

BRIEFING

DELIVERY OF THE NATIONAL SHIPBUILDING STRATEGY REFRESH

Introduction

Maritime UK is the umbrella body for the maritime sector, bringing together the shipping, ports, services, engineering and leisure marine sector. Our purpose is to champion and enable a thriving maritime sector by delivering programmes to drive progress within industry, facilitating connections between government and stakeholders across the breadth of the maritime industries, and coordinating the delivery of industry recommendations under Maritime 2050.

In November 2021, Maritime UK helped launch the Cross-Party Group (CPG) on Maritime and Shipbuilding in the Scottish Parliament and, over the last two years, it has provided secretariat support to Members of the Scottish Parliament (MSPs) within the CPG.

Following a joint meeting of the CPG on Maritime and Shipbuilding with the All-Party Parliamentary Group (APPG) on Shipbuilding and Ship Repair in the UK Parliament, which examined the progress of delivering recommendations within the National Shipbuilding Strategy (NSbS) Refresh more than a year since its launch, the chairs of these parliamentary groups asked Maritime UK to circulate a briefing, summarising the main policy asks of the maritime sector and the shipbuilding industry for the benefit of MPs and MSPs.

The National Shipbuilding Strategy Refresh

The Ministry of Defence (MoD) originally published the National Shipbuilding Strategy in 2017 to illustrate the Government's vision for a productive, competitive, and innovative shipbuilding sector. In the following years, the sector witnessed a strategic shift towards increasing the importance of the shipbuilding enterprise in the Government's work on decarbonisation, levelling up, strengthening the union and prosperity – accompanied by successive achievements such as the export of the Type 26 design to Australia and Canada and the competitive placing of the Type 31 contracts in Rosyth. To capitalise on these advances, the Defence Secretary launched the National Shipbuilding Office (NSO) in September 2021 with the task of delivering a Refresh of the NSbS.

The NSbS Refresh, launched in March 2022, broadened the scope of the Strategy to include the commercial, workboats and leisure sectors and better reflect the value of the enterprise in order to capture sections of the supply chain beyond the mere building of hulls and, most crucially, to revitalise the whole of UK's shipbuilding enterprise by focusing on demand signal and policy, technology and innovation, exports and finance, and skills.

Key recommendations included:

- Providing clarity on future shipbuilding orders through a 30 Year Cross-Government Shipbuilding Pipeline.
- Developing a model for a Home Shipbuilding Credit Guarantee Scheme to level the playing field for domestic shipbuilding orders.
- Setting up the UK Shipping Office for Reducing Emissions (UK SHORE) with £206mn of funding to drive the adoption of green shipbuilding technologies.
- Supporting the development of new manufacturing and production technologies through UK Research and Innovation (UKRI) and Innovate UK programmes.

- Pursuing export opportunities in collaboration with industry through the Maritime Capability Campaign Office (MCCO).
- Working with industry to understand the demand and supply of skills by creating a UK Shipbuilding Skills Taskforce (UKSST) to report into the NSO.

Demand Signal and Policy

Under this key theme of the NSbS Refresh, the NSO announced a 30 Year Cross-Government Shipbuilding Pipeline – with over 150 new vessels commissioned from government bodies and devolved administrations – to deliver greater clarity for the UK’s shipbuilding enterprise in terms of work orders, including the delivery of a National Flagship.

The Refresh also outlined shipbuilding policy criteria and objectives in an effort to strike the right balance between the NSbS vision and Treasury spending parameters. More specifically, the Government amended its procurement approach for each class of defence vessels in order to enable decisions on a case-by-case basis between a single-source process, a UK-only competition, an international competition, or a blend of the two. The procurement approach for all other Government vessels remains open to international competition, in accordance with our WTO Government Procurement Agreement obligations.

Whilst feedback from industry welcomes the 30 Year Pipeline, it crucially indicates that these procurement policies are weakening the pipeline’s own intention to create the necessary confidence and certainty in order books for industry to invest in skills and infrastructure over the long term. The cancellation of the National Flagship in July 2022 further undermined this intent. At the same time, in the fourteen months since the Refresh’s launch, we have seen the awarding of the contract for the construction of three vessels for the Royal Fleet Auxiliary (RFA) Fleet Solid Support scheme to a UK-led consortium, leading to a projected £100m investment and the planned creation of 1,200 jobs in UK shipyards, demonstrating the positive outcomes for the economy and local communities that the UK shipbuilding enterprise is capable of bringing about.

Recommendation #1: *The NSO should continue to work with the UK and devolved governments to ensure that the delivery of vessels within the cross-government pipeline maximises the opportunities for the UK shipbuilding enterprise, enabling it to deliver a range of economic benefits across the country.*

The maritime sector is uniquely placed to add value to coastal communities in terms of delivering new highly skilled jobs, which pay 40% above the UK’s average remuneration rate, and tackling economic inequality. With benefits in the supply chain, value can also be added in economically disadvantaged communities across the UK.

The Refresh takes these factors into account and the Cabinet Office’s Social Value Model articulates several parameters to measure the delivery of social value through government procurement. Indeed, it sets a minimum 10% social value weighting to evaluations in new competitions and 20% for MoD shipbuilding competitions. Application of the Social Value Model, however, can be inconsistent and particularly problematic in international competitions, where the benefits to the UK economy are often neglected.

Recommendation #2: *The UK and devolved governments must adapt public sector shipbuilding procurement policies to better recognise the strategic importance of the UK shipbuilding enterprise and its contribution to UK prosperity.*

Recommendation #3: *Despite welcoming the minimum 10% social value weighting, the UK shipbuilding enterprise urges the UK and devolved governments to show more ambition in their use of social value, in line with the practices of competitor shipbuilding nations, and raise the threshold for UK content.*

Technology and Innovation

Identifying technology and innovation as “key enablers of productivity and competitiveness”, the Government explicitly acknowledged its own central role in spurring the adoption of net zero technologies across the maritime sector, with an eye to meeting its net zero carbon commitment by the middle of the century.

The Government established the UK Shipping Office for Reducing Emissions (UK SHORE) in conjunction with the Refresh’s launch, with £206m to deliver successive funding rounds of the Clean Maritime Demonstration Competition (CMDc) – inaugurated in March 2021 to encourage the delivery of clean maritime solutions. Across its three rounds, the CMDc has allocated a total of £100mn of funding. In February 2023, UK SHORE and Innovate UK announced £77mn in match-funding under the Zero Emission Vessels and Infrastructure (ZEVI) competition to support high TRL research in close to commercial clean maritime technology.

Industry has shown its willingness to step up to the challenge and advance research and innovation. The first round of the CMDc was oversubscribed, having received bids for 225% of the available budget and the subsequent rounds have seen similar levels of high engagement. Industry has also worked proactively with government through the Shipbuilding Enterprise for Growth (SEG) to set up two Task & Finish Groups – focusing respectively on the Shipyard of the Future and Centres of Excellence. More recently, Maritime UK published its Offshore Wind Plan to help maximise the opportunities within the growing offshore wind sector to the benefit of the maritime supply chain and the domestic shipbuilding enterprise.

While these are certainly steps in the right direction, the reality remains that neighbouring maritime jurisdictions such as the Netherlands and Norway continue to outspend the UK in terms of innovation funding from central government. The take up of net zero technologies in the maritime sector has also been tentative, with financial barriers proving difficult to overcome. The Government needs to commit itself to a more substantial level of investment in innovation, research & development, and green infrastructure and incentivisation, not only to ensure that the UK remains on track for net zero by 2050 but, most crucially, to avoid the UK’s shipbuilding enterprise becoming a supplier of parts to maritime supply chains in competing economies.

Recommendation #4: *The UK and devolved governments should devote even greater levels of investment in innovation, research and development, and green infrastructure and incentivisation in order to strengthen the maritime supply chain and the UK’s shipbuilding enterprise’s place within it.*

Recommendation #5: *The UK and devolved governments should work with stakeholders across departments to take forward the recommendations outlined in Maritime UK’s Offshore Wind Plan, collaborating with the offshore renewable energy sector and the wider catapult network to further strengthen the UK’s maritime sector. ScotWind presents an unrivalled opportunity to collaborate with developers to establish common programmes for Support & Operations Vessels (SOVs), Crew Transfer Vessels (CTVs), Anchor Handlers and Unmanned Survey Craft. NSO should take a leading role in brokering this.*

Exports and Finance

The NSbS Refresh correctly identified an increase in shipbuilding exports as another key enabler of growth and resilience for the enterprise, and the NSO is working with the SEG to ensure the suitability of support available to industry. Indeed, the establishment of the MCCO as the exports arms of the NSO, targeting £600mn of civil and £20bn of naval opportunities, took place with this target in mind.

However, the maritime sector continues to suffer from a huge lack of funding at the exact time when it faces challenges to reduce its own carbon footprint, whilst also figuring out the most efficient ways to respond to the rise of disruptive technologies such as artificial intelligence, blockchain, and autonomous shipping. This lack of funding, combined with the sector's need to integrate new technological solutions, underscores the importance to make sure that the UK's shipbuilding enterprise stays competitive on the international stage.

In November 2022, the recommendations of the Financial Products Working Group were taken forward by the UK Marine Decarbonisation Report, developed in collaboration between Maritime London and the Maritime and Coastguard Agency (MCA), which identified the existing barriers to new capital entering the market and outlined the role of government in unlocking investment.

Recommendation #6: *UK and devolved governments should address the competitiveness gap in providing capital that will allow for the funding of decarbonisation projects within the UK's shipbuilding enterprise by implementing the recommendations of the UK Marine Decarbonisation Report – endorsed by the MCA and the Financial Products Working Group – and referencing the work of the Scottish National Investment Bank (SNIB) into the Clean Maritime Plan Refresh.*

It is worth noting that the implementation of another standout policy commitment in the NSbS Refresh, a Home Shipbuilding Credit Guarantee Scheme (HSCGS) to level the playing field for domestic shipbuilding orders, has been delayed on repeated occasions for a variety of reasons. Couple with the lack of access to Builders Refund Guarantees (BRG) in the UK, the delays to the delivery of the HSCGS have doubtlessly had a negative impact of the confidence of the UK's shipbuilding enterprise to plan ahead, as well as the advancement of the Strategy's core mission. This important policy needs to be implemented urgently, along with exploring other state investment options through entities such as the SNIB.

Recommendation #7: *The UK Government should commit to a clear timeline for the implementation of the Home Shipbuilding Credit Guarantee Scheme (HSCGS) and work with major banks and financial institutions to address the lack of access to Builders Refund Guarantees/Performance Bonds in the UK. The Scottish Government should explore the option of enabling the SNIB to offer Builders Refund Guarantees/Performance Bonds, thus providing a financial cornerstone for commercial shipbuilding in Scotland.*

Skills

The Government recognised the importance of a steady pipeline of skilled workers to deliver growth for the UK's shipbuilding enterprise. The Maritime Skills Commission noted in its 2020 Labour Market Intelligence Report that, though engineering skills were often mentioned as a particularly problematic area, there were difficulties in defining the exact nature of the problem with precision and highlighted the need for the shipbuilding enterprise to understand and articulate the industry's needs.

With that in mind, the Department for Education (DfE) has worked with the NSO to establish a UK Shipbuilding Skills Taskforce (UKSST) in May 2022, tasking this body to produce a map of the industry's skills needs and identify solutions to skills shortage. Chaired by Paul Little, CEO of City of Glasgow College, and bringing together 20 members from across the industry, the UKSST is expected to produce a final report with a list of proposed actions in September 2023 at London International Shipping Week. Its recommendations will need to be implemented with determination and at pace. In addition, he works closely with the Maritime Skills Commission, providing regular updates on a number of issues.

Recommendation #8: *The UK and devolved governments should actively engage with the UK Shipbuilding Skills Taskforce by responding to the task force's final report before the end of 2023.*