

**THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS  
MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON  
THURSDAY 15 MAY 2003.**

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**Mr RICHARD KNOOP**, CHIEF EXECUTIVE OFFICER, **Mr RUSSELL VOKES**, ADMINISTRATOR, KING ISLAND PORTS CORPORATION WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** (Mr Fletcher) - Could I extend a welcome to you both and thank you for your cooperation. For Dick it's just to walk across the park, but for Russell it's a much more challenging situation.

**Mr WILKINSON** - It's a walk across the sea.

**CHAIR** - Dick, as part of the Public Accounts Committee's work, the issue was raised with regard the role of the port authority as a distributor of fuel on King Island. Whilst the price of fuel generally in Tasmania is, most people seem to suggest, quite high, the price of fuel on King Island is higher than that. The committee wishes to make a judgment about whether that is a fair price that reflects the market pressures in relation to things generally.

As an opener, we forwarded to you a set of questions and I think it would be good practice if we simply ask those questions so that the committee is better informed about the market pressures that apply in a very small economy like King Island.

**Mr KNOOP** - I have no problem, Mr Chairman. One suggestion was that, because of the complications on King Island and the way we got into this business, we might give you a run down on how we got into that business and why. I think just to give you the bland answers wouldn't give you the information that you might want.

**CHAIR** - Okay. I'm sure the committee would be very receptive to that.

**Mr KNOOP** - Obviously we've got nothing to hide in this process. All we want is to make sure that King Island gets its fuel at the most efficient price and that King Island does more business so that we can operate the port. That's essentially how it operates.

Just to go back a bit, in 1999-2000 there was a coastal bulk depot at Naracoopa, and it was operated by Mobil. At that stage Mobil were taken over by Exxon, and Exxon, because of the *Valdez* issue in Canada, decided that they would review all their operations including the method of delivery of fuel to King Island. They did that. The process at Naracoopa at the time was that the ship would come in usually about twice in 18 months and would float a pipeline ashore. The ship would be fixed to moorings supplied by King Island ports. The pipeline was floated ashore and attached to the manifold and the product pumped into the bulk depot.

**Mr VOKES** - The bulk depot has 4 000 tonnes of diesel and 800 tonnes of motor spirit.

**Mr KNOOP** - So it was quite a sizeable depot because it used to supply the scheelite mine when they used to have ship visits about every three to four months. That was a risky operation by any standards. Exxon reviewed that operation and determined that they would not continue with a floating pipeline; that is, they wanted an alternative. In the meantime, King Island ports had put about ten to twelve options to Exxon-Mobil about how they could continue to operate at Naracoopa. They were not taken up because it was just seen as too risky. The option then was of course to bring fuel via isotainers through Grassy and deliver it to some sort of depot that had to be established. At that stage we reviewed the operations and offered to Mobil to lease some land in Grassy to set up a bulk depot. They were not interested in investing in a bulk depot and suggested that somebody else do it. No other company that we came across at the time would invest in a bulk depot, although they were all prepared to offer prices for delivery of fuel to King Island. We spoke to BP, Shell, Liberty. The only company that offered to help in any way was BP. They were prepared to supply a second hand depot - upgraded - for King Island Ports to take over and us to have a leaseback amortisation arrangement whereby at the end of the term we own the facility.

It is a very attractive deal for King Island; a wonderful deal. No one else could have got them that deal and no other operator would have spent the \$1.5 million or \$2 million to set up a bulk depot. At that stage the Government were interested in the logistics of fuel to King Island because obviously King Island could run out of fuel. They asked us to stop and go no further, although they had an idea of the logistics that we proposed. They engaged a company called Shell Engineering. We have a copy of the report available but we would need to run a copy off or you could get it from DIER who actually engaged Shell, and they would be the proper people to get that report from. We reviewed our logistics and came up with the same conclusion. The only difference was that their costings - and that was demonstrated in the report - for delivery of fuel by isotainers is nearly double the rate we achieved.

That is the background. After that, the Government said, 'Well, someone has to provide a depot.' Shell were not prepared to do it and nor were Mobil. BP were prepared so King Island Ports negotiated with the Hydro, as the major user, to see if they would enter into a contract for us to actually have a customer at the end if we were going to invest \$1.5 million.

**Mr VOKES** - It should be noted too that King Island Ports were not too keen to do it either.

**Mr KNOOP** - No one was too keen to do it because it is a very risky exercise.

King Island Petroleum in the meantime, who were a distributor and had been the distributor for Mobil on the island all the time, approached King Island Ports saying that they no longer wanted to be in the business, no longer wanted to invest in a bulk terminal and did not need to invest in a bulk terminal, and that their terminal at Currie, which was the only terminal on the island and a very small terminal -

**Mr VOKES** - It is a depot; you would not really call it a terminal. It was just a depot with a 50 000 litre tank.

**Mr KNOOP** - Obviously it could not meet the capacity by the change in arrangements and it could not meet any environmental requirements while operating under a temporary

licence. So they offered to sell their distributorship to King Island Ports because there was nobody else in the market for that distributorship. They wanted to retire and they did not want to invest in a new depot. They obviously knew that the only place a depot could go to be efficient was, in effect, in Grassy, as demonstrated in the government inquiry by Shell. Any other depot anywhere else introduces another element of travel and distance and cost for anybody that wants to distribute fuel on the island. Someone might have said, 'Why don't you use the old bulk terminal?' The bulk terminal is a 4 000 tonne tank. Obviously you cannot fill that by isotainers coming out with 26 000 litres per time.

**Mr VOKES** - The other important issue with the isotainer delivery: anything outside the port confines of Grassy would mean we would not be able to turn the isotainers around on the same day as a ship. So, instead of having to have 7 isotainers or 8, you would need 14 or 16 isotainers because you would have to keep 7 or 8 on King Island. That is why we picked Grassy. We can turn 7 or 8 isotainers around in one day, which halves the cost of isotainer hire.

**Mr KNOOP** - So in the end we proceeded with BP and they supplied the bulk installation and BP and they supplied the bulk installation and we've now been in operation - and Russell will give you the capacity of the pulp installation in a second - but for about 18 months supplying fuel to King Island.

**Mr VOKES** - The Grassy one has been going for about 18 months. We ran the Currie depot for about 12 months but that was basically a stopgap. Unfortunately, the Government getting Shell Engineering to undertake a report and putting us on hold threw everything out of kilter and nothing happened. We did nothing for about three or four months so by the time we then had to crank it up and do something we were well behind the eight ball so we had to get a special licence taken out for the Currie depot and they only had a storage capacity of 50 000 litres of diesel and our storage capacity at Grassy is 260 000 litres which gives us about a 28-day storage capacity, given just normal average usage. So we went through a 12-month ad hoc period of putting ISO containers and leaving them around the area and having a lot more on there until we got the facility at Grassy up and running which, as I said, has been running for about 18 months now or 16 months.

**Mr KNOOP** - From there on in, Mr Chairman, we would ask that the specific questions we have to answer as it involves margins and contractual arrangements - we have already talked to the Hydro and the distributor and the services stations and they did not want their margins publicly exposed. Because we don't have any third party control over margins and in fact we cannot induce or talk margins to any of our suppliers because if we do we contravene the Trade Practices Act, so that when we find that we talk to BP they will not talk to us about margins nor will they talk margins to anybody, they run a mile. We also believe that if those margins got out into the general public domain, potentially you would introduce third party entrants into the market who would only have a short-term operation and then leave potentially King Island very vulnerable to having no fuel supplies at all. In the end, we suspect the facts will get lost as a political football while people will kick those margins around and no-one would understand what the true delivery costs of fuel are. But we are happy to supply the committee with all the details we can, but we don't want them going public.

**Mr VOKES** - We're happy to take the margins there and the way the questions are basically structured there, it is easy to just add them all up and to work out what the price of fuel from the depot is and then you only need to look at the pump price to work out what the service station operator and Websters are racking up on their cost per litre on diesel, and that's something we're very concerned about.

**CHAIR** - Can I just ask you to clarify, it seems to me you are making a request to give certain information in camera?

**Mr KNOOP** - We do.

**CHAIR** - We have a capacity to do that. We would need to be convinced that there is justification in going into camera to receive that information. It does pose limits on us and perhaps it is necessary for me to give some sort of a preamble in relation to this matter. The issue of pricing of retail price of fuel on King Island was raised. The committee thought it of interest to inquire into that matter to see whether there was justification. The committee has a firm belief that openness and transparency in operations will be to the benefit of the people of Tasmania and I think the committee has an underlying belief, certainly I have an underlying belief that most of our business operations are commercial and are well managed without any overt or covert policy of trying to do anything but what is best for the people but the people need to be reassured by that, and openness and transparency assist that understanding of the business.

We were, with this letter, trying to determine whether there was a need for a further inquiry or whether, being in receipt of certain information, we could make a judgment that all the commercial interests and commercial realities are addressed and the business is reasonable in all the circumstances given the market pressures and the size of the economy and that sort of thing. So that is where we are coming from, I think.

**Mr KNOOP** - We can certainly understand that, Mr Chairman. We don't control other people's margins in any shape or form.

**CHAIR** - No. So the question I need to ask you to justify is whether your request for commercial-in-confidence consideration in camera relates to all of these questions or just to those relatively few questions which deal with the margins between the source and the end receiver consumer?

**Mr KNOOP** - Essentially when we start answering those questions we will come to the same conclusions that Russell just outlined. We have no problem with the Auditor-General or someone sitting in. We have no problem with the committee being aware of these facts but we do understand that the Government is very nervous about any vulnerability that might apply to King Island fuel service and they quite rightly should be concerned.

**Mr HIDDING** - Vulnerability to the continuity?

**Mr KNOOP** - Because we know that there are players who will say, 'I can do it for  $x$  number of cents', forgetting about all the other issues, disrupt the supply chain and find that in three months time they'd be gone. The problem is that someone else will have gone broke in the process.

**Mr VOKES** - And we have that starting to happen now. There is an operator on King Island who wants to just buy a couple of old tanks, stick it out the back of his farm, bring in bulk diesel and sell it. It's a very fragile set-up. He might do it for four or six months but eventually he'll fall over. Our whole structure and prices with all the fuel on King Island goes through the depot and we have an agreement with the Hydro to do that. So that adds 3.5 million litres through the depot. Now if the Hydro decided not to and went back to the old way of direct deliveries, we would lose 3.5 million litres. Our costs do not drop by 50 per cent; our costs are still variable there. We have so many costs; that means now the cost of operating the facility then rises and it impacts on the end-user of King Island.

**CHAIR** - Russell, you've cited that there is a potential operator competitor in the marketplace now; knowing the margins is not going to make any difference to that person at all. They're going to do their sums and make a business judgment as to whether they can make money. If they believe they can they will run the business and you'll have that competition anyway. How does the information you're going to give us vary that situation at all?

**Mr KNOOP** - In this case it's a very small operator and I guess it isn't our place to argue these issues out with the committee about whether it's in camera or not. Respectively I suggest it's the committee's decision whether they take it in camera or not. All we have put is our position that we think it's risky. We think that it is in accord with what our downstream suppliers want and if the committee wants to ask them to appear that's fine and get the margins that way. You will get the margins from us anyway but we don't want to be out there seen as having given their margins away. Other competitors then will play for one thing - cost per litre.

This is a very small vulnerable fuel operation. It is smaller than a medium-size service station in Melbourne with a lot of logistical problems. We think the mark-up of the service stations is too high but we have no control over it. We are not allowed to induce them to go down.

**Mr HIDDING** - I have a fundamental question of understanding here. Do you sell your fuel to all end-users at the same price?

**Mr KNOOP** - We don't sell to anybody. We only sell to Websters, who is the distributor and they on-sell. The majority of users on King Island are supplied by Websters.

**Mr HIDDING** - You have a distribution contract with Websters?

**Mr KNOOP** - That's right. They purchase fuel from us to distribute on the Island. There are 1 200 farmers on King Island and we supply the Hydro and the service stations, that's all.

**Mr HIDDING** - So do you sell to the service stations at the same rate?

**Mr VOKES** - As Websters?

**Mr KNOOP** - As Websters we do.

**Mr VOKES** - Less the delivery cost. We pay Websters two cents a litre to deliver it to the service stations. We have our own bulk truck but the service stations only have 2 000 or 3 000-litre capacity tanks. We can't run a 40 000-litre truck to deliver 3 000 litres, so we pay Websters. So we're basically subsidising the delivery costs to the service stations but the bottomline is, yes, we do.

**Mr HIDDING** - Is there any instrument or head of power anywhere that precludes anybody from doing exactly what you are doing now on the Island? Somebody else doing it?

**Mr KNOOP** - No, except that they would have to set up a bulk depot outside the port of Grassy which logistically means that any fuel that comes in has to go out of the port within 12 hours. Very difficult because they would also never return the isotainers into the same shipping service, in and out on the same day - very expensive.

**CHAIR** - Could I just refocus the discussions and the questioning here. There can only be questions really at this stage with regard the need for the committee to determine whether we should take this evidence in camera or in open session.

**Mr HIDDING** - That's exactly what my questions were about though.

**CHAIR** - Are you clear on that now? At the appropriate time I am going to ask Nick and Russell if you would retire for a moment; if there is something further you want to argue then now is the time.

**Mr VOKES** - I think where Rene was going was that with this bloke talking about setting up his own facility, we are happy to supply him fuel out of the depot for exactly the same price as we supply everyone else. The bottom line is if you look at it and you say - well, you work it out and, hang on, this is what the service stations are making, we can set up and do the same thing -

**Mr KNOOP** - We could have a service station.

**Mr VOKES** - Well, anybody can. What we are saying is, once we let you know what we buy it for and all our margins at the end you can say, well, there it is, that is a dollar and on King Island the pump price is \$1.16 so, whoops, there's 16 cents a litre there to play with, we can do that for 10; they can go and set up against the service stations and or Websters.

**CHAIR** - The committee have not considered this matter. My personal position is that I would like to be able to report and say the committee have considered this matter and it is reasonable in the circumstance, or more generally it is good, it is bad or it is somewhere in between in very simplistic terms.

When we take the evidence in camera, the act says that where we take it in private, any evidence of a witness that the committee is of the opinion relates to a secret or confidential matter.

**THE WITNESSES WITHDREW.**