

## **New Vessels for the Clyde and Hebrides**

**Written submission from Stuart McMillan by email 19 October 2022**

Dear Convener,

I hope you are well.

In response to your letter dated 29<sup>th</sup> September, please find attachments which I hope will be helpful for the Public Audit Committee inquiry - *New vessels for the Clyde and Hebrides: Arrangements to deliver vessels 801 and 802*.

I have provided correspondence relating to your inquiry. I did have other correspondence with the Scottish Government which supported the yard prior to Fergusons changing ownership in 2014, including correspondence relating to the Ferguson Taskforce which was set up to help find a buyer for the yard in 2014. I didn't think this correspondence was relevant to the request from the committee.

Secondly, I considered the correspondence in 2012 and 2013 (attached) to be included in your request as it refers to procurement, although it is not relevant to vessels 801 or 802. It was more of a request for orders to go to the yard.

Finally, the staff member who sent the email for me on 23<sup>rd</sup> December 2014 left my employment in the middle of 2015.

Once again, I hope this information is helpful.

Please also accept my apologies in this email being slightly later than requested.

Best Regards

Stuart McMillan MSP

## **McMillan SM (Stuart), MSP**

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**From:** on behalf of McMillan SM (Stuart), MSP  
**Sent:** 23 December 2014 15:07  
**To:** 'scottish.ministers@scotland.gsi.gov.uk'  
**Subject:** Ferguson Marine Engineering Ltd

Cabinet Secretary for Finance, Constitution and Economy

Dear John,

### **Re: Ferguson Marine Engineering Ltd (FMEL)**

I write to you in connection with the above subject after recently meeting with representatives of Ferguson Marine Engineering Ltd (FMEL).

A number of issues were discussed during the meeting and I wanted to highlight some of these issues with the Scottish Government.

Firstly, the issue of 'Bonding' was mentioned. I was informed of how the bonding works for industry. It was explained to me how the Bonding can actually be a hindrance to the cash flow for business particularly in an industry which involved large upfront costs which Ferguson Marine Engineering Ltd face. I was asked to contact you regarding the bonding issue and whether the Scottish Government would be in a position to introduce a more flexible bonding arrangement.

Secondly, I am led to believe that discussions are currently underway between FMEL and Scottish Enterprise regarding the payment terms for the third Hybrid ferry. I am led to believe that the current payment arrangements are 20% at the beginning of the contract with 80% at the end. It was highlighted to me that this ratio can also have a negative effect upon the cashflow situation of the business. FMEL would be grateful if a quick resolution, either way, can be reached between Scottish Enterprise and FMEL so that FMEL can progress with their activities.

Finally, I was delighted to attend the recent steel cutting ceremony officiated by the First Minister for the third hybrid vessel and believe FMEL now have the potential for a positive future. As you are aware, I have been a huge supporter of shipbuilding on the Clyde and particularly in Port Glasgow. I appreciate that the Scottish Government are required to place tenders into the European Journal but I would hope that FMEL will be considered to win future Scottish Government orders. This would provide security of work allowing the new owners the opportunity to invest significantly in the fabric of the yard. As you will know, the yard needs this investment to allow it to compete on the international stage.

Finally, I would like to put on record my sincere thanks to you and the Scottish Government for your efforts in securing the future of FMEL. Without these efforts, shipbuilding on the Lower Clyde would have all but vanished. I know the Port Glasgow, and wider Inverclyde communities are appreciative of everything you have done.

Yours sincerely

**Stuart McMillan MSP**  
**Member of the Scottish Parliament for West Scotland**  
**(Scottish National Party)**

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Mr Stuart McMillan MSP  
The Scottish Parliament  
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Your ref:  
Our ref: 2015/0001017

2 February 2015

Dear Stuart

Thank you for your email of 23 December 2014 to John Swinney MSP, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, following your recent meeting with representatives of Ferguson Marine Engineering Ltd (FMEL). I am replying given my transport responsibilities.

Regarding the question of refund guarantees or "bonds", I would like to clarify the position relating to standard construction projects and why a different approach may be required for shipbuilding contracts.

For standard construction projects, if a contractor goes out of business part way through the contract, or if it fails to perform, there is a physical asset left on site which the purchaser can access, even if it is only partially completed. However, in the case of shipbuilding the vessel is being built on the contractor's site (i.e. the ship yard) rather than the buyer's site. As such, in the case of default by the yard, or where the yard goes into liquidation, the purchaser is in a much less advantageous position regarding work that has already been completed.

Also, as in the case of high value construction contracts, contracts to build ships usually require staged payments as the build progresses. In effect, it is in theory possible to take ownership of the parts of the ship that have been built at the point at which the staged payment is made. However, ship owners are usually reluctant to take ownership of parts of a vessel which is not yet complete as this would have implications for the builder's responsibility and liability for satisfactory completion of the contract. Therefore, it is fairly common for buyers of ships to insist that each staged payment is protected by a refund guarantee, provided by a bank, which runs to the delivery date for the ship.

When the ship is delivered, the guarantees are returned and the bank releases the charge over the yard's assets. If the ship yard defaults on the contract the buyer can then obtain a refund from the bank. The bank will usually take some form of charge over the yard's assets as well as a fee for issuing the guarantee. Refund guarantees were in the place for the recently acquired MV Finlaggan and MV Loch Seaforth.

Ferries for the Clyde and Hebrides fleet operated by CalMac are procured and owned by Caledonian Maritime Assets Ltd (CMAL). While CMAL's Board, in line with standard industry practice, has a preference for refund guarantees it has on occasion taken alternative approaches to ensure that ship yards, including Ferguson under its previous owners, were not excluded from bidding for these government contracts.

With regard to frequency of payments during the construction phases of the new vessel, the breakdown of the payment schedule for the third hybrid vessel is as follows:

- 10% Contract commencement – paid on 19 November 2014
- 20% Steel Cutting – paid on 16 December 2014
- 20% Fabrication – half complete
- 20% Fabrication – fully complete
- 20% Launch
- 10% Delivery

This payment schedule will assist with the cashflow position of FMEL during the early stages of construction of the vessel.

On 15 October 2014, my predecessor Keith Brown MSP, Cabinet Secretary for Infrastructure, Investment and Cities, announced the start of the procurement process for two new 100 metre ferries by CMAL on behalf of the Scottish Ministers. Ferguson Marine Engineering Limited and other shipyards have had the opportunity to participate in this procurement process.

FMEL, and Jim McColl personally, have publicly stated their ambition with regard to these orders, and I am sure they will be seeking to put this ambition into effect.

I hope this reassures you that, in line with the 2012 Ferries Plan, the Scottish Government is continuing in its commitment to vessel replacement and providing potential work for the shipbuilding industry in Scotland.

Kind regards

**DEREK MACKAY**



SM/IF

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Keith Brown MSP  
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Scottish Government  
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19<sup>th</sup> December 2012

Dear Keith,

### **Re: Scottish Ferry Services – Ferries Plan**

I write to you in connection with the Scottish Government announcement, today, highlighting the Final Ferries Plan, setting out short, medium and long term improvements over the next decade, as well as a commitment to retain all existing essential services.

I welcome the publication of this document as I know ferries play a vital role throughout the West of Scotland and act as an essential method of travel.

Only earlier this week, we've seen the successful launch of a state of the art hybrid ferry from Ferguson Shipbuilders in Port Glasgow. It's vital any new investment made by the Scottish Government for ferry infrastructure considers using the expertise and skills of the Port Glasgow yard.

Therefore, I felt it was important to write to you and highlight the recent success of Ferguson Shipbuilders and encourage the Scottish Government to consider Ferguson Shipbuilders in any future ferries funding announcement.

Yours sincerely

**Stuart McMillan MSP**  
**Member of the Scottish Parliament for West Scotland**  
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Mr Stuart McMillan MSP  
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Our ref: 2013/0000482

17 January 2013

*Dear Stuart,*

Thank you for your letter of 19 December 2012 regarding the publication of the Final Ferries Plan and the launch of the first hybrid ferry in December.

I am grateful for your positive feedback on the Ferries Plan and look forward to working with you on its implementation.

The Scottish Government and Caledonian Maritime Assets Ltd (CMAL) are committed to leading the way in innovative ferry design and building for the future. We welcome the partnership with Ferguson Shipbuilders which is turning that aspiration into reality and we look forward to seeing the first hybrid vessel in operation in spring/summer 2013 with the second vessel entering service later in the year.

We will continue to make good our commitment to create the vital jobs needed to boost local economies and to help stimulate sustainable growth across Scotland and, as much as possible, utilise Scotland's world renowned engineering skills made famous on the banks of the Clyde. The Ferries Plan sets out a programme of vessel replacement through to 2025 which will provide further apparatus for Ferguson Shipbuilders to plan and bid competitively for future shipbuilding contracts. With the skills and experience now in place, the company will be well-placed to secure further work for CMAL and elsewhere.

I should also thank you for your personal role in the launch of the MV Hallaig – I hope your constituents appreciated your musical contribution!

Kind regards

**KEITH BROWN**