

From: [Redacted]
Sent: 18 November 2015 16:14
To: Minister for Business, Energy and Tourism
Cc: [redacted - s38(1)(b)] Macdonald R (Roddy); [redacted - s38(1)(b)]
Subject: Lines for t/c at 1730 tonight with Mr Murray

. [Redacted]

Some brief lines for Mr Ewing's t/c at 1730:

- **Mr Murray's letter does not have enough detail to demonstrate that the proposals would lead to a viable business and investment proposition**
- A credible business plan supported by due diligence would be required before SG could give a firm view on whether it could support the proposal.
- Mr Murray envisions Tata Steel as a shareholder and leasing the plant for 5 years - we are not aware of Tata being sighted on this idea, or whether the company would be willing to enter into the proposed agreement of being a 25% shareholder with an option to purchase plant at an agreed future price
- The basis for the SE/SG stake of £10m pa for 5 years is unclear. It is also not evident whether any other party would be putting in any cash.
 - **There is no State Aid compatible way to give £10m a year as a grant to a company in the steel sector.**
 - If the £10m per annum was to be an equity stake this could only be done if a full due diligence process was conducted and a business plan produced as a result that indicated it could be a commercially viable business proposition - SG would be working in the same way as a private investor would. **Any shared equity proposal would need to be reviewed by an independent assessor** - at this stage we cannot confirm that such investment would be possible within State aid rules.
 - £50m is a significant amount of new funding for the public sector to identify.
 - [Redacted]

Rhona Allison of Scottish Enterprise also advises that, as framed, the proposal is not a commercial one, with no commercial funding partner. In terms of public sector providing funding there is no business plan to evaluate; and no identified route to sustainability and profitability. In particular there is no mention of what happens after year 5.

I will dial into this call.

[Redacted]

[Redacted] | *Head of Manufacturing & Construction | Innovation, Investment & Industries Division | The Scottish Government*
4th Floor, Atlantic Quay | 150 Broomielaw | Glasgow | G2 8LU | t: 0300 24[Redacted]



Murray Capital Limited 26 Charlotte Square Edinburgh EH2 4ET
Tel: +44 (0) 131 243 2100 Fax: +44 (0) 131 243 2101
www.murraycapital.co.uk

17 November 2015

Private & Confidential

Fergus Ewing MSP
Minister for Business, Energy and Tourism
by email: MinisterBET@gov.scot

Fergus

On 2 October 2015 I made contact with John Swinney MSP regarding my information that an announcement was imminent about the closure by Tata of its UK Plate Division to include Dalzell and Clydebridge due to unsustainable running costs and foreign competition.

John Swinney privately confirmed he was fully aware of this potentially materialising and pointed me in the direction of yourself. A private meeting was held in my office in Charlotte Square on Thursday 8 October with your advisors including Scottish Enterprise. Discussions continued and we looked at possible options including the disadvantages the mills faced. The actual confirmation was made by Tata on 20 October including the loss of 270 jobs and that both facilities would be mothballed. Out of my concern for the potential end of physical steel making in Scotland and for continuity of plate supply [REDACTED]

[REDACTED] a prompt meeting was arranged on Thursday 22 October with the First Minister, Government advisors and Rhona Allison of Scottish Enterprise. Without, at that time, receipt of the commissioned Viability Study/Report prepared by Ernst & Young, I put forward an interpretation of the financial/management input/sales required as a stand-alone unit [REDACTED]

[REDACTED]

Further discussions took place with both John Swinney and yourself exploring the possible options.

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Tata are obviously crucial to any final outcome and I had a meeting in London on 3 November with Andrew Checketts, Head of Acquisitions & Mergers. We discussed all aspects of the business and the common thread of outside competition in manufacturing including their advantageous cost base. He was very helpful and put me in touch with senior executives within his organisation to give guidance on the future market direction, the world slab availability and prices which would be crucial for any continuity of production.

Throughout this period, we have continued to purchase large quantities of plate to support the mills. However, for size and thickness reasons commercially, the majority has been rolled at Scunthorpe.

We were endeavouring to keep all matters private but the Sunday Times had been attempting for several weeks to get confirmation of our discussions. Eventually, the story appeared in the papers on 5 November. I spoke with John Swinney and yourself, and made a statement.

At all times throughout this period, I received commercial feedback from end users who are continually concerned like me regarding continuity and believe orders have already been placed elsewhere.

I was put in touch with John Caouki, Director of Global Trading at Tata International Metals. Our discussion on Friday 13 November was most informative.

On Friday 13 November, I also had a discussion with Anthony Ferrand, Director of Raw Materials at Tata. He gave me his market views and as a regular visitor to China, he confirmed the views of John Caouki.

On the basis of the above information and linked to the Ernst & Young Report, my view of any potential survival plan is as follows.

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From: [redacted - s38(1)(b)]

Sent: 08 October 2015 13:34

To: Minister for Business, Energy and Tourism; Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy

Cc: Macdonald R (Roddy); [Redacted]

Subject: OFFICIAL SENSITIVE - COMMERCIAL Readout of Murray Capital meeting

DFM

Minister for Business, Energy and Tourism

Mr Ewing, Paul Lewis (SE) and I met with Sir David Murray and Euan Campbell (Murray Capital Finance Manager) this morning at Sir David's request.

Sir David has been doing some initial research into the possible purchase of Tata's Scottish operation and would go public on this interest once Tata announce their proposals on the Long Products standalone business. **[Please note that BIS have told us today that it is very unlikely Tata will make this announcement before the Steel Summit next Friday].**

Sir David is well informed on the Tata business (and has spoken to Gary Klesch) and is now probably the major customer for steel from Dalzell. He envisages a combined Dalzell/Clydebridge (the latter either in his or Tata ownership) operation providing high quality specialised steel (a "boutique" operation) to a number of key clients such as Terex, Vickers, JCB etc. He estimates the business could turn over £50m pa and employ 150 -180. He accepts that this will be a marginal business (like his existing steel company) whilst steel prices and demand remain depressed. [Redacted]

We offered to provide information to him on support previously offered to Klesch by SG/SE and access to E&Y who are undertaking the review of options for SE, and to keep in regular contact.

Mr Ewing said that 2 key points we would make at the Summit would be on comparatively high business rates in UK and need to actively engage key customers such as those mentioned by Sir David in buying UK steel. **Roddy will work with LGF colleagues to gather information on business rates in Europe and options for getting the business rates at the 2 plants in Scotland reduced.**

We are expecting the E&Y initial report tomorrow and BIS have a further meeting due with Tata later today. We will provide a further update on these and on the BIS proposed agenda for the Summit when received.

[redacted
- s38(1)]

[redacted - s38(1)(b)]

Director of Economic Development
Scottish Government
Room GW.03, St Andrew's House

Edinburgh
EH1 3DG

Tel: [redacted - s38(1)(b)]

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