

The Chief Executive Officer of Fincantieri wrote to Defence Secretary Philip Hammond just before the announcement of award to a Korean shipyard, in the following terms:

MARS (Military Afloat Reach and Sustainability) Programme

Fincantieri is participating in the MARS competition to design and build a new generation of fleet tankers for the Royal Fleet Auxiliary. The competition is following an EU dialogue and down selection process that has spanned more than 2 years and is now approaching a conclusion with the award of contract expected in March. Three companies remain in the competition including Daewoo Shipbuilding & Marine Engineering (DSME), Hyundai Heavy Industries (HHI) and Fincantieri, the only European contender.

Fincantieri is one of the largest shipbuilding groups in the world with an enviable track record for quality, on time delivery and providing customers with value for money. We are the market leader for cruise ships and have a portfolio that also includes naval vessels, submarines, fast ferries, mega yachts, offshore vessels, semisubmersibles and many other ships of a specialist nature. We have an extensive range of our own manufactured equipment including diesel engines, steering gear, fin stabilisers, propellers, steam turbines and more. Fincantieri has 8 shipbuilding yards in Italy and 3 in the US where we are building the US Navy's 'ultra fast' Littoral Combat Ship (LCS), one of the most innovative naval vessels to be introduced in three decades. We employ around 11,000 people and 30,000 including contractors and suppliers. Fincantieri has a strong financial position and benefits from a dynamic management team underpinned by academic achievement.

As a strategic partner of the Italian Navy we are experienced in working closely with naval customers in designing military ships for demanding operation requirements. Vessels completed for the Italian Navy in the last 5 years include: AAW Destroyers, an Aircraft Carrier and several U212A submarines. All were built to time, quality and budget. This formidable track record has boosted the export of vessels for Navies around the world plus a new generation of frigates for the Italian Navy are being built in collaboration with the French Navy under the FREMM programme.

Our recent experience of building two NATO compliant replenishment tankers for the Indian Navy is important, for the design is similar to MARS plus these were the first ever naval tankers to be built to MARPOL double hull regulations. The MARS tankers will be larger and designed to higher military standards (in areas such as survivability) however the Indian Tankers have some innovative and high performance features including a 4-station Rolls-Royce electric RAS system, higher speed (in excess of 20 knots) and dual bridges for strategic battle command activities.

I firmly believe this recent experience serves to underline Fincantieri's credentials to build the MARS tankers plus it allows significant 'risk mitigation' from an early stage in the design and build process.

In responding to MOD's invitation to submit final bids (ISFB) last October with a fully compliant and within budget offer, we provided a covering letter stating our intentions to generate 100% European content and at least 35% work-share for UK companies in the execution of the contract. It was also mentioned we have established relationships with several important UK companies (including Sir Joseph Isherwoods, Cammell Laird, Rolls-Royce and many others) and that we would continue to actively seek further cooperation opportunities in the UK.

In keeping with our commitment to increase the involvement of UK defence industry in the execution of the contract, we approached BAE Systems, initially during the last MARS competition, to discuss the possibility of some form of collaboration and more recently when we discovered that they were no longer working in consortium with DSME. We have offered to share the design and build of the MARS tanker with them in the event that we are offered a contract by MOD and subject to agreement of work-share content and of course

the approval of your department. We have exchanged letters at executive level on this proposal and they have pledged their support subject to MOD approval. The proposal involves building the second tanker in the UK. We have only spoken speculatively about timescales for we understand this information is classified however given some flexibility from the parties we are confident it is viable. We are also prepared to discuss further work-share to match capacity availability. We have not discussed the commercial implications of this approach.

I consider it of paramount importance to build the MARS tankers in Europe, for the sake of preserving complex naval shipbuilding skills within the EU and to attract valuable tax benefits during a prolonged period of industrial decline. It is estimated that up to 25% of the shipbuilding costs can be offset through the collection of employment and corporate taxes, which would be lost to the EU if the vessels are built in the far east.

It is also appropriate to consider the great military strategic relationship between our countries, evidenced during the recent Libyan, Afghanistan and other conflicts where our military have worked in close cooperation for a common objective. The First Sea Lord's recent visit to Italy and Aircraft Carrier 'Cavour' is testament to the mutual trust and respect that has been achieved between our navies during joint sea operations and I believe that our proposal will certainly increase this further and take it to a higher level.

Your support is respectfully requested in backing Fincantieri as the European solution for MARS and our strategy of adopting a collaborative approach to protect jobs in the UK, Italy and elsewhere in Europe during a period of unprecedented economic downturn. I am confident that by combining the experience of two of the world's great naval shipbuilders this will be highly beneficial for the MARS programme, increase value for money and act as a catalyst for further collaboration in wider markets. It is also important to note that we are currently involved in technical discussions for the design and build of a new class of replenishment tanker for the Italian Navy and there may well be opportunities to adopt a collaborative approach.

Naturally, I am extremely keen that we do not jeopardise our current position in the MARS competition and I would therefore be grateful for your advice on how this proposal should be addressed with your procurement staff, assuming this is permissible.

Yours sincerely
Guiseppe Bono
Chief Executive Officer