

STATEMENT ON DUAL FUEL FERRIES CONTRACT

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Date : 17th January 2020

Statement from CMAL's chief executive Kevin Hobbs regarding the dual fuel ferries contract.

“First and foremost, I want to be clear: all CMAL want to do is deliver two lifeline vessels to island communities, and the previous senior management team at the shipyard failed to deliver as promised.

The delivery dates promised by the shipyard were May and July 2018, and the delay has put additional strain on the fleet being operated by CalMac. It also means the benefits of having new and more resilient ferries for the island communities has not been delivered according to plan, affecting those communities in an adverse way.

There are three key areas I'd like to address: firstly, the claim that these vessels are prototypes; secondly, that CMAL requested hundreds of design changes; and finally, the £66 million compensation claim.

It is a myth that these are prototype vessels. Hundreds of LNG vessels have been built and are operational across the world. The engine manufacturer, Wartsila, has delivered over 2,000 dual fuel engines since 2003.

Certainly, they are the first to be built in Scotland, however it is proven technology and the certification process for LNG ferries is a well-trodden path. We received six compliant bids to build these ships, with each shipyard, including FMEL, stating that it was within their capability to build these vessels.

The contract is an internationally recognised fixed price design and build contract, which means the shipyard is responsible for all design and construction for a set price. The shipyard management team willingly and knowingly signed up to the contract with no caveats. Minor changes have been agreed through a change order process, which is normal industry practice. A total of 81 changes have been agreed through this process; 46 were requested by FMEL and 35 were requested by CMAL. CMAL has paid for these changes to the value of £1.5 million, 1.6% of the contract price.

Design and build errors by the shipyard had to be rectified after the yard began building at risk, i.e. cutting steel before the design stage was completed and without sign-off by CMAL, the Maritime Coastguard Agency (MCA) and the classification society, Lloyds. The management team got the specification requirements wrong thousands of times; for example, the requirement was for 1,000 seats and the shipyard produced a drawing for 960 seats, which we said was insufficient and asked them to meet the original 1,000-seat requirement. The previous senior

management team counted this as a CMAL design change request, when in fact it was a clear specification requirement.

Finally, the compensation claim submitted for £66 million had no merit whatsoever. There was no contractual or technical basis for the claim. We have a letter from the previous senior management team which confirms that the claim was being made outside the terms of the contract, making it clear that they were seeking a commercial negotiation to secure more money. As a public body and custodians of taxpayer's money, we are in no position to enter a negotiation like this. The claim was assessed by a senior QC appointed by us, a senior QC appointed by the Scottish Government, and a senior QC appointed by the shipyard administrator, Deloitte. All three concurred that there was no merit whatsoever in the compensation claim.

We are deeply saddened and frustrated with the current situation, however our primary aim is the same as it has always been, to deliver two vessels to island communities. We will work closely with the new Fergusons team to make this happen as quickly as possible.”