

Subsidy Advice Unit Report on Contracts for Difference Clean Industry Bonus, Allocation Round 8 Scheme

**Referred by the Department for Energy Security
and Net Zero**

30 April 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 18 March 2026, the Department for Energy Security and Net Zero (DESNZ) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to the Contracts for Difference (CfD) Clean Industry Bonus (CIB), Allocation Round (AR) 8 Scheme (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates DESNZ's assessment of compliance (the Assessment) of the Scheme with the requirements of Chapters 1 and 2 of Part 2 of the Act.³ It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to DESNZ. It does not consider whether the Scheme should be made, or directly assess whether it complies with the subsidy control requirements.

Summary

- 1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 1.5 In our view, DESNZ has considered in detail the compliance of the Scheme with the subsidy control and energy and environment principles. In particular, the Assessment:
 - a. considers other ways of incentivising the development of a sustainable supply chain and clearly explains and evidences why a subsidy was the most appropriate option (Principle E);
 - b. sets out how certain design features of the Scheme contribute to minimising any potential negative effects on competition or investment (Principle F); and
 - c. relative to the Assessment of the previous Scheme iteration referred to the SAU⁴ shows clear improvement in articulating the policy objectives, linking them more

¹ The SAU is part of the Competition and Markets Authority

² [Contracts for Difference Clean Industry Bonus Allocation Round 8 Scheme by the Department for Energy Security and Net Zero – GOV.UK](#)

³ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

⁴ See [SAU Final Report on the proposed AR7 CfD Clean Industry Bonus Scheme](#)

clearly to identified market failures (Principle A) and the scoring system (Principle B).

- 1.6 However, we have identified the following areas for improvement. The Assessment should:
- a. more systematically set out and evidence the counterfactual in relation to each policy objective (Principle C);
 - b. explain how the risk that the Scheme will fund investments that would have gone ahead without the Scheme was minimised. It should also demonstrate how effectively the Scheme incentivises Developers to invest in more environmentally sustainable supply chains and unlock growth in deprived areas (Principle D);
 - c. more clearly explain and evidence how the overall budget and per GW minimum financial standards are set. In addition, it should more clearly demonstrate that there is sufficient 'competitive tension' within the bidding process to keep bid values to a minimum (Principle B); and
 - d. in relation to the potential for market distortion, the Assessment should undertake further evaluation of the potential for the Scheme to distort competition between manufacturers, including the implications of demand being diverted between competing manufacturers. The Assessment should also assess the potential impact on market outcomes such as price by, for example, looking at the size of the subsidy relative to the size of the relevant market (Principle F).
- 1.7 We discuss these areas below, along with other issues, for consideration by DESNZ in finalising its assessment.

The referred Scheme

- 1.8 The Scheme is a UK government incentive introduced within the CfD scheme to reward renewable energy developers in the offshore wind sector (Developers) for investing in shorter or more sustainable supply chains. The Scheme is open to CfD applicants only.
- 1.9 The CfD scheme has existed since 2014 and aims to encourage low carbon electricity generation. CfDs are long term contracts (20 years) allocated through competitive allocation rounds, where electricity generators submit bids which are awarded until the overall budget for the allocation round is reached. The CfD scheme is open to applications from existing or future eligible renewable

generators in Great Britain, subject to certain limitations such as minimum generation capacity.⁵

- 1.10 DESNZ explained that the aim of this Scheme (ie the CIB AR8 Scheme) is to help de-risk (and so accelerate) the deployment of low carbon electricity generation, specifically fixed or floating offshore wind facilities, by addressing supply chain issues that can hinder, or are hindering, the construction of projects.
- 1.11 Support under this Scheme (CIB support)⁶ will be awarded following a competitive allocation round ahead of the main CfD round.⁷ The first CIB allocation (AR7) was implemented with the seventh round of the CfD scheme. This referral relates to AR8, to be implemented with the eighth round of the CfD scheme. Subsidies under the Scheme consist of fixed payments made over four financial years, on top of any CfD payments received by the beneficiary. CIB support will be awarded if Developers are successful in both the Scheme and CfD applications and can demonstrate they have made the investments they committed to.
- 1.12 In order to qualify for the Scheme, Developers are required to commit to a minimum spend,⁸ if based in the UK to be signatories of the Fair Work Charter⁹ and to fulfil one of two alternative criteria:¹⁰
- (a) criterion 1: investment in shorter supply chain: this relates to an investment in a manufacturing facility, an installation firm or a port that is located in a UK deprived area as defined by reference to a set of deprivation measures;¹¹ or
 - (b) criterion 2: investment in more sustainable means of production: this relates to investment anywhere in the world in manufacturing facilities or installation firms that are owned or operated by stakeholders that can evidence having set or committed to a Science-Based Target (SBT)¹² by the first day of the CIB application window.

⁵ Under the CfD scheme, the generators sell the electricity at a variable market price, and the CfD scheme guarantees a top-up payment where the reference price (a proxy for the wholesale electricity price) is below the strike price agreed in CfD contracts, and in turn, generators are required to pay back if the reference price is above the strike price.

⁶ CIB support refers to the subsidies, in the form of a top-up to their CfD payment, which will be received by successful applicants to the Scheme.

⁷ The CIB application window will be set out in a notice issued by the Secretary of State. It will be earlier than the application window for the seventh application round for the CfD scheme.

⁸ [Clean Industry Bonus Allocation Framework, 2026 \(draft\)](#), Section 6: applicants are required to spend either £100 million per GW (for offshore wind) or £50 million per GW (for floating offshore wind) of their own money, on a more sustainable supply chain as defined in Criteria 1 and 2.

⁹ [Fair Work Charter](#) - Series of workplace commitments agreed between industry and unions, covering areas such as union access and health and safety in the workplace.

¹⁰ [Clean Industry Bonus Allocation Framework, 2026 \(draft\)](#) Sections 10 and 11.

¹¹ For the purpose of allocation under the Scheme, UK deprived areas are defined in relation to deprivation measures set in the Department for Levelling up, Housing and Communities' 'Levelling Up the United Kingdom' dataset and in each of the Devolved Administrations indices. See [Clean Industry Bonus Allocation Framework, 2026 \(draft\)](#), section 10.

¹² SBTs are company-specific decarbonisation pathways validated by the Science Based Targets initiative: <https://sciencebasedtargets.org/>.

- 1.13 In relation to these criteria, ‘investment’ is defined by DESNZ¹³ as any transfer of money between a Developer and the recipient of the investment, which could be, for instance, the purchase of materials and equipment, or could include a direct investment, a loan or an equity stake.¹⁴ The Assessment explains that investment must be aimed at using, building, acquiring or improving tangible assets such as ports, and/or facilities or firms manufacturing, assembling or installing key components¹⁵ for offshore wind.
- 1.14 Scoring of applications will be based on cost effectiveness ratios that take into account the relative amount of subsidy that is requested by a bidder:
- (a) For criterion 1, the total value of proposed investment in deprived areas (subsidy plus privately committed expenditure) relative to the revenue support provided under the Scheme.
 - (b) For criterion 2, the per Gigawatt (GW)¹⁶ cost of committing to use a proportion of suppliers in the supply chain that are signed up to SBTs above a minimum level.¹⁷
- 1.15 The cost effectiveness ratios are then normalised to allow comparison of bids submitted under criteria 1 and 2.
- 1.16 For AR8, DESNZ introduced some new requirements. First, the recipients must be signatories of the Fair Work Charter. Second, Developers will now be required to channel some of their investment to the Offshore Wind Growth Partnership, an independent organisation with the core responsibility and mission to support the growth of offshore wind supply chains.¹⁸ In addition, DESNZ removed the upper bound limiting normalised scores under both criteria, to allow greater differentiation between bids.
- 1.17 The likely budget for AR8 will be £150 million, though the Secretary of State has discretion to modify this up or down, upon sight of the Scheme applications, based on an assessment of the aggregate impact of applications on the development and sustainability of supply chains.

¹³ The SAU has adopted the same definition of ‘investment’ for the purposes of this Report.

¹⁴ [Clean Industry Bonus Allocation Framework, 2026 \(draft\)](#), paragraph 5.3. This list is non-exhaustive.

¹⁵ Key components include blades, nacelles, towers, foundations, export cables, array/inter-array cables, electrical infrastructure, structural infrastructure, onshore infrastructure, turbine installation, foundation installation, electrical/cable installation, vessels, mooring and anchoring systems, floating substructures, floating and marshalling facilities.

¹⁶ For criterion 2, subsidy per GW (as opposed to total subsidy) is used to avoid disadvantaging larger, more impactful projects (with a smaller proportion of suppliers that have signed up to SBTs).

¹⁷ The minimum level is based on previously submitted supply chain plans and is intended to represent the proportion of the supply chain signed up to SBTs without Scheme funding.

¹⁸ [Home - Offshore Wind Growth Partnership](#). In the previous CIB round, the Developer had the possibility to voluntarily contribute to this partnership, and this investment was counted towards meeting their minimum standards requirements. In AR8, this payment is now compulsory and considered part of the minimum standard.

1.18 DESNZ explained that the Scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.¹⁹ In particular, DESNZ explained that its estimates for AR8, drawing on the results for AR7, indicate that the amount of financial assistance awarded to each beneficiary is on average likely to meet the Subsidies of Particular Interest threshold, with a number of beneficiaries receiving a subsidy well above the threshold.

¹⁹ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) which sets out the conditions under which a subsidy or scheme is considered to be of particular interest.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by DESNZ.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.²⁰

Policy objectives

2.3 The Assessment sets out three policy objectives of the Scheme:

- (a) economic sustainability: encouraging the creation and/or use of new manufacturing capacity to reduce bottlenecks and constraints that can otherwise lead to inflationary pressures and delays in the offshore wind supply chain sector;
- (b) environmental sustainability: encouraging the creation and/or use of more sustainable manufacturing capacity, notably focused on producers with lower carbon emissions; and
- (c) social sustainability: encouraging the creation and/or use of new manufacturing facilities that bring new and good quality jobs and business opportunities to the communities that need it most, to maintain support for net-zero linked projects.

2.4 In regard to economic sustainability, the Assessment indicates that the Scheme aims to bridge the cost gap between investing in a more sustainable (but more expensive) manufacturing facility, and a less sustainable (but cheaper) option. It states that since 2022, both fixed and floating offshore wind developers have experienced supply chain pressures that have restricted new offshore wind build-

²⁰ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

out. It explains that a lack of investment in supply chains in the UK and globally has meant that manufacturing, port infrastructure and vessel capacity has not kept pace with the increase in both local and global demand or in technological developments, leading to deployment bottlenecks which are likely to worsen in the coming years. The Assessment also states that the Scheme will help to address the 'empty factory' problem where new capacity is unutilised. The Assessment notes that it is the UK government's view that these pressures have not abated since the previous iteration of the Scheme.

- 2.5 In regard to the environmental sustainability objective, the Assessment states that reducing carbon emissions for fixed and floating offshore wind is important for meeting net zero decarbonisation targets. It states that lowest cost solutions have favoured existing capacity, often with lower-environmental standards (or in less environmentally regulated jurisdictions), over newer investments in facilities with higher environmental standards. It states that at AR7 only an estimated 25% of the offshore wind supply chain had signed up to the SBT initiative for the reduction in carbon emissions, and claims the Scheme accelerates the rollout of cleaner manufacturing capacity by incentivising investment in suppliers pursuing SBTs.²¹ It explains only Developers that have over 40% of their supply chain signed up to SBTs will score competitively.
- 2.6 DESNZ provided an independent report that showed requiring the supply chain to align to SBTs yielded carbon saving benefits exceeding costs. It also presented internal modelling results showing substantial emissions reductions relative to a counterfactual scenario in which CIB support is not given.
- 2.7 In regard to the social sustainability objective, the Assessment explains that communities located near offshore wind deployment zones in the UK, which tend to be more deprived, do not typically experience the direct benefits of these investments. It states that the Scheme will steer investments in shortened supply chains towards deprived areas, defined as communities with the highest markers of multiple deprivation, which can bring new jobs and opportunities. The Assessment explains that the inclusion of the Fair Work Charter as a new requirement aims to increase job quality in the sector, which DESNZ believes will translate to higher rates of pay and workforce satisfaction.
- 2.8 It also considers secondary benefits such as innovation, logistical efficiencies and improvements in the overall risk profile of the UK's energy system, and in getting local communities on board to support deployment.
- 2.9 The Assessment states that outcomes for these objectives are captured through two measurable selection criteria (see paragraph 1.12), ie whether the subsidy

²¹ The Assessment notes that as AR7 has only recently concluded and investments have not yet been made, DESNZ does not have specific examples of impacted behaviour.

would support investment in either shorter supply chains in UK deprived areas or more sustainable supply chains. DESNZ considered that a simple competition for funding against these two criteria could deliver on the wider set of objectives without additional burden. It notes that the third objective of the Scheme (social sustainability) is captured by the first criterion.

- 2.10 In our view, the Assessment clearly describes the policy objectives of the Scheme and explains how they link back to the selection criteria of the Scheme.

Market failure

- 2.11 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.²²
- 2.12 The Assessment describes the economic sustainability objective as a market failure in general terms. It outlines a lack of investment in supply chains, and attributes this to competition in CfD allocation rounds incentivising applicants to seek the cheapest, rather than most sustainable, options. It argues this inhibits the development of longer-term aggregated procurement frameworks, creating uncertainty and risk for ports and suppliers, and deters new investment where a 'start-up premium' applies from higher environmental standards, energy, port lease, depreciation, training and labour costs. It states that due to the high upfront costs, suppliers are reluctant to invest in new capacity in the face of uncertainty over future technical requirements, and over whether there will be a sufficient pipeline of profitable, committed customer orders. It explains that in some cases Developers have opted to delay construction until they can overcome supply chain bottlenecks rather than selecting available but more expensive options. It proposes that the Scheme will help bridge the cost gap between more sustainable and legacy options and decrease risks.
- 2.13 The Assessment states that negative environmental externalities are a core market failure affecting the offshore wind supply chain. It explains that emissions generated across the supply chain, particularly in energy intensive manufacturing processes and long-distance transportation, are not priced into Developers' procurement decisions and that, while offshore wind generation itself is low carbon, the emissions embodied in the components²³ can vary significantly. The Assessment indicates that Developers are not currently incentivised to take account of environmental standards in their supply chain choices.
- 2.14 In our view, the Assessment broadly describes and evidences market failures such as barriers to investment arising from regulatory and commercial uncertainty, first-

²² [Statutory Guidance](#), paragraphs 3.36–3.51.

²³ Such as turbines, foundations, cables, and installations services.

mover cost penalties, negative externalities arising from emissions attributable to the supply chain and positive externalities arising from investment in shorter or more sustainable supply chains.

Equity Objective

- 2.15 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.²⁴
- 2.16 The Assessment addresses social sustainability as an equity objective. It then explains that investment in UK deprived areas can bring new jobs and opportunities, helping to address the underlying causes of socio-economic deprivation. It states that jobs in deprived areas are likely to have a greater impact on the economy and could lead to wider societal benefits compared to jobs created elsewhere. It argues that the Scheme could create new, high-skilled jobs in deprived coastal communities near offshore wind deployment zones. The Assessment explains that the Fair Work Charter should ensure that investment delivered through the Scheme translates into better quality employment. DESNZ considered that this will improve public support for offshore wind deployment.
- 2.17 In our view, the Assessment describes the equity objective that the Scheme seeks to address and explains how the Scheme could benefit deprived communities by increasing investment and job creation in those areas.

Appropriateness

- 2.18 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.²⁵
- 2.19 The Assessment explains that DESNZ has considered the following alternative means to achieve the policy objectives:
- (a) Loans or equity investments to supply chain facilities or to Developers: this was discounted as this would interfere with commercial procurement decisions made by Developers, through direct investments.
 - (b) Direct provision: directly providing the goods and services needed by the Developers was considered to be inefficient.
 - (c) Regulation: the CfD scheme previously introduced supply chain plans requirements, under which Developers were asked how they would improve the overall sustainability of their supply chains. However, these requirements

²⁴ [Statutory Guidance](#), paragraphs 3.52–3.56.

²⁵ [Statutory Guidance](#), paragraphs 3.5r–3.59.

did not involve any financial support and resulted in very little investment in improving the sustainability of supply chains. DESNZ submitted that evidence shows that major supply chain investments were driven towards legacy manufacturers or solutions. The introduction of the CfD CIB in AR7 replaced the supply chain plans requirement.

- (d) Grants: other schemes such as the Offshore Wind Manufacturing Investment Scheme and the current Floating Offshore Wind Manufacturing Investment Scheme provide direct grant funding to offshore wind supply chain companies. However, although these grants help to create new or expanded manufacturing facilities, they do not incentivise Developers to invest in these new facilities given their high upfront costs, while Developers tend to be reluctant to be the first customer of a new facility, due to teething issues. The Assessment notes that demand-side measures are also required to develop the supply chain.
- (e) Taxation: taxation on developers that use high carbon supply chains was discounted because of complexity and because it could disincentivise Developers to build projects in the UK.
- (f) No action: DESNZ considered discontinuing the Scheme and reverting to a 'do nothing' scenario; however, it concluded this was not feasible as a single round of supported investments would not be sufficient to create a sustainable flow of investments.

2.20 In our view, the Assessment demonstrates that DESNZ has considered other ways of achieving the policy objectives and clearly explains and evidences why a subsidy scheme was the most appropriate option to do so.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.21 Under Step 2, public authorities should consider compliance of a subsidy with:

- (a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and
- (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.²⁶

²⁶ See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

Counterfactual

- 2.22 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’ scenario).²⁷
- 2.23 The Assessment sets out a counterfactual scenario where, without the Scheme, the supply chain remains ‘insufficient at the current pace to continue meeting demand, or to significantly accelerate decarbonisation beyond the baseline’. It describes a pattern of investment in legacy manufacturers, often cheaper, but in less regulated markets from an environmental standpoint. While it projects increasing supply of some key offshore wind components for the UK, Europe and Eastern US through the mid-2020s, it anticipates potential component shortages thereafter and a risk of price increases and the continued use of environmentally damaging supply chains. The Assessment includes an updated report which confirms these trends.
- 2.24 In our view, while the Assessment broadly describes what would likely happen to future supply chain capacity if the Scheme was not made, it should more systematically set out and evidence the counterfactual in relation to each policy objective. To this end, it could provide some indication of the likely trajectory of investment towards shorter supply chains, with and without the Scheme, and the likely impact of this trajectory on economic, environmental and social sustainability.

Changes in economic behaviour of the beneficiary and additionality

- 2.25 Subsidies must bring about something that would not have occurred without the subsidy.²⁸ They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy (‘additionality’).²⁹ For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme’s design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy.³⁰
- 2.26 The Assessment states that the Scheme will deliver greater investment towards more economically, socially and environmentally sustainable supply chains:
- (a) On economic sustainability, the Scheme aims to close the cost gap between more sustainable suppliers and cheaper, less sustainable alternatives.

²⁷ [Statutory Guidance](#), paragraphs 3.63–3.65.

²⁸ [Statutory Guidance](#), paragraph 3.67.

²⁹ [Statutory Guidance](#), paragraphs 3.66–3.70.

³⁰ [Statutory Guidance](#), paragraphs 3.71–3.73.

- (b) On environmental sustainability, the Scheme enables Developers to invest in supply chain facilities that have SBT targets.
- (c) On social sustainability, the Assessment states that the Scheme could unlock growth and local job creation in deprived areas.

- 2.27 The Assessment includes an external analysis which concluded that the AR7 CIB Scheme has mostly met its additionality targets to date, and that its funding achieved moderate to high additionality. It found that supported activities were unlikely to have occurred at the same scale, pace or UK focus without intervention. It found that CIB subsidy was well targeted, with around 40% of funding allocated to highly constrained supply-chain components such as foundations, blades and electrical infrastructure. It also found that a further 43% of subsidy supported components where the UK has strong underlying capability, but where procurement has historically been outsourced, suggesting that CIBs play an important role in retaining activity that may otherwise move abroad.
- 2.28 The Assessment then describes subsidy design features that it considers to be relevant to additionality, including the competitive bidding process and additional performance, clawback and monitoring mechanisms. It explains that the competitive nature of the auction, as well as the requirement to fund some of the investment without any subsidy, incentivise applicants to bid only for projects that would not go ahead without a subsidy.
- 2.29 In our view, the Assessment describes the change in behaviour (ie investment in sustainable supply chains) that the Scheme is designed to bring about.
- 2.30 However, particularly in light of an external report noting that CIB in AR7 was not fully additional, the Assessment should explain how the risk that the Scheme will fund investments that would have gone ahead without the Scheme was minimised. In doing so, the Assessment could explain whether DESNZ considered other design options that would achieve a higher level of additionality and why they were not adopted.
- 2.31 Further, the Assessment should demonstrate how effectively the Scheme incentivises Developers to invest in more environmentally sustainable supply chains and unlock growth in deprived areas.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

- 2.32 Under Step 3, public authorities should consider compliance of a subsidy with:
- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

- (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.³¹

Proportionality

- 2.33 The Assessment describes a number of features of the Scheme that it considers would help to ensure that it is proportionate to the policy objectives and limited to what is necessary to achieve them.
- 2.34 The Assessment states that the allocation process relies on competitive auction dynamics to reveal these costs. It says that bidders are incentivised to offer bids that reflect their underlying costs. The Assessment explains that the allocation criteria, against which the value of bids are assessed, are objectively measurable and rely on verifiable financial metrics.
- 2.35 The Assessment explains that an overall budget cap will increase competitive tension and argues that the ‘credible threat’ of revising the budget should further serve to incentivise competitive bids. This Assessment also states that requiring Developers to commit a minimum spend from their own money helps to ensure that levels of funding are proportionate.
- 2.36 The Assessment explains that the outcomes of the AR7 bidding were closely monitored.
- 2.37 In our view, the Assessment explains how the Scheme ensures that the amount of subsidy awarded is limited relative to the private investment contribution in the case of criterion 1 or the increase in the proportion of SBT suppliers above the minimum in the case of criterion 2.
- 2.38 However, the Assessment should more clearly explain and evidence how the overall budget and per GW minimum financial standards are set so that they help to ensure that the funding is proportionate to the policy objective.
- 2.39 In addition, it should more clearly demonstrate that there is sufficient ‘competitive tension’ within the bidding process to keep bid values to a minimum. This could be assessed by making better use of evidence from the AR7 bidding process.

Design of subsidy to minimise negative effects on competition or investment

- 2.40 The Assessment describes how the Scheme design includes features intended to minimise any negative effects on competition or investment. These include: measures outlined in paragraphs 2.33 to 2.35 that mitigate the potential for

³¹ See [Statutory Guidance](#) paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

overcompensation which in turn may influence the outcomes of the main CfD auctions; the fact that the funding will represent only a small proportion of the total project costs (around 1-2%); that the CfD contract contains provisions that allow the level of funding to be reduced if CIB commitments are not delivered; that Developers are not allowed to receive additional subsidy for costs covered by the CfD; and that the Scheme will include monitoring meetings with beneficiaries at least twice a year.

- 2.41 The Assessment acknowledges that the Scheme only applies to offshore wind projects, because, unlike other renewable generation technologies, the cost differential faced by an offshore wind developer choosing between a more sustainable (but more expensive) form of manufacturing, and a less sustainable choice, is relatively small.
- 2.42 In our view, the Assessment clearly sets out how certain design features of the Scheme contribute to minimising any potential negative effects on competition or investment in the UK.

Assessment of effects on competition or investment

- 2.43 As set out in paragraph 2.33, the Assessment describes how features of the Scheme should help to minimise the potential for distortions in the main CfD auction caused by overcompensation of CIB applicants.
- 2.44 The Assessment notes that investment may potentially be focussed in a relatively limited group of manufacturing facilities. However, it argues that this would relieve a lack of critical mass of demand, improving the supply chain's overall economic sustainability. The Assessment explains that the distribution of AR7 bids was monitored and analysed and that there was no significant concentration of bids proposing to purchase the same components or use the same manufacturing facilities.
- 2.45 The Assessment considers the risk of supply chain companies increasing their prices because of the extra subsidy available. It deems this risk to be low as competition to attract Scheme funds will most likely push bid prices down. Also, Developers will always have the option of not adopting more sustainable suppliers if those suppliers are pricing themselves beyond reasonable market value.
- 2.46 The Assessment notes that the Scheme could have an impact on other sectors (eg oil and gas) that use similar products or services. It states that, by reducing cost-related barriers in both global and UK supply chain assets, the Scheme will encourage investment and could strengthen the UK's position as an early mover and key player in the floating offshore wind sector.

- 2.47 In our view, the Assessment clearly considers and evidences how the Scheme minimises its potential to distort the main CfD auctions (see paragraphs 2.44 and 2.51(c)). It also considers the potential for there to be a concentration of bidders proposing to use the same manufacturers.
- 2.48 However, the Assessment should undertake further evaluation of the potential for the Scheme to distort competition between manufacturers, including the implications of demand being diverted between competing manufacturers. This could include consideration of the key relevant market characteristics and examining the potential for demand to be switched to favour manufacturers in deprived areas at the expense of potentially more efficient manufacturers elsewhere in the UK. The Assessment should also assess the potential impact on market outcomes such as price by, for example, looking at the size of the subsidy relative to the size of the relevant market(s).

Step 4: Carrying out the balancing exercise

- 2.49 Under step 4 (Principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.³²
- 2.50 The Assessment identifies a number of material benefits arising from the Scheme, supported by evidence from AR7 (including an independent assessment report) and updated analysis relevant to AR8. These include:
- (a) economic sustainability benefits, including the removal or mitigation of upfront costs associated with sustainable supply chains, increased confidence and delivery certainty for Developers, employment and gross value added impacts associated with expanded manufacturing and port capacity and the prospect of export opportunities and early-mover advantages, particularly in relation to floating offshore wind;
 - (b) environmental sustainability benefits, including incentivising investment in cleaner manufacturing facilities, reduced reliance on more polluting legacy supply chains, shorter transport distances, and increased use of suppliers with SBTs or equivalent decarbonisation plans; and
 - (c) social sustainability benefits, including the potential for investment in deprived regions of the UK, job creation, wider regional economic spillovers, and improved employment standards through mechanisms such as the Fair Work Charter.

³² See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

- 2.51 The Assessment also identifies several potential negative effects of the Scheme:
- (a) The availability of subsidy could lead to upward pressure on supplier prices; however, this risk is assessed as low.
 - (b) Multiple Developers may invest in the same supply chain facilities, raising concerns about competition among supply chain companies. However, it notes that, for some components, this may instead support efficient scale, improve utilisation rates, and reduce long-term costs.
 - (c) There is a risk of distortion to the main CfD auction if successful CIB applicants reduce their CfD bids using CIB funding, particularly if overcompensation were to occur. This is considered unlikely, as CIB funding represents a small proportion of total project costs and competition within the CIB allocation acts to limit overcompensation.
 - (d) The Scheme may have spillover effects on adjacent sectors, such as oil and gas, which compete for similar services.
 - (e) There will be impacts on consumer bills from the add-ons to CfD charges, although the Assessment anticipates potential longer-term consumer benefits from more resilient and efficient supply chains.
 - (f) The Assessment identifies that there is a very low risk that the Fair Work Charter could affect participation in the main CfD auction or place upward pressure on bids. This is considered unlikely given the Charter's co-development with industry, its alignment with forthcoming Employment Rights Act 2025 requirements, and the limited nature of its ongoing obligations outside access to CIB bonuses.
- 2.52 The Assessment considers that the Scheme's impact on international supply chains is expected to be positive, as it argues that the Scheme applies to both domestic and international firms on a non-discriminatory basis and aligns the UK more closely with comparable schemes in other European jurisdictions. Where investment does not occur in the UK, the Scheme is expected to encourage investment in cleaner supply chains elsewhere.
- 2.53 The Assessment concludes that achievement of the three sustainability benefits outweighs any negative impacts; it draws on internal value-for-money analysis, developed for AR7 and reused for AR8, indicating that the Scheme is likely to provide a positive net benefit.
- 2.54 In our view, the Assessment sets out the positive effects of the Scheme in relation to the policy objectives, as well as potential negative impacts, in line with the Statutory Guidance. The Assessment could provide a more in-depth consideration and quantitative assessment of the overall scale of the positive and negative

impacts on competition and investment, including those in other sectors (as discussed in paragraph 2.46). It could draw more on the international trade and investment analysis in the Appendices. The Assessment could then provide a clearer conclusion on why the benefits outweigh any potential negative impacts.

Energy and Environment Principles

2.55 This section sets out our evaluation of the Assessment against the energy and environment principles.³³ DESNZ has conducted an assessment of the Scheme against Principles A, B, C and E of the energy and environment principles.

Principle A: Aim of subsidies in relation to energy and environment

2.56 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.³⁴

2.57 The Assessment states that the objectives of the Scheme will help to improve the sustainability of the renewable energy market.

2.58 The Assessment states that the Scheme could incentivise relevant investments by suppliers that are committed to SBTs. The Assessment includes information on the reduction in emissions that can be expected from inducing supplier uptake of SBTs. It concludes that the Scheme will increase the level of environmental protection compared to the level that would be achieved in the absence of the Scheme.

2.59 In our view, the Assessment explains, and includes some evidence as to, how the Scheme complies with the environmental limb of Principle A of the energy and environment principles. The Assessment could be made clearer as to whether the energy limb also applies. In addition, it could be made clearer in the discussion of Principle A that criterion 1 (investment in shorter supply chains) is primarily intended to address economic and social issues rather than environmental protection.

³³ See Schedule 2 to the Act, and [Statutory Guidance](#), Chapter 4.

³⁴ [Statutory Guidance](#), paragraphs 4.19–4.28.

Principle B: Beneficiary’s liabilities as a polluter

- 2.60 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.³⁵
- 2.61 The Assessment states that the Scheme does not relieve beneficiaries of any liabilities arising from their responsibilities in law as polluters, but incentivises sustainability and decarbonisation. It also states that contracts have requirements on generators to comply with all applicable law.
- 2.62 In our view, the Assessment broadly sets out how the Scheme complies with Principle B of the energy and environment principles. In accordance with paragraph 4.33 of the Statutory Guidance, DESNZ could include a clear statement in the terms of the scheme to the effect that the Scheme does not relieve the recipient from any liabilities arising from its responsibilities as a polluter under the relevant law of England and Wales, Scotland, and Northern Ireland.

Principle C: Subsidies for electricity generation adequacy, renewable energy, or cogeneration

- 2.63 Subsidies or schemes for electricity generation adequacy, renewable energy, or cogeneration should not undermine the UK’s ability to ensure that wholesale electricity and natural gas prices reflect actual supply and demand, and that the wholesale electricity and natural gas market rules will, in general terms, be transparent, encourage free price formation, and operate in an efficient and secure manner.³⁶ They should also not unnecessarily affect the efficient use of electricity interconnectors between the UK and the European Union. Finally, they should be determined by means of a transparent, non-discriminatory and effective competitive process, or, alternatively, an explanation should be provided for why a non-competitive process was used.³⁷
- 2.64 The Assessment states that there is no reason why the Scheme would directly or indirectly distort electricity or gas markets, as envisaged by Article 304 of the Trade and Cooperation Agreement (TCA). Similarly, the Assessment states that DESNZ cannot conceive of anything within the Scheme which could be seen to unnecessarily affect the efficient use of interconnectors, as envisaged by Article 311 of the TCA. The Assessment demonstrates how contracts under the Scheme will be awarded through a transparent, non-discriminatory and competitive allocation process.

³⁵ [Statutory Guidance](#), paragraphs 4.29–4.34.

³⁶ Article 304 of the [Trade and Cooperation Agreement](#) between the United Kingdom of Great Britain and Northern Ireland, of the one part, and the European Union and the European Atomic Energy Community, of the other part (TCA).

³⁷ [Statutory Guidance](#), paragraphs 4.36–4.44.

2.65 In our view, the Assessment clearly explains how the Scheme complies with Principle C of the energy and environment principles.

Principle E: Subsidies for renewable energy or cogeneration

2.66 Subsidies for renewable energy or cogeneration should not affect beneficiaries' obligations or opportunities to participate in electricity markets.³⁸

2.67 The Assessment states that DESNZ cannot conceive of anything within the Scheme which could be seen to unnecessarily affect the selling of electricity generated into the wholesale electricity market. It recalls that (broadly) the period of operation of the Scheme is fairly short and will commence soon. It states that although the CfD scheme involves a difference payment, CfD generators still need to sell their power to receive the market revenues.

2.68 In our view, the Assessment broadly sets out how the Scheme complies with Principle E of the energy and environment principles. The Assessment could mention that the Scheme avoids placing limitations on recipients and does not relieve recipients of obligations (see paragraph 4.49 of the Statutory Guidance). DESNZ could also consider including in the terms of the Scheme the statement envisaged by paragraph 4.50 of the Statutory Guidance (that nothing in the terms of the subsidy relieves a recipient of the obligation or ability to participate in electrical markets).

Other Requirements of the Act

2.69 DESNZ confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Scheme.

2.70 In response to the SAU's evaluation in our previous AR7 CIB report, section 17 of the Act is now explicitly addressed in the Assessment, with further detail. Section 17(1) of the Act sets out that a subsidy that is contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods or services is prohibited. The Assessment states that the Scheme does not require the use of goods and services, and instead rewards broadly defined 'investment' against the two criteria, letting the market decide where it is best spent.

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³⁸ [Statutory Guidance](#), paragraphs 4.48–4.51.