

From: James A. McColl [Redacted]
Sent: 24 July 2019 10:30
To: Cabinet Secretary for Finance, Economy and Fair Work [Redacted]
Subject: Ferguson Marine
Importance: High

Dear Derek

Since submitting the FMEL proposal where we left 801 and 802 in FMEL and separated out the rest of the business, there has been a significant change in the outlook for the type 31 work which Ferguson could win as the strategic shipbuilding partner in the Babcock consortium. In the past week it has become highly likely that Harland and Wolf in Northern Ireland will be unable to participate at the previously planned share of the build program, if at all.

This will result in Ferguson winning a significant increase in work content with a consequent increase in the number of jobs which this will bring to Inverclyde and Scotland.

[Redacted]

There is also very strong demand for fishing vessels. There are over 400 fishing vessels greater than 10 metres which will need to be replaced over the next 10 years. [Redacted]

Ferguson are being inundated with enquiries about our Hydrogen Technology since winning the Innovation Award at the recent World Greentech Awards in Berlin. We are leading in this field with a fantastic opportunity to capitalise in a big way with the need to convert vessels over the next 10 years to meet emission reduction targets. Ferguson is well placed to be a leading player in this drive.

The prize here is huge, creating between 700 and 800 sustainable jobs and building a market leading business in Scotland.

I would strongly recommend revisiting the FMEL proposal to split the business. We still believe that this avoids any issues with European Procurement and State Aid. By leaving the contract between CMAL and FMEL as is avoids any issue with procurement, Nothing changes between the contracting parties.

Having avoided any Procurement issues, the test for splitting the business after taking over FMEL is ; what would a market equivalent operator do . (the MOEP Test). Its an absolute no brainer that a Market Equivalent Operator would absolutely follow through with a split of the business as proposed since it results in FMEH and ultimately CBC taking half the pain for the increase in the price of the vessels and results in a halving of the the cost to the Scottish Government, a saving of around £55m.

We can work with your advisors to see what we could tweak to get them comfortable with the structure.

If the Government proceed with a Nationalisation of the Yard, the cost to construct these two vessels will still be double the original contract price and they will have to bear the full increase in cost. It will also kill off the opportunity for an exciting future that currently exists. The current employee numbers of 350 will increase in the short term by around 150 but will very quickly fall back to a stable number of around 100. There's too much at stake not to have another serious look at what we need to do to continue with the momentous effort and investment that has been put in to this business to make it a leader in Marine Engineering Technology, creating good, sustainable, long term employment and making a significant contribution to the Scottish Economy.

Jim

Jim McColl

Founder, Chairman & CEO

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