

MR YOUSAF MEETING CMAL – 24 JANUARY 2018

Agenda

1. Progress on 801/802
2. Mediation – progress, possible outcomes and next steps
3. Outlook for FMEL and wider picture of shipbuilding industry and CMAL orders [Redacted]

1. Progress on 801/802

- CMAL reported on 15 January 2018 that almost 2 and half months after the 3 November 2017 meeting between you and Jim McColl, the progress on both vessels has not been what is expected to meet the delivery dates discussed at the meeting:
 - End October 2018 for 801
 - May 2019 for 802
- CMAL's best guestimate for 801 (Glen Sannox) delivery is 12 to 15 months from now – i.e. January – April 2019 this is on the assumption that there is an acceleration in all aspects of the design and construction of both vessels.
- In order for Glen Sannox to be in service for the start of the 2019 summer timetable (late March), an early February 2019 delivery date (12 and half months from now) needs to be achieved in order for CFL to have 6 weeks familiarisation.
- [Redacted] reported at our meeting of 16 January that FMEL were prioritising work on 802 prior to planned launch this summer.

NB – CMAL are not sighted on the parallel work with FMEL and CBC being led by SG Industry colleagues and it is important to retain this “Chinese wall”.

2. Mediation – progress, possible outcomes and next steps

- A mediator is in place, [Redacted]
- FMEL and CMAL are planning a meeting in February. FMEL are seeking assurances that the CMAL representatives in the room will have the authority to make decisions on a settlement to avoid a protracted outcome. CMAL has sought clarification from FMEL on the contractual basis for their claim, but this has not been provided to CMAL's satisfaction. In absence of this, CMAL advise that their Board will be unwilling to give CMAL representatives (Kevin Hobbs and Jim Anderson) authority to reach a settlement.
- If the mediation fails to achieve an outcome satisfactory to FMEL – the most likely outcome – then the next step under the contract would be arbitration.

- [Redacted] – Jim McColl, in his letter to Ministers of 5 September, made a proposed further equity investment conditional on “the final conclusion of the dispute between CMAL and [FMEL]”.
- In our meeting of 16 January, Mr Mackay stressed that CMAL should “be as reasonable and constructive as possible” and see the “bigger picture”.

3. Outlook for FMEL and wider picture of shipbuilding industry and CMAL orders

- CMAL have previously passed on analysis from the leading shipbrokers, [Redacted] showing a very significant downturn in global new build ship orders.
- In principle, this should be good news for CMAL placing future orders as the market should keep prices competitive. However it makes it even more difficult for FMEL to compete on price. And

[Redacted]

- FMEL have produced a paper for SG Industry colleagues outlining their potential order pipeline – most of the work bid for recently is for relatively small contracts – no new significant orders have been won of late.
- FMEL place heavy emphasis on future MoD work; however this is not due to be awarded until late 2018 with fabrication coming on stream in 2019.

[Redacted]