well as giving greater demand certainty for industry.

- Stockpiling: allowing the entity to acquire consumables on its balance sheet. The stockpiling function means that the costs of investment only hit national accounts when those capabilities are drawn down. That means that the UK can invest more upfront without crowding out other spending.
- Lending: providing sovereign lending for joint procurement and supply chain financing – including SMEs - to deliver orders, expand production and remove financial bottlenecks that would otherwise slow capability delivery.
- R&D: over time the option of supporting early-stage R&D innovation and capability development so countries can invest in the next generation of defence tech and catch up with the US.

My officials and I have been working closely with the Defence Secretary and the Ministry of Defence (MOD) officials on the development of the MDM. MOD officials attend MDM working group meetings with partner countries alongside HM Treasury, for example, and I fully expect this collaboration to continue, both in the development of the mechanism and in supporting its implementation and operations. The Defence Investment Plan – which was collectively agreed by Cabinet – includes £400 million towards the UK's contribution to the MDM.

Internationally, the UK has been working as part of a core group of allies on the development of the MDM. Ahead of the NATO Summit in Ankara, on 7 July, the United Kingdom, the Netherlands, Finland, and Poland issued a joint statement noting that we are making significant progress to develop the new Multilateral Defence Mechanism together with partners and aim to move quickly to formal treaty negotiations, respecting individual members' ratification processes, while maintaining the shared ambition of setting up the MDM by 2027.

Regarding the relationship between the MDM and the DSRB, on 8 July 2026 Prime Minister Starmer and Prime Minister Carney of Canada issued a joint statement on defence financing. This noted that the efforts of the countries supporting the DSRB and MDM have a high degree of complementarity, and, taken together can serve to improve defence investment throughout the supply chain. Both governments will continue to engage closely to ensure the respective initiatives develop in a coherent and mutually supportive way.

Both initiatives have been developed in response to a shared recognition that allies must work together to strengthen defence capability, industrial capacity and collective security. The DSRB primarily aims to address a gap in the current international architecture by focusing on financing for defence industries and supply chains. While no doubt beneficial, this is secondary to the broader aspects of the defence expenditure challenge which the MDM seeks to address, based on defence sector and banking feedback. In addition to the MDM's financing functions it will tackle fragmented procurement, create more predictable demand for industry, improve interoperability between allies and support the delivery of military capability, through coordinated action within a single institution. The DSRB doesn't aim to address the challenges of fragmented procurement or fiscal constraints, so I see the need for the MDM to go further.

While the government has chosen not to join the DSRB given the limited benefits, I see a strong case for integrating the models more closely, potentially ultimately creating a single entity bringing together NATO allies. This would collectively cover the demand-side (that is the MDM's coordinated procurement and stockpiling) and the supply-side (the DSRB's focus on industry finance). We will continue to discuss with the Canadian government, partners and likeminded countries.

I hope that you find this information helpful. I am copying this letter to the Chairs of the Treasury Committee and the Defence Committee.

Yours sincerely,

Rachel Reeves

RT HON RACHEL REEVES MP
Chancellor of the Exchequer