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STEEL ONESELF FOR A DIFFICULT DEFENCE READ

THIS summer a written Parliamentary question was tabled on increasing the use of British-produced steel in Defence contracts. The reply received was: “While steel used in our major Defence programmes is generally sourced by our prime contractors from a range of UK and international suppliers, Ministry of Defence procurement activity will continue to apply PPN 022,² a policy aimed at increasing the use of British-produced steel in public contracts.” As the year ends, what is the state of affairs? Is British steel increasingly used in Defence programmes? Where does UK Defence steel come from?

BRITISH STEELMAKING

Since the 1970s, global steelmaking has periodically faced adverse market conditions and crises. Britain is not unique and the reasons over the decades have varied. Today, British steelmaking is again in crisis. The principal dynamic is energy costs. Steelmaking is energy intensive. Britain has the [highest](#) industrial energy costs amongst EU and International Energy Agency (IEA) member countries, and the [second highest](#) domestic energy costs.

[Three main factors](#) contribute to Britain’s uniquely disadvantaged position. First, the UK uses natural gas to set the marginal price for wholesale energy costs. Under this system, the

final and most expensive unit of supply needed to meet demand sets the price for all electricity sold. This is why – as often explained – more renewables will not decisively reduce UK energy costs; as long as natural gas is in the energy mix, which it will be for decades, and the UK government uses natural gas to set the marginal price, then gas will determine costs on any given day. In [2024](#) (last available data) gas set the market price 85 per cent of the time. Even if gas contributed one per cent on any given day, it would be gas that would set the price for the remaining 99 per cent of energy sources.

[Second](#), renewable obligations, feed-in tariffs and the climate

change levy collectively account for about 10 per cent of industrial users’ electricity bills.

[Third](#), British industry (and domestic consumers) continue

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²Policy Procurement Note 002, introduced in the summer of 2026, requires the reporting of actuals data include a value threshold, applying to projects/programmes with a value of £10 million or more; or where it is anticipated that the project will require in excess of 500 tonnes of steel; essentially it is a transparency directive to collate accurate data on UK steel procurement.

to pay for renewables that came online several years ago when costs were higher. Under the generous contracts for difference (CfD) system, introduced in 2014 to promote renewables, generators were given price certainty over 15-year contracts. Even without the CfD obligations, land, labour and materials remain major costs in the renewables industry; and these continue to rise in price. Lastly, solar and wind are subject to the weather and are frequently offline. Renewables consequently need backup capacity, as well as storage, transmission and system balancing. The construction of this infrastructure adds further costs to bills.

It should be acknowledged the UK government has recognised the steel industry requires intervention. In the summer of 2026, a UK [steel strategy policy paper](#) was released (updated 14 October). A range of measures have been proposed; the detail is outside the scope of this article.

THE SOURCE OF STEEL IN UK PROCUREMENT PROGRAMMES

The uncompetitiveness of British steel has disadvantaged the industry as a supplier to UK Defence procurement programmes. Naval shipbuilding has the largest requirement for steel (Type 26 and Type 31 programmes, and Belgium and France are currently the majority

suppliers for the Dreadnought programme).

In the case of Land programmes:

■ 2026 steel actuals data for the Challenger 3 upgrade (including the classified Epsom armour) record 66 per cent sourced from the UK.

■ 2026 steel actuals data for the £5.5 billion Ajax programme record 100 per cent sourced from Sweden (294 full tonnes). However, as the hulls were made at the Santa Bárbara plant in Trubia (northern Spain) it may be reasonable to assume steel was also sourced from Spain in the past.

■ The story of the £3.1 billion ‘British Boxer’ programme offers a contrasting example. Here a decision was made to onshore manufacture (rather than just assemble components manufactured abroad). Even so, 2026 actuals data record Sweden supplied 100 per cent of the Boxer steel requirement (386 full tonnes).

SO WHAT?

If a goal of British Defence procurement is to stimulate British industry, current steel policy fails. British Defence procurement is supporting tens of thousands of direct and indirect jobs in the steel industries of at least 17 countries, a proportion of which have old, ‘dirty’ industries; the reason why mills have been



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closed in Britain. Following on, if a Ministry of Defence goal is to support net-zero targets, the policy also fails. It is disingenuous to stand on a pedestal of climate change virtue if all you have really done is export the CO² emissions to another country across the English Channel. If it is Ministry of Defence policy to achieve Defence equipment sovereignty, plainly, the policy fails. Britain could not make its warships, tanks or other kit if foreigners did not supply us with steel. The British steel industry is currently supplying around six per cent of the steel requirement by tonnage for Defence procurement programmes.

But what if the goal is reductionist: buy the cheapest possible steel. Is this policy a success? The answer is ambiguous. While it is the case Defence primes have been sourcing cheap

foreign steel, from 1 July, the UK government imposed a 50 per cent tariff on steel import quotas [in an effort](#) “to prevent the total erosion of the UK’s domestic steel industry”. Wider manufacturing dependent on imported steel [has warned](#) the measure will push up UK manufacturing costs and drive jobs abroad. In the case of Defence, when pressed by the Opposition, the Minister for Defence Readiness and Industry conceded, “I mean, quite potentially, yes [costs will rise], given the fact we buy steel on the open market”. In fact, it is not ‘potentially’ but rather actually. The policy is an example of where the Government has imposed a cost increase on Defence programmes on itself. For those with long memories the debate reprises the philosophical struggle between the late Tony Benn – the last of the left-wing ‘economic nationalists’ – and Margaret Thatcher the ‘free-marketeer’. Ironically, Labour wanted out of the European Economic Community and the Conservatives wanted in. How times change.

The Ministry of Defence does not make energy, climate change or steelmaking policy. It is another government department that must navigate the consequences of wider government policy. The principal consequence is that British Defence procurement programmes will support the jobs and steel industries of other countries now and into a foreseeable future.

