

28-29 Threadneedle Street, London EC2R 8AY
Telephone: + 44 (0) 20 7628 2555
Email: info@maritimeindustries.org
Website: maritimeindustries.org



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

03 September 2023

Dear Jonathan,

INTRODUCTION OF NON-PRICE FACTORS IN CONTRACTS FOR DIFFERENCE

I am writing as Chief Executive of the Society of Maritime Industries (SMI) to share with you views and suggestions from our members on the introduction on non-price factors into the Contracts for Difference (CfD) scheme. This follows both our earlier response to the call for evidence on this subject, submitted on 22 May 2023, and your meeting with SMI's Policy and Research Manager – Giorgio Buttironi – on 21 June 2023.

Background

The Society of Maritime Industries (SMI) is the trade association for the maritime engineering, scientific and technology community, looking to enable maritime organisations and businesses of all sizes to thrive by organising annual conferences, overseas events, and trade missions.

The maritime sector plays a key role in achieving net zero by 2050 by generating £116 billion annually in aggregate turnover, supporting 1 million jobs, and delivering 95% of all UK trade. Decarbonising the maritime sector is crucial to attaining our collective ambition of net zero emissions by the middle of the century.

By virtue of their respective location at sea, the maritime and offshore renewable energy sectors are intrinsically connected. With its people, expertise, equipment and infrastructure, maritime is present throughout the lifecycle of offshore wind activity in ports and at sea, making use of the knowledge of maritime professionals from a number of industries such as ports, shipping and engineering through to professional services including finance, shipbroking and legal services.

The Offshore Renewable Energy Catapult estimates that 309 service operation vessels (SOVs) will be needed by 2050 to serve the rapidly burgeoning offshore wind sector in Northern Europe. This underscores the need for both government and industry to fully exploit the synergies between these two sectors and make the UK a global leader in the field.

The introduction of non-price factors in the CfD scheme provides the perfect opportunity to empower the UK's maritime supply chain to boost the credentials of the United Kingdom in this space and deliver regeneration and economic growth to coastal communities across the country.

Chief Executive: Tom Chant

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Recommendations

The introduction of non-price factors is a welcome step from government in stimulating the domestic supply chain and establishing certainty in order books throughout the maritime and offshore wind sectors. Ahead of the Department for Energy Security and Net Zero (DESNZ) publishing its consultation on the subject, SMI would like the Government to take a number of recommendations into account:

- Promoting the use of local content across the domestic supply chain.
- Levelling the playing field for UK businesses, especially SMEs, in the tendering process.
- Placing a premium on the socio-economic impact of new orders on coastal communities.

Promoting UK content

SMI members expressed their preference for ensuring that reforms to CfDs through the introduction of non-price factors result in the increased use of UK content for the construction of vessels used in the building and maintenance of developments in the offshore renewable energy sector, as well as in the components that make up offshore wind farms. In March 2023, Maritime UK – the umbrella body for the maritime sector – published the Offshore Wind Plan which, among other things, pointed to the need for government to work with industry to achieve the 60% UK content target outlined in the Offshore Wind Sector Deal.

Increasing the amount of UK content in SOVs operating within the offshore wind sector and the wind farms built along the UK's shoreline, both fixed and floating, would generate a number of tangible benefits such as bringing about a more environmentally sustainable and decarbonised supply chain – through the reduction of carbon emissions linked with transporting required construction materials from remote locations overseas – along with generating investment in coastal towns and cities across the country, which have traditionally experienced higher levels of economic deprivation. Supply chain success in domestic competitions often leads to greater success in export opportunities.

Levelling the playing field

There are two specific issues that SMI members are calling on the Government to address through its proposals for introducing non-price factors in CfDs, concerning respectively the financial barriers to small and medium-sized enterprise (SME) to bidding for work and the cost difference between more sustainable solutions and less sustainable options, which are often less costly.

Firstly, the Government should tackle the existing barriers that continue to prevent SMEs in the maritime supply chain from winning more contracts. SMI members have pointed to continued demands for 100% bank guarantees and unlimited liabilities as a significant obstacle to growth, especially since initiatives from industry to provide alternative guarantees continue to be denied. While the National Shipbuilding Office (NSO) is aware of these issues and SMI notes its ongoing efforts alongside industry in coming weeks to find a satisfactory solution, non-price factors would prove to be an invaluable tool in the Government's arsenal, if they are geared to increase SME's participation.

Secondly, the Government should reward domestic supply chain actors in both maritime and offshore wind for environmentally virtuous choices by filling the gap between these and the often less costly and more polluting options. The introduction of non-price factors provides the ideal vehicle to do just that, whilst working to deliver a more level playing field for UK maritime businesses in the face of competition from other maritime jurisdictions which is often viewed as unfair.

In SMI's response to DESNZ's call for evidence on this topic, our members noted that developers seek the lowest possible prices across the supply chain and, while this is entirely natural in the course of business, this has led 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 and differing import tariff regimes. That international competition also benefits from cheaper finance packages and guarantees that reduce their business risk and prices, meaning that UK vessel builders and, subsequently, supply chain firms are not competing on a level playing field in what are their own domestic waters.

Following on from your request for quantitative data to illustrate the price difference between the UK and international markets, you will find a case study from one of our members which – in our opinion – exemplifies the scale of the competition that UK maritime businesses are up against. The purpose of this data is to assist the Government in ascertaining the level of support that will be required to support the introduction of non-price factors and grant funding initiatives in a way that levels the playing field for UK maritime and offshore renewable energy organisations.

Regenerating coastal communities

Coastal communities have traditionally tended to experience greater levels of economic deprivation and fewer opportunities for social mobility compared to other parts of the country, particularly following the COVID-19 pandemic and the ongoing cost of living crisis. There is a consensus among SMI members that non-price factors should focus on maximising the benefits and opportunities that the maritime and offshore renewable energy sectors can provide to incentivise investment and deliver local socio-economic regeneration.

Maritime and offshore wind can both take pride in their strong track record of providing high-skilled employment opportunities across the UK's coast. The maritime sector supports 1.06 million highly productive and remunerated jobs, adding 45% more value and paying 30% more than the UK benchmark. The UK's commitment to net zero by 2050 has the potential to lead to the creation of 2,000 jobs in construction and up to 60,000 jobs in ports, factories and supply chains involved in the manufacturing of offshore wind turbines.

Within this context, the introduction of non-price factors could pave the way to create thousands of highly skilled jobs in industrial areas across the UK's coast which would, in turn, enable more businesses in maritime and offshore wind to attract new homegrown talent and retrain seafarers.

We hope that this submission aids your ongoing work, and we look forward to working with you on the upcoming consultation. If you require any further assistance, please do not hesitate to contact SMI's Policy and Research Manager, Giorgio Buttironi, at Giorgio.buttironi@maritimeindustries.org

Yours sincerely,

A handwritten signature in black ink, appearing to read 'T. Chant'.

Tom Chant
Chief Executive
Society of Maritime Industries (SMI)