

STATEMENT TO BE MADE BY THE CHIEF MINISTER AT A SPECIAL STATES MEMBERS BRIEFING ON 19 DECEMBER 2008

May I begin by thanking you all for assembling at such short notice and without the benefit of knowing the reason for this meeting. So let me explain.

Following a number of meetings of the Emergency Powers Authority and the full Policy Council, I am grateful for this opportunity to advise Members of the States, and later in the media, of a significant step that the Policy Council has found it necessary to sanction – in order to secure the continued supply of essential petroleum products, such as petrol and heating oil, to the Bailiwick.

A step that has been prompted by extreme and unforeseeable events that have necessitated actions that would, in less pressing circumstances, be the subject of a States Report, debate and resolution.

Let me say at the outset that this will be the subject of a full States debate at the January 2009 meeting - although such a debate will be against the background of strategic commitments that will already have been made to ensure that this communities infrastructure continues to function.

Shortly after it was formed in May of this year, the Policy Council was made aware of a number of issues surrounding the vulnerability of imports of petroleum products to Guernsey and their onward re-export to Alderney and Sark - that is to the Bailiwick as a whole. Such vulnerability arises from a combination of the limitations of St Sampson's Harbour as a discharge point for fuel tankships together with changes in the types of vessels and their operating regimes that have taken place in recent years.

Our large tidal range means that tankships must arrive at the top of the tide in St Sampsons within relatively small tidal windows each month. Those vessels must be capable of settling onto the drying berth at St Sampson's, until such time as they have discharged and the tide has risen sufficiently to allow them to leave the harbour.

In recent years, as the oil industry has rationalised and fuel discharge berths elsewhere have become developed to accept larger ships, a consequent reduction in the need for smaller vessels of the type capable of discharging at St Sampson's has taken place. Many of these ships have been phased out or relocated to the **southern hemisphere** and other waters. Furthermore, following a number of well publicised disasters at sea involving single skinned tankships, fuel companies are obliged by maritime law, as well as for good environmental reasons and in order to satisfy their insurers, to only use double skinned vessels. Along with one or two of the smaller Scottish Islands, Guernsey remains **the only place in this part of the world** with a small tidal harbour acting as a fuel discharge point where boats are required to use a drying berth.

In this respect, Jersey has invested in a deep-water berth capable of taking a wider range of conventional vessels, and are therefore, not as constrained as Guernsey, in the range of vessels suitable for the importation of petroleum products.

A consequence of these developments is that new tankships have been specially commissioned to meet the need of our Islands but there are currently only two suitable and available to serve Guernsey. Indeed, we are advised that there are **only seven vessels suitable for our needs in the entire world**. Three in the southern hemisphere one of which at 20 years old, is nearing the end of its life and would not comply with the requirements to be used in EU waters.

Two vessels capable of serving Guernsey were commissioned in practice, and yet for a variety of reasons only one has been available for the past year. **Let me repeat that, only one suitable fuel oil vessel is currently available to serve this Island's needs out of a total of seven worldwide.**

Members will appreciate that this leaves the Island extremely vulnerable. It is unreasonable to expect a vessel to continue to operate without any down time, whether it is planned dry-dock inspections, maintenance or mechanical failure or other unforeseen disruptions.

Given the obvious concerns arising from the situation, the Emergency Powers Authority (EPA) has been in dialogue with the two fuel importers locally, Fuel Supplies (CI) Ltd - now Rubis - and Total, who in turn have been liaising with James Fisher Everard, the shipping company that charters these vessels from their owners and operates them on behalf of their owners, to establish whether there is any realistic prospect of more vessels becoming available to serve Guernsey.

The stark facts are that the vessels used by BP in Scotland are slightly larger than the vessels serving Guernsey and both their masters and owners have expressed reluctance to enter St Sampson's and in any event those boats are needed by the Scottish Islands as much as we need them.

At this point I am very conscious that in order to explain the decision that I am about to announce, Members are likely to want far more information than I am able to give in this brief statement, but I would ask you to appreciate the position that the Policy Council finds itself in and to recognise that we propose to come back to the States with a full report in the near future together with associated briefings.

To return to the sequence of events - we have undertaken exhaustive enquiries with specialist help as to how we might cope, if the single vessel serving the Island became unavailable. While there are short term emergency means of bringing in small quantities of fuel, we have come to the conclusion that in the short to medium term there is no option other than to continue using the few vessels that are able to discharge fuel products from our harbour.

On 17 November 2008 the Policy Council learned for the first time that the owners of the two ships that had been built and were capable of serving our Island had gone into administration. Let me emphasise that; **the owner of the only vessels capable of replenishing our essential stocks of fuel is in administration.**

Furthermore, although the vessel which currently serves us, continues to visit the Island in order to fulfil the charter contract with James Fisher Everard, nevertheless it and its sister ship have been put up for sale by the administrator **with a number of interested buyers.**

We have been advised by an oil industry specialist and by shipping advisers that there was a real prospect that one or both of these vessels could be purchased by a new owner. There was a very real danger that any new owner might take them away from Guernsey. It was also clear that the administrator was seeking to realise these assets at the earliest opportunity and therefore if the States was to consider securing an interest in these vessels then **it had to move swiftly.**

I need to emphasise that at this point in our engagement with the Administrators I am not able to identify the vessels by name for contractual reasons.

The two vessels concerned were only commissioned at the start of 2008, having been specifically constructed for the type of operation Guernsey requires. The vessel currently serving us is fully operational and approved by both oil companies for discharge into the Island. Its sister ship while identical in every respect, and which has been plying its trade carrying various liquid fuels within European waters, will require some remedial work to the ballast tanks in order to allow it to meet the oil company approvals to allow it to service Guernsey's fuel import requirements.

Against this background and in the light of advice from specialist maritime lawyers and from oil industry specialists and shipping specialists, the Policy Council decided to place bids to secure the ownership of both these vessels on the part of the States.

Formal confirmation that those bids have been accepted was received yesterday (18 December), a deposit is in the course of being placed and the transaction will be completed subject to satisfactory due diligence on the vessels in January.

We are advised that the nature and timing of this purchase is such that it could not be sensibly made subject to formal States approval, without the real risk of other bidders securing the vessels.

I will in due course be in a position to advise you of the cost of these vessels but until such time as due diligence has been completed and bearing in mind that this may give rise to scope for further negotiation it would not be in the interests of our community, to reveal that figure publically at this stage.

However, I can assure you, that by moving quickly and decisively, we have obtained these vessels at a considerable discount to the alternate choice that the Bailiwick would have faced in building new vessels to secure our future petroleum product imports, should these vessels have been sold to an owner for use elsewhere.

As to the financing of this venture; a company has been formed that will act as a special purpose vehicle to hold this asset on behalf of the States. That company has obtained a loan from the T&R Department to fund, what is essentially a commercial venture, driven by a strategic need.

In this respect the vessels will be treated as an investment with an income stream, bearing in mind that an intermediary will take and manage the vessels for the States on the basis of “bare boat charters” paying the states a fixed monthly fee. When not delivering fuel to Guernsey they will be put to other commercial uses generating revenue for the company. With an average charter time of four days per voyage this **will ensure that one ship is always available for fuel supplies to Guernsey**, in the event of the other vessel being out of action.

The vessels will also be restricted to working around Britain and the adjacent coast of Europe. Although the States has reached agreement with the intermediary, that Guernsey will have first call over both vessels, at present the sister ship is subject to charter commitments extending into 2010. Efforts are being made to release the vessel earlier however.

I am conscious there will be a number of questions arising in States Members minds as to whether there are alternatives to this approach and why it is that the States, rather than the private sector should secure ownership of these vessels.

A number of options have been explored and the report that will be submitted to the States will cover these in detail together with wider strategic issues in respect of fuel storage facilities in Guernsey, the need for a minimum strategic supply to be held locally and the relationship between the States and the fuel companies.

At this point let me stress that we are talking here about securing the supplies of petrol and diesel for vehicles, kerosene for domestic and commercial heating and **aviation gasoline**.

Supplies of heavy fuel oil for Guernsey Electricity are imported by a different, specially constructed vessel where oil has to be heated and which is unsuitable for the carrying of clean petroleum products and therefore **are not affected by these arrangements**.

Similarly, liquefied petroleum gas is brought in on, specially constructed vessels, of which there are sufficient numbers of suitable ships within the fleet used by Guernsey Gas. Once again the importation of LPG is unaffected by these arrangements.

Finally, I must emphasise that the Policy Council has been acutely aware that such extreme and unusual circumstances were not foreseen when the current rules for capital purchases were drawn up.

However, had these assets been real property ie. buildings rather than ships, then the rules would allow such purchases to be made without reference to the States. Indeed, in this case we are not so much buying vessels as buying long term security of supply for the Bailiwick.

Against this background the Policy Council wrote to the Treasury and Resources Department asking that urgent consideration be given to changing the rules in liaison with the States Assembly and Constitution Committee to safeguard the Island's ability to act swiftly when such strategic threats present themselves. Treasury and Resources have agreed unanimously to such a review and I will return to this issue in a moment.

So to summarise; In rapidly developing circumstances the Policy Council has seen fit to take essential and unprecedented measures to secure the Island's continued supply of petroleum products by purchasing the only two tankships currently available **and capable** of serving our restricted tidal harbour.

The background to that decision is far more complex than I have been able to explain in the time available to me today and will be the subject of a comprehensive States report at the earliest opportunity. I stress however that the Policy Council has been **unanimous** in this decision and I wish to give credit to the many hours that have been put in by Ministers. In particular though, I wish to pay tribute to our staff who, over an intense period, over the last few weeks since the administration of the vessels' owners was announced, have worked tirelessly on our communities behalf.

I would also thank the Commerce and Employment Department which has played a major role in assisting with the negotiations and also the Treasury and Resources Department for assisting with the funding arrangements.

Before I conclude, I must stress that the Island currently has **ample supplies of all grades of fuel** and it is to ensure that this situation continues, far into the future, that these measures have been taken.

Members of the States I hope that when the full facts are known to you and when this matter is debated you will be able to fully endorse this strategic decision. In this respect I will together with the Chief Executive, Deputy Chief Executive and Chief Officer, Commerce and Employment, answer questions, although I remind you that a detailed presentation will be organised in January to complement the States report which is still being worked on **and the contractual arrangements place limits on what we might say at this time.**

We have not briefed the media yet, as it was essential to advise States Members first. **We will be talking to the media after this meeting.**

Finally, and before I open the meeting to questions I think it is important that States Members should be under no illusion as to just how difficult it has been for the Policy Council and for me as Chief Minister, in addressing this issue over the last few weeks.

Indeed, the comments I am about to make apply not so much to my own feelings as to the position that any Chief Minister would have faced. That difficulty has arisen because we have been forced by circumstances to tread a tightrope. A tightrope stretched between two points.

On the one hand the need to safeguard the future of this community by acting fast in rapidly changing circumstances and on the other hand doing so, knowing that the rules and processes which govern how we work are inadequate to provide for the situation we have faced.

Throughout this process, I and the entire Policy Council, have been acutely aware that the decision to go ahead with the purchase of these vessels flew in the face of the normal approach of wide consultation, States debate, the securing of a capital allocation and so on.

However, on the other hand we have also been acutely aware that unless we had reacted with the speed that we did and conducted negotiations in a confidential and commercial manner – then there was the very real prospect that the two vessels built to serve these Islands and which to all intents and purposes are irreplaceable in the short term could have been sold to another buyer. That buyer might well have relocated them elsewhere in the world. Alternatively, our acquisition would have been at a substantial premium to the price we have been able to secure.

As Chief Minister I have felt particularly vulnerable having been given the authority **by unanimous vote of the Policy Council to lead negotiations** and to agree a price without further reference to the Council. They gave me the authority to act outside of the box and in our administration being out of that box is a lonely and uncertain place to be. **It was however the right place to be.**

Today is about letting you know what has transpired. The January States meeting is an opportunity for further debate, to consider the details and for the States to express its view as to what has happened. But, what I would like to happen in the coming weeks is for all States Members to reflect on this incident which has been a serious “wake up call”.

A wake up call that has thrown the spotlight on the fact that we have acted swiftly to achieve the best possible outcome to an unexpected situation , but that this has demonstrated that some of our States processes move more slowly than the events themselves. In an uncertain world, we need to ensure that the States will be able to deal with crises in the quickest and most effective way.

And there I will conclude other than to say I hope this is the beginning of a productive dialogue that will result in some form of resolution in 2009.

Ladies and gentlemen you have been very patient and in a moment I will call for the first question.

Thank you.