

## **Defence Industrial Strategy Offsets**

*Written Response to Consultation by Ministry of Defence*

### **Overview**

The Society of Maritime Industries (SMI) believes that a UK offset policy could deliver significant industrial, economic and capability benefits, provided it is flexible, outcome-focused, proportionate, and aligned with wider Defence Industrial Strategy objectives. Poorly designed, however, it risks increasing cost, bureaucracy and market concentration without strengthening sovereign capability.

### **1. What are the benefits and risks of introducing an offset policy in the UK?**

#### **Benefits**

##### ***Levelling an uneven international playing field***

A consistent message from industry is that the UK is currently an outlier. Almost every other defence market operates either a formal or informal mechanism to protect and grow its domestic industrial base. UK companies routinely report international companies must offer demonstrably better value, often requiring significantly lower prices or superior non-price benefits, to overcome France's inherent preference for its own defence contractors in major submarine programs to secure work. A UK offset policy would rebalance this asymmetry and align the UK with normal international practice.

##### ***Driving inward investment, technology transfer and capability uplift***

A comprehensive offsets regime would incentivise overseas primes to invest more systematically in the UK through facilities, skills, technology transfer and long-term partnerships. This can deliver genuine transfer of technology and design authority, strengthening UK Armed Forces capability while anchoring higher value industrial activity domestically.

##### ***SME access and supply chain deepening***

If designed around capability and market-access outcomes (qualification, cyber and quality accreditation, vendor onboarding), offsets can materially widen participation of UK SMEs in defence supply chains, rather than concentrating value with a small number of incumbents. This is particularly important in sectors such as shipbuilding, naval systems, sensors and autonomy.

##### ***Jobs, regional growth and clustering effects***

Targeted inward investment can create and protect skilled jobs, particularly if aligned with existing regional clusters near naval bases and industrial hubs. This supports levelling-up objectives while reinforcing defence resilience.

## **Risks**

### ***Excessive cost and reduced access to capability***

A recurring concern, particularly from international suppliers, is that overly burdensome offset obligations could price some high-quality solutions out of the UK market, especially for smaller programmes where the cost of participation outweighs contract value. This could ultimately disadvantage the end user.

### ***Bureaucracy and “one-size-fits-all” design***

If implemented as a rigid, process-heavy system, offsets risk becoming bureaucratic, slowing procurement and discouraging investment. Industry strongly favours empowered decision-making and outcome-based flexibility over prescriptive compliance.

### ***Undermining sovereign capability if poorly targeted***

Offsets that focus on short-term workshare or overcapacity risk hollowing out truly sovereign capabilities, particularly if foreign investment displaces rather than complements domestic industrial development.

### ***In-service support and workforce constraints***

International solutions can present long-term in-service support risks if suppliers do not commit to UK-based sustainment. Additionally, people mobility and immigration constraints may limit the practical delivery of some offset commitments.

### ***Failure to recognise existing investment***

A critical risk highlighted by major primes is that a new regime could unintentionally penalise companies already making substantial, long-term investments in the UK. Ignoring existing contributions risks disincentivising precisely the behaviour the policy seeks to encourage.

## **2. What are the opportunities for greater international collaboration, and what can be learned from other countries?**

### **Opportunities for collaboration**

#### ***Reciprocal access with allies***

A UK offsets framework could be used as a lever for reciprocity, enabling UK firms to secure more consistent access to allied procurement and supply chains, particularly within NATO and close bilateral relationships. Interoperability and collaboration should be enhanced, but not at the expense of UK workforce, skills and social value.

#### ***Strategic industrial partnerships***

Offsets can encourage co-development, co-production and long-term industrial partnerships rather than transactional procurement. This is especially relevant for complex naval platforms, sensors, combat systems and autonomy, where integration into allied programmes delivers enduring value.

### ***Export and supply chain positioning***

By recognising “market-access enablers” as offset credit, the UK can help its firms achieve supplier qualification and first orders into allied supply chains, supporting exports well beyond the life of any single MOD programme.

### **Lessons from other countries**

#### ***Australia***

The Australian experience shows that offsets work best when paired with practical supplier uplift mechanisms, not just contractual obligations. Government-backed qualification, test component programmes and structured engagement with primes are critical.

#### ***Norway***

Norway demonstrates the value of flexible, incentive-based approaches that prioritise capability outcomes over rigid quotas. This reduces friction while remaining compatible with international obligations.

#### ***Cross-cutting lesson***

Industry feedback consistently highlights the importance of learning not only what worked, but what failed, including how effectively government and industry collaborated, and how indigenous firms perceived the impact.

## **3. How would the introduction of an offset policy impact the defence market in the UK?**

### **Likely positive impacts if well designed**

- **More level competition for UK SMEs**, as overseas primes are required to invest locally, increasing their bid and delivery costs and reducing structural price disadvantages faced by domestic firms.
- **Greater productivity and competitiveness**, driven by investment in facilities, skills and technology rather than reliance on lowest cost bidding alone.
- **Attraction of international investment** into UK facilities, test infrastructure and long-term engineering capability.
- **Stronger, more resilient supply chains**, particularly if SME growth and qualification are explicit policy objectives.

### **Potential negative impacts if poorly designed**

- **Market concentration risk**, where large primes with deep pockets absorb offset costs and further entrench their dominance, reducing choice for MOD and crowding out SMEs.
- **Higher barriers to entry**, if offset obligations are overly demanding or unclear, discouraging innovative or niche suppliers from entering the UK market.
- **Short-term offset behaviour**, which may deliver visible compliance but damage long-term sovereign capability and resilience.

## Critical design considerations for market impact

- **Recognition of existing UK investment** by non-UK headquartered firms, building on rather than displacing current contributions (for example, major aerospace and combat air programmes).
- **Clear treatment of UK-headquartered firms**, ensuring that globally integrated UK primes are neither unfairly exempt nor unfairly penalised. This requires clear definitions of UK versus overseas suppliers and transparent mapping of supply chain value flows.
- **Explicit weighting towards SME growth and capability uplift**, not simply spend thresholds or headline UK content percentages.

## Summary

Across all inputs, there is broad agreement that **an offset policy is not inherently protectionist**, but that design is decisive. A flexible, outcome-based UK offsets regime, aligned with DIS objectives, recognising existing investment, and explicitly supporting SME capability growth, would correct long-standing structural disadvantages faced by UK industry while strengthening international collaboration and defence resilience.