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Maximising Content - Reducing Costs

UK Supply Chain Opportunity

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Since last year's conference – June 2012

In 2012

- The UK built the world's biggest wind farm
- UK passed 3GW of installed offshore wind – more than the rest of World put together!
- UK generated around 5.5% of its electricity demand from wind
- First of the 'next generation' turbine designs being installed
- Siemens recruited over 300 new service technicians from our base in Newcastle
- UK confirmed its place as the leading market on the world stage

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We are facing major challenges …

Security of Supply

Affordability

Climate change

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Offshore wind is a vital part of the energy mix

Energy from wind power is still seen as expensive

Subsidies won’t last forever

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Our Biggest Challenge - We need to speed up the reduction of cost of energy

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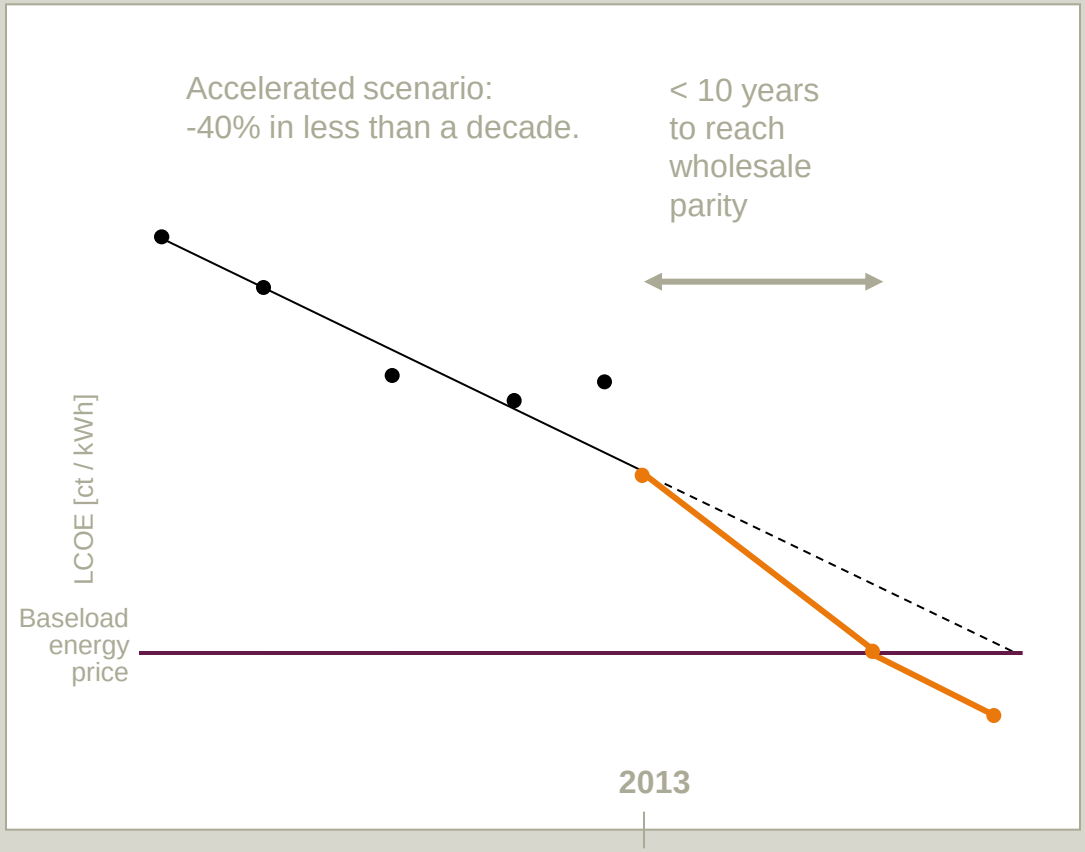
Accelerated cost reduction



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Cost reduction dependant on Industrialisation – Standardisation of processes

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- Economies of scale: average cost per unit falls as the scale of output increases
- Modular production and split nacelle concepts, production time reduced for nacelle assembly
- Standardising installation processes: Processes are isolated and whenever possible moved onshore
- Lean manufacturing: Implemented in both the production line and during installation processes
- Industrialise the offshore value chain: Strategic partnerships and lean BOP design

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So how does this cost reduction fit with local content?

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- Projects are driving out cost already through efficient supply chain execution
- Current projects are spending £100s of millions in the UK economy
- But we know that's not enough
- Link between subsidy support and economic benefit?
- A 'psychological contract' between bill-payers and industry
- Government want to encourage local content
- Restricted by State Aid legislation
- So why don't we do what France does?
- Submitted prices of first round tender at average of €227/Mwh (£192/MwH !!!!)

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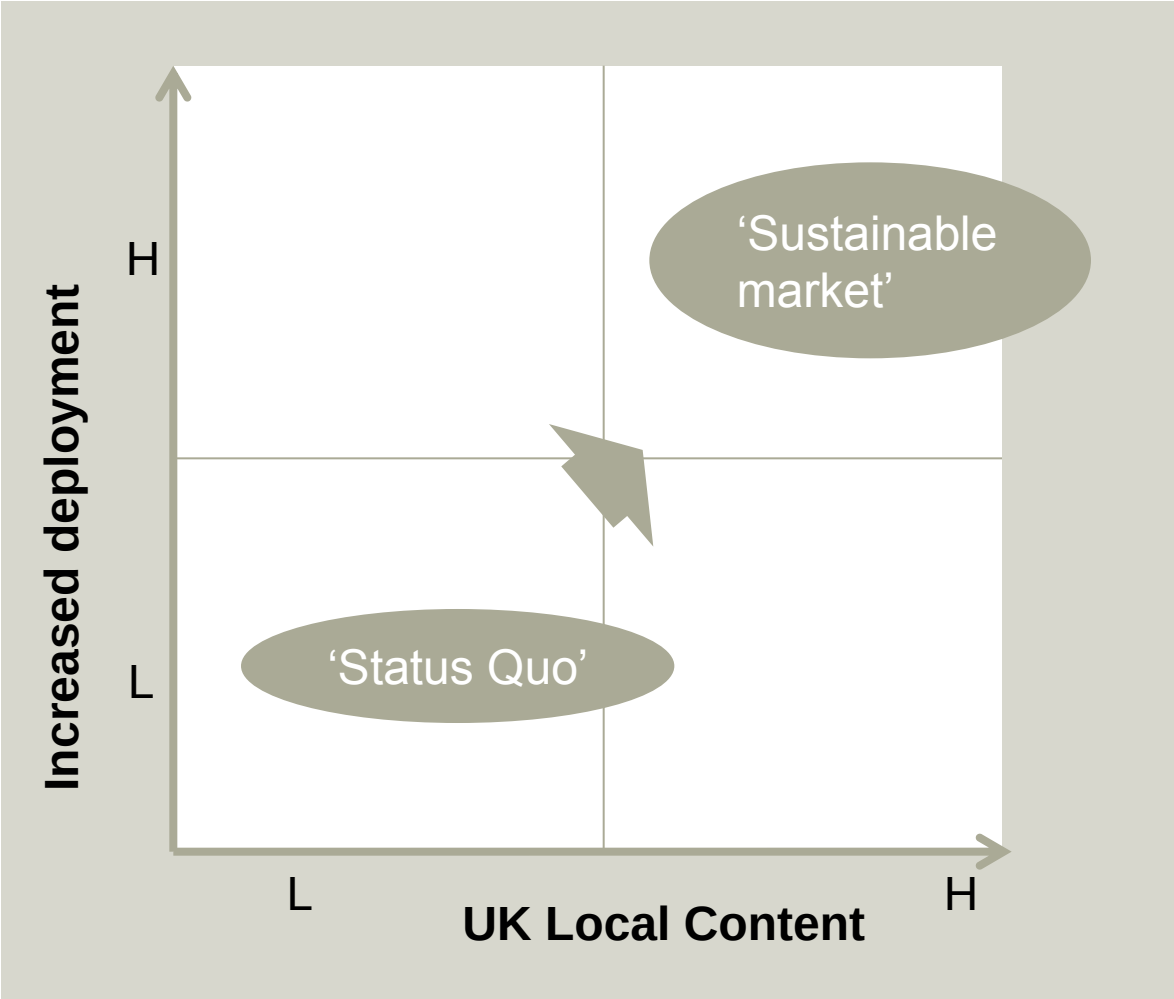
A sustainable market delivering significant economic value is the only answer



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Some Economic Theory

The UK has successfully regenerated significant sectors through targeted economic development activity

In all cases foreign direct investment plays a significant part

- Oil and Gas – World leading sub-sea sector
- UK Automotive industry

In both cases **BUILDING** on existing UK strengths

We need to support diversification and re-investment for UK supply chain companies

'GROW' support programme underway to help potential UK Suppliers

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So what's actually important to the UK?

Jobs? – the number of direct and indirect employments created

Economic value? – GVA measures – Where the money is spent, tax take, local spend etc.

Or the name above the door?

The answer is simple:

More people, doing more work in profitable businesses

After all - that's what GVA is!

Let's be clear – Offshore wind remains the largest single opportunity the UK may ever have to create a significant new industrial sector

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So what to do we need to make this happen for the UK?

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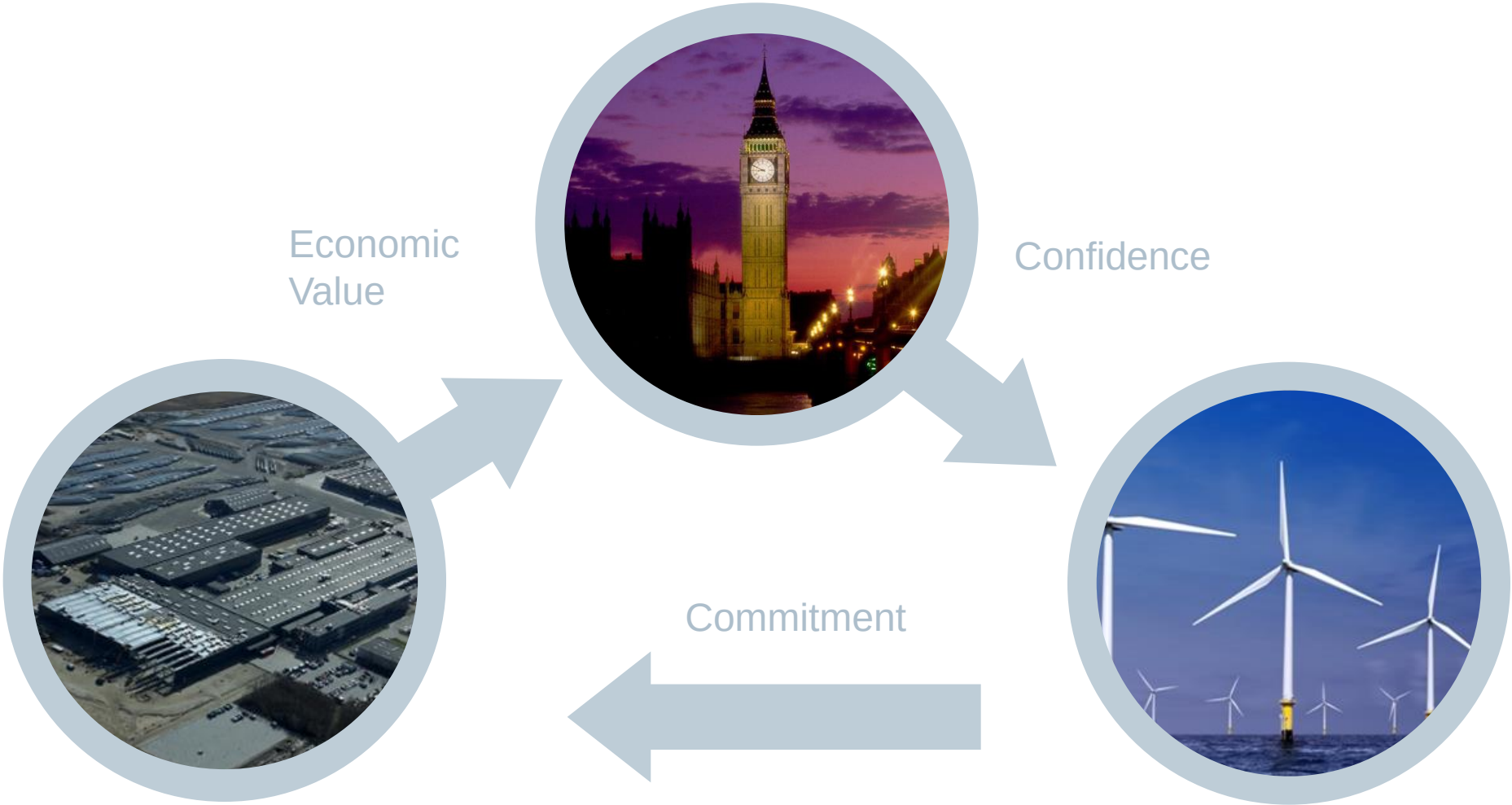

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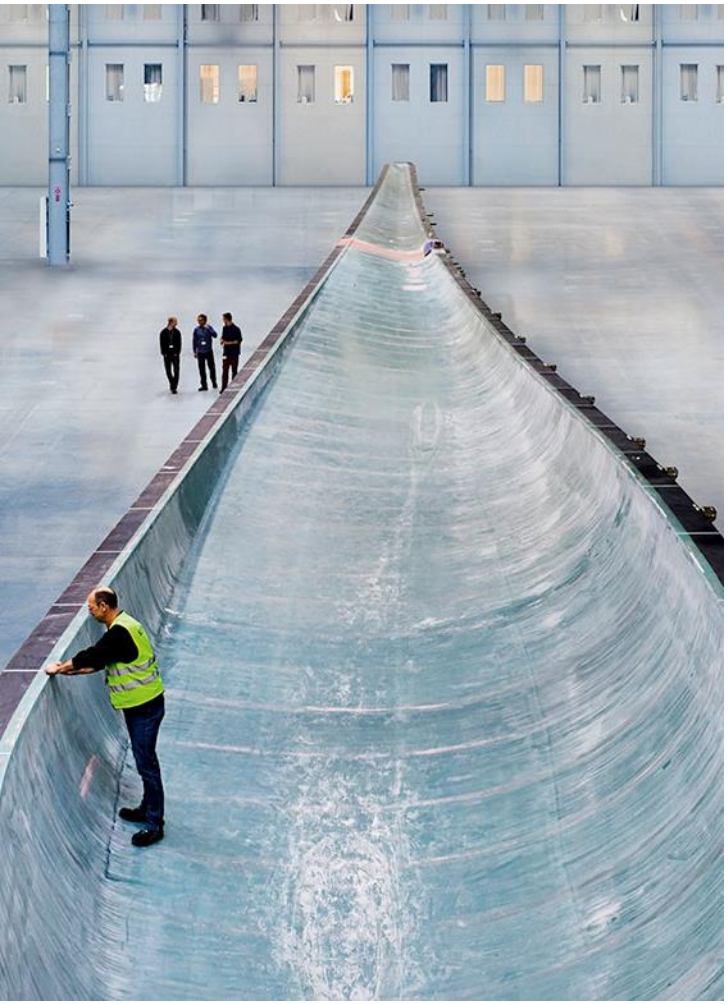
Conclusions



- UK is the worlds biggest market - Manufacturers WANT to invest
- Project pipeline is required for investments – obvious but true
- Clear intent and policy delivery required to ensure the industrial investments happen
- An Energy Bill in statute and an 'Industrial policy for Offshore Wind' to be concise, clear and unequivocal
- The need to deliver for the UK is understood – but manufacturers are best placed to determine supply chain structures
- Investment in UK supply chain will happen – because it makes sense to do so.

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Waiting for the push?

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