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Department for Energy Security and Net Zero  
1 Victoria Street  
London  
SW1H 0ET

22 May 2023

Dear Secretary of State,

### **SMI Response – Call for Evidence on introducing non-price factors into the Contracts for Difference Scheme**

I write as Chief Executive of the Society of Maritime Industries (SMI) to inform the Department for Energy Security & Net Zero on the call for evidence on introducing non-price factors into the Contracts for Difference Scheme.

The Society of Maritime Industries (SMI) is the trade association for the UK's maritime engineering, science and technology community – looking to enable maritime organisations and businesses of all sizes to thrive. This we do in various ways – including annual conferences, overseas events and trade missions. We support our members to raise their profile and enjoy meaningful collaborations. As a trusted advisor to the UK Government, we look to create new momentum and progress for the industry as a whole, and create new levels of maritime innovation, within our own member community and beyond.

The maritime sector plays a key role in our efforts to reach net zero emissions by 2050, contributing £46.1 billion to the economy every year and supporting 1.1 million jobs. On top of decarbonising its operations through the introduction of new fuel alternatives, more efficient technology, and green infrastructure, our sector must be ready to contribute to the accelerated growth of renewable energy sources such as offshore wind, which are already helping to advance necessary transformations across the economy. Offshore wind is rapidly gearing up to deliver increased capacity targets which is a rare and large opportunity for UK industry.

With its people, expertise, equipment and infrastructure, the maritime sector is present throughout the lifecycle of offshore wind – from the planning, surveying and development to the design, construction, installation, maintenance, crewing and eventual decommissioning of projects, their equipment and workstreams. Throughout this journey, offshore wind related activity takes place at sea, in ports and by the ocean, making use of the knowledge and expertise of maritime professionals from a wide range of industries including ports and shipping, offshore site surveying, manufacturing and engineering, and professional services including finance, shipbroking and legal services.

**Chief Executive: Tom Chant MBE**

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In light of its presence within offshore wind, the maritime sector is committed to bringing about a greener and more sustainable future for the UK and facilitating the development of those energy sources that will confidently take us there. The first step in this direction requires building on existing areas of collaboration, identifying opportunities that still lie underutilised, mapping the current barriers to collaboration and development, and setting out a plan to overcome these obstacles through government and industry action.

Maritime UK (MUK) is the umbrella body for the sector and in March 2023 with the support of SMI they launched the Offshore Wind Plan – <https://www.maritimeuk.org/media-centre/news/news-maritime-uk-launches-landmark-offshore-wind-plan/>

Introducing non-price factors into the Contracts for Difference Scheme is an important opportunity to improve the resilience, effectiveness and efficiency of delivery and operation and maintenance of UK offshore wind developments. It must include criteria that support the UK maritime engineering industry, including vessel build, refit and repair capability, skills and competitiveness.

If you require any further information, please do not hesitate to get in contact with SMI's Policy and Research Manager, Giorgio Buttironi, at [Giorgio.Buttironi@maritimeindustries.org](mailto:Giorgio.Buttironi@maritimeindustries.org).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'T. Chant', written in a cursive style.

Tom Chant MBE  
Chief Executive, Society of Maritime Industries (SMI)

**1. To what extent do you support the top-up model as a mechanism for implementing Non-Price Factors and are there any unintended consequences that come from this model?**

SMI supports either model for implementing Non-Price Factors. The offshore wind sector has been compared to a “Saudi Arabia of wind” and yet there is little in the way of UK maritime engineering benefitting from the growth of offshore wind. In France, offshore wind farms are seen as strategic assets requiring servicing by French built vessels. Our current CfD model encourages low prices but that means offshoring support services and industrial supply chain development to the benefit of our close international neighbours. Whichever model is selected, greater emphasis on the development of more resilient, sustainable supply chains which enable more effective and efficient through life support, operation and maintenance is required. For UK offshore wind development this would mean that bids higher in UK content, which stimulate organic skills development and build capacity within the UK should score more highly. This should include offshore support vessel build and refit and repair activity.

**2. To what extent do you support the bid re-ranking model as a mechanism for implementing Non-Price Factors and are there any unintended consequences that come from this model?**

See answer to 1. In addition, if there is concern about the risk of legal challenge to any changes to the UK mechanism it is noted that adopting a model similar to our European neighbours would allow an easier comparison and rebuttal of criticism.

**3. To what extent do you support the model of amending the valuation formula as a mechanism for implementing Non-Price Factors and are there any unintended consequences that come from this model?**

See answer to 1.

**4. Are there any additional risks of unintended consequences (e.g., for renewable energy deployment, auction design / competition and consumers) you have identified with certain models and think should be considered?**

There is certainly a factor that developers seek the lowest prices possible in their supply chains. This is entirely natural in the course of business but as has been recognised, this leads to a potential lack of resilience and fragility in delivery and through life support. In particular, UK vessel builders are competing on a global basis against state owned or supported entities. That international competition benefits from cheaper finance packages and guarantees which reduce their business risk and prices. This means that UK vessel builders are not competing on a level playing field in what are their own domestic waters. UK vessel builders receive no government backed finance or insurance packages for UK sales. There is a risk that future vessel build, refit and repair for UK offshore renewable energy projects could be significantly impaired if insufficient support is provided to the UK shipbuilding and repair enterprise. There are significant opportunities for commercial vessel types which align with the priority market segments identified in the National Shipbuilding Strategy (NSbS) Refresh, particularly Service Operation Vessels (SOVs) and Crew Transfer Vessels (CTVs).

The long-term, high volume, series build opportunities for these vessel types would be transformative for commercial shipbuilding in the UK.

## **5. Ways in which the models for a mechanism for implementation could be improved? Include:**

- Encourage procurement bodies to give higher weighting in the tendering process to projects opting to meet the UK content target in the Offshore Wind Sector Deal.
- Adopt a high Social Value target that benefits UK industry.
- Adjust the Maritime Capital Asset depreciation to reflect the technical lifetime of vessels, rather than the economic lifetime to create a more level playing field for manufacturers and incentivise purchasing of UK-made equipment.
- Introduce a suite of financial instruments similar to that available through UK Export Finance for the offshore wind market to create a more level playing field for UK maritime manufacturers also involved in the sector to compete with overseas competitors.
- Provide grants for infrastructure and production facility investment for offshore wind related projects, following the model set by the Floating Offshore Wind Manufacturing Investment Scheme (FLOWMIS).
- Reform the methodology for calculating UK content in ship construction, operation, management, and crewing also needs reforming, as it currently underrepresents UK value for existing operators.
- Invest in and implement the outcomes of the Clean Maritime Demonstration Competition (CMDCC) for government vessels.
- Revise tax incentives and campaign to 'build British', subject to an appraisal of the current UK shipbuilding capacity.
- Give higher weighting to low carbon footprint supply chains, which will make green and alternative fuels a competitive advantage.
- Establish a National Skills Academy for Maritime (Shipbuilding) piloted on the present and future skills required to support shipbuilding across the UK.

## **6. Are there alternative mechanisms that government should be considering (including models outside of the CfD mechanism)?**

Greater emphasis on the Social Value framework could be usefully adopted, but care should be taken in doing so to value UK based social value and skills development in order to generate the necessary resilience and sustainability for UK offshore renewable energy projects.

## **7. Which projects (in terms of size) and technologies do you think should be eligible for non-price factors? In terms of potential non-price factors, views are invited on:**

The National Shipbuilding Strategy begins to provide a view of "Social Value" in UK projects. A minimum of 10% in civil projects and 20% in defence projects has been specified. It is still unclear to industry how this is measured and evaluated and changes from tender to tender. It does however begin to map a way forward which could benefit the UK maritime enterprise. If tenders had a social value element it would mean developers would need to find UK industry solutions.

Green technology – by supporting the adoption of UK developed green technology it provides UK industry with valuable domestic research, trials information and revenue.

Successful home waters deployment is required to build export sales. If your product or service is not used in your home waters it severely limits export opportunities.

**8. Are the factors outlined above on addressing capacity building, sustainability, skills and innovation, the right ones to meet supply chain challenges, and are there any unintended consequences or issues in terms of monitoring, that could come from these?**

These are the correct factors. Addressing UK capacity, skills, innovation and sustainability would improve the deliverability, operation and maintenance of UK offshore renewable projects. However, capacity building, skills and innovation only comes from confidence in orders. Maritime engineering, especially vessel building, is a capital-intensive industry with long lead times and tight margins. Vessel builders cannot speculatively create ideal infrastructure and build vessels without orders. Monitoring the capacity of the UK maritime engineering enterprise will also need to bear in mind the predicted future demand for wider maritime decarbonisation newbuild and retrofit activity. Support for the development of this capacity is an urgent requirement.

**9. Are there alternative non-price factors that should be considered?**

Given the general growth of the offshore wind sector, however, one major barrier for larger vessels relates to the installation of increasingly larger offshore wind turbine components.

The most significant barriers for vessel suppliers in the UK offshore wind sector are primarily linked to its rapidly evolving technologies and installation requirements, something that makes investment decisions for new vessels difficult. This is not unique to the UK and the offshore large installation vessel market, related to wind turbines, is wholly driven by large speculative investments in new builds or significant amounts of funding from banks used to invest in the vessels themselves.

The most significant barrier to entry for UK companies in this space is the early upfront costs required and the limited spread of experience with installation of offshore wind turbine components. There is one UK company with extensive experience of operating offshore wind installation vessels. Factors that do not encourage the contracting of larger vessels with a greater UK operational presence, or indeed the decarbonisation of such vessels, include:

- the drive for lower costs through the current Contracts for Difference (CfD) model;
- the limited understanding of the UK presence in vessel operations;
- the current supply chain plans;
- UK content methodology;

**10. Is valuing non-price factors the right approach to address the specific issues identified related to system flexibility, operability and locational signals, and could there be any unintended consequences or better ways to address these issues through the CfD scheme or other policy instruments?**

We do not believe there is an appetite for bypassing WTO rules or adopting a Jones Act ([https://help.cbp.gov/s/article/Article-23?language=en\\_US](https://help.cbp.gov/s/article/Article-23?language=en_US)) in the UK. This leaves the

Social Value mechanism as the best and only route to ensuring that UK industry is properly supported in their domestic market.

**11. Are there any other issues identified in the REMA case for change that could be addressed through non-price factors?**

See above.

**12. What financial value would need to be attributed to the potential factors outlined above to incentivise ambitious behaviour for each topic? In terms of quantifying and valuing non-price factors, views are invited on:**

**13. Are there alternative ways of measuring and monitoring the non-price factors than the examples outlined in this Call for Evidence. The government would also be interested in your views on whether there are any factors where a more qualitative method of assessment would be more appropriate?**

The Social Value model in the National Shipbuilding Strategy begins to offer a way forward for measuring and monitoring the benefit to UK industry. It is important to note that this should be a set and well-known list of UK focused factors and not changing for every tender. Large maritime engineering projects have detailed tender documents and it can cost companies several millions to put tenders together. Keeping the Social Value element standard would be welcomed by industry.

**14. How we could measure non-price factors to value system flexibility, operability, and location? Call for Evidence on introducing Non-Price Factors into the Contracts for Difference Scheme**

See previous comments on Social Value.

**15. Of the models for implementing non-price factors (top-up, bid re-ranking or valuation formula), are some likely to be more effective for certain non-price factors than others? In terms of compliance, views and invited on:**

**16. Are the compliance and penalty options for non-delivery appropriate and proportional, and whether other alternatives could be considered? In terms of timing, views are invited on:**

At present there is a target of 60% UK content for offshore wind plans but no organisation monitors or penalises the developer for not achieving that target.

We believe a standardised Social Value model would build compliance acceptance. Penalties should be strictly adhered to and reflect the difference in costs e.g. if a UK yard submitted a price of £50m for a vessel and a Chinese yard won the bid with a £25m bid then the penalty should be £25m.

**17. When would be the best moment to introduce non-price factors in the CfD process and is the government's initial suggestion (up to 2 years in advance) appropriate?**

Non-price factors should be introduced as soon as possible and be part of any development project. Anything less than that is not supporting UK industry.