

From: Cabinet Secretary for Transport, infrastructure and Connectivity
Sent: 18 July 2018 14:50
To: Cabinet Secretary for Transport, infrastructure and Connectivity; TS / SG officials; Pacitti F (Frances)
Subject: Meeting with Jim McColl re Ferguson Marine
When: 13 August 2018 10:30-11:30 (UTC+00:00) Dublin, Edinburgh, Lisbon, London.
Where: Ministerial Suite, AQ

To see agreed meeting with Jim McColl.

Good to get co-ordinated briefing up a week before if possible please.

Thanks

<< Message: RE: Meeting with Michael Matheson >>

From: SG official
Sent: 08 August 2018 17:21
To: Cabinet Secretary for Transport, Infrastructure and Connectivity; TS /SG officials; Pacitti F (Frances); SpADS
Subject: RE: Meeting with Jim McColl re Ferguson Marine

Please see the briefing for Mr Matheson's meeting with Jim McColl on Monday next week.

The note contains contributions from Economic Development and Transport Scotland officials.

<<Meeting briefing - Mr Matheson and Jim McColl (Aug 2018).doc>>

Innovation, Investment and Industries

Directorate for Economic Development

CABINET SECRETARY FOR TRANSPORT, INFRASTRUCTURE AND CONNECTIVITY

MEETING WITH JIM MCCOLL

MONDAY 13 AUGUST, 10:30 – 11:30

Key Message	Scottish Government believes there is a long-term need for marine engineering and innovative ship building on the Clyde. We are keen to help FMEL to thrive in that space.
Who	Jim McColl, Founder, Chairman & CEO of Clyde Blowers Capital
What	Meeting to discuss Ferguson Marine Engineering Ltd (FMEL) – the shipyard at Port Glasgow which is owned by Clyde Blowers Capital.
Why	This is an introductory meeting with you in your new Cabinet Secretary role. Mr McColl requested the meeting.
Where	Ministerial Suite, Atlantic Quay
When	13 August 2018 From 10:30
Supporting Officials	Head of Strategic Industrial Projects Fran Pacitti, Director, Aviation Maritime Freights and Canals
Alternative contact	
Briefing	<p>Annex A: There is no formal agenda but we have listed topics that are likely to come up</p> <p>Annex B: Note of call between Derek Mackay and Jim McColl (24 May)</p> <p>Annex C: Loan Agreement Summary</p> <p>Annex D: New Vessel Delivery Dates</p> <p>Annex E: Latest Position on the Contract Price Dispute</p>

MEETING WITH JIM MCCOLL

Jim McColl requested the meeting to discuss FMEL. There is no set agenda.

Background

FMEL is wholly owned by Clyde Blowers Capital (CBC), an independent industrial investment firm based in East Kilbride. CBC brought the business out of administration in 2014 and since then FMEL's trade has been almost exclusively focussed on public sector contracts for ferries.

FMEL is the last commercial shipyard on the Clyde and the only Scottish yard that has the physical capacity to build the larger ferries in CalMac's fleet.

Currently FMEL is building two "dual-fuel" (LNG/marine diesel) ferries for CMAL. Vessel construction is behind schedule; revised delivery dates have been provided by FMEL to CMAL and SG. There is a significant contract dispute between FMEL and CMAL concerning the costs of completing the vessels. This dispute and its impacts on FMEL's finances is the backdrop to the two Scottish Government loans to FMEL: (i) £15m in September 2017 and £30 million in June 2018.

Discussion Points

[NOT in SCOPE]

3. Vessel Delivery Dates (see background at Annex D)

The construction of the CMAL vessels is running well behind schedule.

FMEL have recently provided CMAL and SG with revised delivery dates:

- MV Glen Sannox (vessel 801): [REDACTED] (13 months later than contract)_
- Vessel 802: [REDACTED] (20 months later than contract)

Points to convey:

- You might ask Mr McColl about FMEL's new delivery dates and what will be needed to achieve them.

[NOT in SCOPE]

PHONE CALL BETWEEN DEREK MACKAY AND JIM MCCOLL – 24 MAY 2018

[OUT OF SCOPE]

LOAN AGREEMENT SUMMARY

Background – Financial position of FMEL

[NOT in SCOPE

] but, crucially, it would have further set back the delivery dates for the CMAL vessels (known as MV Glen Sannox and 802).

Ministers' objectives

The Cabinet Secretary for Finance and the Minister for Transport restated their three principal policy objectives at a meeting with officials on 10 May – vessel delivery, employment and the shipbuilding capacity of the yard:

- Vessel delivery – The Minister for Transport wrote to the Rural Economy and Connectivity Committee in November 2017 stating that 801 (MV Glen Sannox) would be delivered in winter 2018/19. Since then, and since the launch of the MV Glen Sannox in November 2017, work on both vessels has slowed significantly, in particular in the last few months when labour has been substantially cut back. Cash flow challenges, [REDACTED], have been a factor in the delayed delivery schedule. Affected island communities in Arran and the Western Isles, where the vessels will be deployed, are concerned at the impact of delays given the capacity and reliability benefits that these new vessels are intended to bring, particularly in light of recent well-publicised disruption on the Clyde and Hebrides network due to mechanical breakdowns.
- [NOT in SCOPE]
- [NOT in SCOPE]

In pursuit of these three objectives Ministers sanctioned negotiations between officials and FMEL/CBC with a view to developing a commercial proposition to support the business.

[NOT in SCOPE]

NEW VESSEL DELIVERY DATES

Ferguson Marine Engineering Ltd (FMEL) are building 2 vessels for Caledonian Maritime Assets Ltd (CMAL) for the CalMac fleet. Total cost £97 million.

The vessels are late.

FMEL have recently provided CMAL and SG with revised delivery dates:

- MV Glen Sannox (vessel 801): [REDACTED] (13 months later than contract)
- Vessel 802: [REDACTED] (20 months later than contract)

The current public lines, communicated by Mr Yousaf wrote to the REC Committee in November 2017, were “Winter 2018/19” for MV Glen Sannox with no specific date given for vessel 802.

We are now looking to proceed with communicating revised vessel delivery dates to Parliament and publicly.

Advice on this should be with you shortly.

[REDACTED]

There have been questions from island communities and elected members for several months around delivery dates of the new ferries. You replied to a PQ on this topic from Colin Smyth MSP (S5W-17382) on 19 July 2018:

Colin Smyth (South Scotland) (Scottish Labour): *To ask the Scottish Government when the two dual-fuel ferries ordered by Caledonian Maritime Assets Ltd from Ferguson Marine will enter service on Clyde and Hebrides routes operated by Caledonian MacBrayne.*

Michael Matheson: *Ferguson Marine Engineering Ltd (FMEL) have notified Caledonian Maritime Assets Ltd (CMAL) of delays to the construction of these new vessels. A revised delivery programme is currently being discussed by FMEL and CMAL. We will inform Parliament when revised timescales have been agreed in the next few weeks.*

Following delivery, CalMac Ferries Ltd require around two months for trials and crew familiarisation before each vessel is fully deployed on the Clyde and Hebrides ferry network.

We propose therefore, as set out in the PQ reply, to follow previous practice of the Minister writing to REC convener Edward Mountain.

LATEST POSITION ON THE FMEL-CMAL CONTRACT PRICE DISPUTE

[OUT OF SCOPE]

From: TS official

Sent: 10 August 2018 16:00

To: Cabinet Secretary for Transport, Infrastructure and Connectivity

Cc: TS / SG officials, Minister for Energy; Connectivity and the Islands; First Minister DG Economy; Permanent Secretary; Parliamentary Clerks Office; Pacitti F (Frances); Minister for Parliamentary Business and Veterans; SpADS

Subject: Government Initiated Question (GIQ) - Vessels Announcement - 10 August 2018

PS/Cabinet Secretary for Transport, Infrastructure and Connectivity

In line with the Cabinet Secretary's request - please find attached a draft Government Initiated Question (GIQ) regarding the delivery of new vessels on the Clyde and Hebrides ferry network.

Should you have any queries, please do not hesitate to contact [TS Officials].

TS Official

Ferries Infrastructure Project Manager

Ferries Unit – AMFC – Ferries: Finance, Infrastructure and Sponsorship

Ferries Unit
Transport Scotland
10 August 2018

Cabinet Secretary for Transport, Infrastructure and Connectivity

NEW VESSEL DELIVERY DATES – GOVERNMENT INITIATED QUESTION (GIQ)

Purpose

1. To ask you to agree the attached Government Initiated Question (GIQ) announcing the revised delivery dates of the two new ferries: 801 (MV Glen Sannox) and 802 (unnamed).

Priority

2. **Routine** Prompt clearance of the GIQ would enable it to be answered next week and well in advance of the Arran Travelling Cabinet of 27 August 2018. Clearance is required at the latest by Thursday 16 August 2018 in order for the PQ to be lodged by Kenneth Gibson MSP on Tuesday 21 August 2018 and answered at 10:00 on Wednesday 22 August 2018.

Background

3. As part of the Scottish Ferries Plan 2013-2022 the Scottish Government gave a commitment to delivering a first class sustainable ferry service to our communities, stimulating social and economic growth across Scotland. The new vessel programme by Caledonian Maritime Assets Ltd (CMAL) includes the delivery of two vessels, namely the 801 (MV Glen Sannox) and 802 (unnamed). The vessels are currently being constructed by Fergusons Marine Engineering Ltd (FMEL).

4. In November 2017, anticipated completion dates were given as Winter 2018/2019 for 801 (MV Glen Sannox) with no specific date given for vessel 802. Further detail was contained in my note of 9 August 2018. Revised delivery dates are 801 MV Glen Sannox: [REDACTED] (13 months later than contract) and 802 as [REDACTED] (20 months later than contract)

Communications and Handling

5. Transport Scotland and CMAL have been keeping community representatives informed in general terms. The new dates are already circulating having been announced by FMEL to their workforce but not publicly. Ahead of the PQ publication, you will be chairing the Ardrossan Task Force on Monday 13 August. We suggest you share these lines with Kenneth Gibson MSP and the Task Force at the meeting; whilst asking the Task Force to treat these sensitively ahead of the PQ publication.

6. Transport Scotland has regularly engaged and consulted with CMAL, and FMEL regarding the communications strategy of announcing the delivery of the vessels. We will liaise with CMAL to prepare reactive lines following the PQ publication. There is pressure from partners, in particular North Ayrshire Council, to issue a news release following Monday's Task Force meeting and we will need to manage the timing of this and the PQ. A separate Comms and Handling submission will be submitted early next week .

Recommendation

7. That you approve the text of the proposed question and answer attached at Annex A.

Ferries Directorate
Ferries, Finance, Infrastructure and Sponsorship
10 August 2018

ANNEX A

NEW VESSEL DELIVERY DATES GOVERNMENT INITIATED QUESTION (GIQ)

Kenneth Gibson MSP - To ask the Scottish Government whether it will provide an update on the delivery of the two new vessels being built by Ferguson Marine Engineering Ltd for operation on the Clyde and Hebrides ferry network

Michael Matheson

Ferguson Marine Engineering Ltd (FMEL) has advised that the first vessel, the MV Glen Sannox (vessel 801), will be delivered during Summer 2019, and the second vessel (vessel 802) in Spring 2020.

Following delivery, Calmac Ferries Ltd require around two months for trials and crew familiarisation before each vessel is fully deployed on the Clyde and Hebrides ferry network.

SCOTTISH GOVERNMENT

From: Cabinet Secretary for Transport, Infrastructure and Connectivity

Sent: 13 August 2018 15:22

To: TS official; Cabinet Secretary for Transport, Infrastructure and Connectivity

Cc: TS / SG officials; Minister for Energy, Connectivity and the Islands; First Minister; DG Economy; Permanent Secretary; Pacitti F (Frances); Minister for Parliamentary Business and Veterans; SpADS

Subject: RE: Government Initiated Question (GIQ) - Vessels Announcement - 10 August 2018

Mr Matheson is content with the recommendation indicated on page 2 of the submission.

| Private Secretary to Paul Wheelhouse MSP, Minister for Energy, Connectivity and the Islands

The Scottish Government | Web: www.gov.scot

From: SG official

Sent: 16 August 2018 10:55

To: TS officials; Pacitti F (Frances)

Subject: RE: Summary of main points from meeting between Jim McColl and Michael Matheson held on 14 August 2018

I've sent a draft note to Fran to agree as she attended the meeting too. Once I have Fran input I'll clear it with the Cab Sec's office as the official note. See below for info just now.

SUMMARY OF MEETING BETWEEN THE CABINET SECRETARY FOR TRANSPORT, INFRASTRUCTURE AND CONNECTIVITY AND JIM MCCOLL

13 AUGUST 2018

Present: Michael Matheson, Jim McColl, Fran Pacitti and SG official

[Draft note – not yet agreed with Fran and or the Minister]

Introduction

- The Cabinet Secretary had recently taken up his role and welcomed the opportunity to meet Mr McColl.

CMAL contract

- JMCC began by outlining his views on the history of the current contract with CMAL for vessels 801 (Glen Sannox) and 802, highlighting construction and certification complexities arising from the choice of LNG as a fuel source.
- JMCC pinpointed the early stages of the CMAL contract (ie the specification stage) as the main source of difficulty and he summarised the basis of FMEL's claim for a contract price increase. [**NOT in SCOPE**]
- [**NOT in SCOPE**]
- [**NOT in SCOPE**]

Delivery dates

- Representatives of FMEL are due to visit Arran in the next week or so and JMcC said they would be outlining FMEL's stance on the CMAL ferries contract and the source of the delays.
- JMcC expressed confidence that the new delivery dates presented to CMAL were achievable.

[**NOT in SCOPE**]

From: TS Media

Sent: 29 August 2018 16:41

To: Cabinet Secretary for Transport, Infrastructure and Connectivity; SpADS; TS / SG officials; Press Transport Scotland; Brannen R (Roy); Pacitti F (Frances); Deputy First Minister and Cabinet Secretary for Education and Skills; First Minister; Minister for Energy, Connectivity and the Islands; Cabinet Secretary for Finance, Economy and Fair Work

Subject: Daily Mail and BBC Scotland re Jim McColl comments this morning

The Daily Mail are looking for a comment on Jim McColl's latest interview – transcript and weblink attached: <https://www.bbc.co.uk/news/uk-scotland-scotland-business-45340128>

I'm not sure there's much to be gained here so I'm minded to refer to the original PQ and lines on this from before, albeit we don't directly answer the question posed.

If pressed I intend to advise that this is a matter for the contracting parties to resolve (and that SG have already provided £97m).

From: Reporter – Daily Mail

Sent: 29 August 2018 15:00

To: TS Media

Subject: Ferries

As discussed the comments from Jim McColl of Ferguson Marine regarding the delayed ferries is below.

He says that although the firm have had to incur costs over the delays/changes to the ferries, he believes the government should be responsible for the final bill./

It would be great if you could respond.

Thanks,

'We have incurred significantly higher costs in the work we've had to do on these ferries, and we've been engaging with CMAL to discuss these costs.

'Maybe the best way to put it is that we've been frustrated in these discussions. We've been discussing it for over a year, and we have been funding that, so it's been using a lot of our capital. We've been funding it solely.

'Our view is that these have been genuine changes that have had to be made to the work we've been doing, and they're changes that ought to be incurred by the buyer.

We will be continuing to pursue what we think are the real additional costs for this ferry.

To allow things to progress and not be held back the government have put in place a facility for us to access to continue our growth plan and to complete these ferries as well.

But whilst we will still be following up on what we believe are valid additional costs for the ferries.

'I believe that perhaps more design development work could have been done prior to the invitation to tender going out, rather than dealing with multiple things that are arising as we got into the build process. But we're working diligently through that.

From: SG official

Sent: 02 October 2018 09:57

To: Cabinet Secretary for Finance, Economy and Fair Work; Cabinet Secretary for Transport, Infrastructure and Connectivity

Cc: TS / SG officials; Chief Financial Officer; DG Economy; Pacitti F (Frances); Chief Executive Transport Scotland; SpADS; First Minister; Minister for Energy, Connectivity and the Islands

Subject: FMEL Loan Agreement - letter from CBC

OFFICIAL SENSITIVE – COMMERCIAL

Cab Secs

Please see the attached letter addressed to Scottish Ministers, which Clyde Blowers Capital sent over last night. [**NOT in SCOPE**]

Innovation, Investment and Industries

Directorate for Economic Development

Extract from letter from SG to Clyde Blowers dated 11 October 2018

Ard-stiùiriche na h-Eaconomaidh
Director-General Economy
Liz Ditchburn



Clyde Blowers Capital IM LLP
5 Redwood Cresecnt
Peel Park
East Kilbride
G74 5PA

[**NOT in SCOPE**]

It is not clear to us how or why the financial position of the business has changed since the date you entered into the agreement. For example, you have not indicated any further delay to your revised delivery dates for vessels 801 or 802, nor highlighted any other circumstance which might affect the financial position of your business.

[**NOT in SCOPE**]

3. Comments on what changes there have been to the financial position of FMEL including detail of the additional costs incurred or forecasted in the completion of 801/2 since the June 2018 loan agreement was entered into

[**NOT in SCOPE**]

Subject to receiving this information in advance, we are available to meet on Wednesday 17 October in Glasgow.



LIZ DITCHBURN

From: On Behalf Of Cabinet Secretary for Transport, Infrastructure and Connectivity

Sent: 07 November 2018 10:47

To: SG official; First Minister; Cabinet Secretary for Finance, Economy and Fair Work; Cabinet Secretary for Transport, Infrastructure and Connectivity

Cc: Deputy First Minister and Cabinet Secretary for Education and Skills; Minister for Business, Fair Work and Skills; Minister for Energy, Connectivity and the Islands; Lord Advocate; Permanent Secretary; DG Economy; Chief Financial Officer;; Brannen R (Roy); Pacitti F (Frances); Baxter M (Mike) (TRANS); TS / SG officials; SpADS

Subject: RE: FMEL Loan - Urgent submission

[**NOT in SCOPE**]

He also notes that we always need to bear in mind that we are reliant on FMEL to deliver two urgently needed vessels for the ferry network.

Grateful for any feedback after the meeting

| Private Secretary to Michael Matheson MSP, Cabinet Secretary for Transport, Infrastructure and Connectivity

The Scottish Government | St Andrew's House, Edinburgh, EH1 3DG | Web:

www.gov.scot

From: SG official

Sent: 08 November 2018 11:23

To: SG officials; DG Economy; Chief Financial Officer; Pacitti F (Frances);

Subject: FMEL Call

When: 09 November 2018 13:00-14:00 (UTC+00:00) Dublin, Edinburgh, Lisbon, London.

Where: Conference Call (Details Below) SAH 1st floor 1W.08A / AQ 1st floor MacKintosh

All

Please accept this request to discuss the meeting with Cab Sec on Wednesday. I would be grateful if you could please prioritise this call.

Many thanks

Policy Officer, Strategic Industrial Projects

Innovation, Investment and Industries

Directorate for Economic Development

From: Pacitti F (Frances)
Sent: 13 November 2018 11:28
To: TS / SG officials; DG Economy; Chief Financial Officer;
Subject: RE: FMEL - Advice to Cab Secs

Additional text added on the “third way” for contract performance that we discussed last week. Comments welcome.

This note outlines potential benefits of the counter proposal. Does it also need a section on potential risks? In particular, it might be helpful to outline cash flow projections and whether the additional funds by CBC and SG will provide sufficient working capital to complete the contracts, [**REDACTED**].

Fran

OFFICIAL SENSITIVE – COMMERCIAL

From: [SG official]
13 November 2018

Cabinet Secretary for Finance, Economy and Fair Work
Cabinet Secretary for Transport, Infrastructure and Connectivity

[**NOT in SCOPE**]

[**REDACTED**]

[**NOT in SCOPE**]