

Cabinet willing to cancel minesweeper contract: Lai

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A minesweeper ordered by the Ministry of National Defense from Ching Fu Shipbuilding Co is under construction in a dry dock in Italy in an undated photograph.

Photo courtesy of Ching Fu Shipbuilding Co

The Cabinet would dissolve a multibillion-dollar contract to build minesweeper ships with financially troubled Ching Fu Shipbuilding Co (興富盛) if necessary, Premier William Lai (賴清德) told lawmakers yesterday.

Ching Fu, one of the nation's largest private shipbuilders, won a NT\$35.85 billion (US\$1.19 billion at the current exchange rate) contract with the Ministry of National Defense in October 2014 to build six minesweepers as part of the nation's indigenous shipbuilding and upgrade program, but it is suspected of using the money to invest in projects in China and of defrauding banks.

Prosecutors in August questioned company executives about NT\$3 billion in loans that are suspected of having been obtained under false pretenses.

Ching Fu secured a NT\$20.5 billion loan from a consortium of nine banks headed by First Commercial Bank (第一商業銀行) after having already received about NT\$15 billion.

The money might end up being written off as a bad debt if the shipbuilder declares bankruptcy.

Speaking during a legislative sitting, Lai said that the government would “cut its wrists” — or terminate the contract — if necessary to prevent further losses, but first it would investigate if

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Ching Fu has the financial and technical abilities to complete the project.

The Cabinet is to form an investigative task force and take steps to ensure that the project's first minesweeper, which is being built in Italy, would be transferred to the government and not mortgaged by Ching Fu's debtors, Lai said.

It is to also take disciplinary action against any official found to have been negligent in awarding the contract to Ching Fu, he said.

The ship under construction in Italy is a 700-tonne vessel being built by Intermarine SpA, with the US firm Lockheed Martin providing support for the mine detection hardware and weapons systems.

New Power Party Executive Chairman Huang Kuo-chang (黃國昌) asked Lai how Ching Fu, which signed an investment deal with a Chinese local government before the minesweeper project was announced, could have been able to secure the contract.

"The shipbuilding technology we learn from the Italian manufacturers will end up in the hands of a contractor that has signed an investment agreement with a Chinese local government," which could compromise national security, Huang said.

Ching Fu bought a sonar system designed for minesweepers from a Chinese company before it won the Ministry of National Defense tender, as if it knew it was going to win the bid, Huang said, asking if anything illegal was involved in the deal.

Ching Fu in 2001 delivered four patrol boats to the Coast Guard Administration, but 338 mechanical problems were found with the boats and the Control Yuan issued a correction to the Cabinet over the procurement process, the lawmaker said.

He asked Lai why the ministry awarded another multibillion New Taiwan dollar contract to an

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apparently unqualified contractor.

“How could we entrust a contractor that could not properly build a patrol boat with the important indigenous shipbuilding program?” Huang said.

The government allocated a budget of NT\$3.47 billion between 2013 and last year for the shipbuilding project, but it overspent by NT\$1.36 billion, officials said.

About half of the NT\$3.87 billion budget allocated this year has already been paid to Ching Fu, Minister of National Defense Feng Shih-kuan (馮世寬) told lawmakers.

The ministry failed to obtain information about Ching Fu’s purchase of the sonar system before the contract was awarded, Feng said.

He also said he did not know how much of the minesweeper under construction in Italy had been completed.

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