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MoD targets exports with budget warships in new strategy

Written by Arpinder Baryana, Political Consultant on 8 September 2017



The MoD published its long-awaited National Shipbuilding Strategy this week, with Defence Secretary Michael Fallon hailing it as an “ambitious vision” for the future of UK shipbuilding.

The strategy accepts all 34 recommendations of industrialist Sir John Parker’s independent report in November.

It pushes three key aims: introducing more competition, thereby testing BAE Systems’ hold on UK shipbuilding; capping the cost at £250m per frigate to avoid the spiralling costs seen in previous programmes such as the Type 26; and building a position in the warship export market.

The new Type 31e would be half the size of the Type 26 and, it is hoped, a third of the cost. It would also be more adaptable to try and make it more exportable and attractive to foreign buyers. It comes, of course, at a crucial time when the Government will want to project British power around the world in order to shore up global influence against the background of Brexit.

Sir John himself said he was “impressed” by the new strategy and companies such as Babcock International welcomed it, seeing the opportunities it could create in the UK supply chain. The unions broadly welcomed the strategy but wanted the Government to go further and commit to a specific

pledge on the use of British steel.

Meanwhile in Scotland, the strategy was met with chagrin by the SNP who argued it was a “betrayal” of workers on the Clyde after the new Type 31e was promised to them along with a new frigate factory when the planned number of 13 Type 26 frigates was cut to eight, partly due to spiralling costs.

The Government argues that the new block build approach, with a fixed price set at the beginning of the procurement process, will avoid the pitfalls of previous projects, which became increasingly complex and faced numerous delays. The idea is that it will increase competition by opening the project out to multiple shipyards and create jobs around the country.

It comes at a time when the MoD budget is under increasing pressure from the depreciation of the pound driving up the cost of equipment bought overseas and a black hole estimated at £20bn-30bn over the next decade. It is currently required to find £10bn in additional efficiency savings to meet its equipment plan.

However, there is some doubt that introducing more competition will necessarily lead to lower costs. A study of UK shipbuilding since 1945 by Defence Analysis editor Francis Tusa showed it was difficult to lower costs by competition, as he said no one yard would be able to get the required skills and economies of scale to do so. In practice, it may be difficult to increase efficiency in this way.

Indeed, countries with similar programmes, such as France and Italy, mainly build in one location and even America builds mainly in two yards for its \$20bn a year programme.

The IISS identifies that a potential advantage of the block build is that it may be more attractive for foreign buyers looking to develop their own industries, as sections of their ships could be built in the UK. However, previous forays into exports have not met with much success, largely due to government inability to provide the kind of work flow needed to keep shipyards functioning and to retain skills.

With the shortfall in the MoD budget, it is still very unclear if successive governments will be able to fund a steady flow of new ships beyond the initial batch order of five Type 31e over the long term in order to actually drive down costs and make a success of the new strategy.

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