

MEETING BETWEEN THE MINISTER FOR TRANSPORT AND THE ISLANDS AND JIM MCCOLL, 20 FEBRUARY 2018

Official support: [REDACTED]

Business Plan Update

- Mr McColl provided an update on the business plan and commercial strategy of Ferguson Marine (FMEL) for 2018 and beyond.
- FMEL employs 364 people and the business has recently appointed three new senior members of staff – heads of Quality Assurance, Operations and Sales. Mr McColl feels FMEL has assembled a leadership team with real strength.
- Mr McColl spoke positively of the breadth of current market opportunities for FMEL and he highlighted the key importance of broadening the yard's customer base and expanding its capabilities. Opportunities for future work include:
 - *Defence* – MoD work on Type 31e (FMEL are part of a bid consortium alongside Babcock and Harland and Wolff), [REDACTED] which could be block built by FMEL;
 - *Innovation* – The 'know-how' gained through the construction of the LNG hybrid vessels is proving useful in opening doors, especially to Scandinavian customers;
 - *Hydrogen* – The yard has received enquiries from Denmark for two hydrogen ferries following the award of a research grant for HySEAS III, an innovative hydrogen ferry research project in partnership with St Andrews University, and Orkney Islands Council is interested in developing hydrogen vessels;
 - *Tugs* – FMEL may partner with a yard in [REDACTED], to build two tug boats;
 - *Other fabrication work* – FMEL is engaging with [REDACTED]

Scope for investment to enhance capability

- FMEL's capability to undertake ship servicing and repair work, which generates good margins, is limited. Mr McColl outlined plans to install a winch in the yard which would be able to pull vessels up to 45 metres in length onto the slipway. With this capability Mr McColl said [REDACTED] would use the yard for serving work.
- FMEL is also considering options for dry dock facilities. One option is investment in a floating dry dock; another option is to renovate and reuse the derelict Govan dry docks. FMEL has submitted a planning application to Glasgow City Council to develop the site and a public forum on the application will be held in March.

CMAL Build Programme Update

- The delivery of Glen Sannox (801) would be later than the October 2018 forecast discussed with the Transport Minister last November but would, in FMEL's view, still fall within the winter 2018/19 timescale the Minister had outlined to Parliament (letter to REC Committee of 9 November 2017). Mr McColl stated that recent cash constraints on the business had contributed to the delay.
- Mr McColl said the delivery date for 802 remained May 2019. The Minister noted that this timescale was significantly earlier than estimates from CMAL (Spring 2020), following which Mr McColl outlined that due to cash flow management 802 was currently under resourced and that this would change in light of the ICA and release of funds from escrow.
- The delay in unlocking cash from the escrow through the inter-creditor agreement presented difficulties for FMEL, especially as regards paying suppliers. Suppliers stopped providing materials at the end of January due to delayed payments and this further delayed the build. Now that suppliers have been paid, deliveries are coming again and FMEL is hiring 50 contractors to accelerate progress.
- The Minister asked if internal outfitters for the vessels had been appointed. Mr McColl confirmed that FMEL had signed a contract with a [REDACTED] firm.

Contract Issues and Cash Flow Situation

- Mr McColl said FMEL cannot wait until April for mediation to begin. The business needs a resolution by the end of March and has encouraged CMAL to proceed with an alternate mediator in place of [REDACTED] the agreed mediator who is unavailable until mid-April. CMAL rejected this suggestion.
- Mr McColl outlined his perspective that FMEL entered into the contract with CMAL in good faith and, after receiving reassurances from CMAL, they priced their bid on the principles outlined in the tender.
- Mr McColl referenced a section of the tender document (paragraph 48) that states the build would proceed on 'the basis of a cooperative and innovative development of the basic designs provided in the specification'. FMEL has faced issues on a daily basis with the changing specification and the difficulties of incorporating changes into the original design.
- Mr McColl also stressed the innovative and developmental nature of the design, highlighting that as the LNG hybrid design was the first for a UK shipyard there were costs associated with that and FMEL could not continue to bear those costs alone.
- Additionally, he critiqued the initial tendering work, noting that in his view standard procedure for an innovative design of this nature was to first tender for a design study and to then use that design study as the basis for the contract tender. Mr McColl said previously CalMac would have team members who would work with a design team for about a year before putting the bid out to tender.

- Mr McColl shared that FMEL has independent experts looking at the contract. He highlighted issues with the practicality of the initial design and duplication (e.g. the cooling systems).

Discussion

- The Minister thanked Mr McColl for the business plan and build programme updates, and said he would be engaging with CMAL soon. The Minister would encourage CMAL to progress with the mediation process and would urge them to do so in a helpful and constructive manner.
- The Minister stressed the importance of exhausting the process of mediation to try to reach an agreement. Mr McColl took the view that CMAL were being honest in their dealings with FMEL and he appreciated their difficulty in meeting the level of contract price increase FMEL is seeking. He noted his perception that the CMAL Board and senior figures were not experts in this field, stating they came from primarily logistics and port management backgrounds and did not have either the engineering background or access to the appropriate engineering advice which would let them understand the technical nature of FMEL's claims.
- The Minister asked Mr McColl what course of action FMEL would take if there was not a settlement on the mediation and no price increase could be agreed. Mr McColl suggested FMEL could:
 - Inform CMAL that the yard was unable to deliver the 802 contract
 - Pay off 150 direct staff
 - Use their remaining funds to deliver the 801 contract [nb: £1.2m and £5m payments still to come on 801]
- FMEL could also explore funding 801 and then options to lease it – CBC and FMEL have been speaking to potential funders about this type of scenario.
- [REDACTED]
- Mr McColl could conceivably make an argument to CBC's investors to draw down the required equity to complete 801 if they needed to in order to mitigate the impact on their investment in the yard and protect the yard's value.
- Mr McColl was concerned about the time it might take to reach a resolution on the contract price. From FMEL's perspective, time is of the essence.